National Association of Insurance Commissioners

& The Center for Insurance Policy and Research

2016

Mid– Year Life, A&H, and Fraternal Insurance Industry Analysis Report

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DISCLAIMER

The NAIC 2016 Mid-Year Life, A&H and Fraternal Insurance Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of June 30, 2016, and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.

Highlights

Table 1 provides the industry's aggregate financial results for the life insurers that file with the NAIC on the Life/A&H blue blank for the first six months of 2016. Overall, the life industry reported a 95.3% decrease in profitability to $1.3 billion as a $32.7 billion increase in revenues to $446.0 billion was surpassed by a $53.3 billion increase in commissions, benefits, and expenses to $423.8 billion. The decline in profitability was primarily due to a $92.9 billion increase in reserves reported through the second quarter 2016 compared to a $1.5 billion increase reported through the second quarter 2015 in addition to a $48.0 billion decrease in write-in's for miscellaneous income. A majority of which was related to a prior-year recapture of Modco reinsurance driven mostly by one company which was partially offset by a $61.1 billion increase in reserve adjustments on reinsurance ceded. Additional items of note include the following:

- Net realized capital gains/losses dropped 663.2% to a loss of $4.3 billion over gains in the comparable period in 2015;
- Direct written premiums increased 4.8% primarily due to a $9.8 billion increase in deposit-type contracts and a $3.9 billion increase in A&H premium. Ceded premium decreased 22.6% to $86.5 billion mostly due to a 35.8% decrease in life premium. Assumed premium decreased 26.8% to $61.2 billion mostly due to a 46.3% decrease in life premiums;
- Operating cash flow improved 45.9% as in-flows increased 5.1% and out-flows decreased 2.8%;
- Capital and surplus decreased 1.4% to $361.8 billion primarily due to the following:
    - Net income of $1.3 billion.
    - $9.6 billion in contributions.
    - Unrealized capital gains of $8.5 billion.
    - Dividends paid to stockholders of $24.8 billion.

Table 1

Financial Synopsis: June 30, 2016-2012

Life and Accident & Health Entities

($ In Millions)	Chg.	2Q 2016	2Q 2015	2Q 2014	2Q 2013	2Q 2012
Direct Written Premium and Deposits	4.8%	$408,334	$389,567	$383,124	$377,149	$399,023
Life Direct Written Premium	1.8%	$86,265	$84,717	$81,862	$82,327	$86,138
A&H Direct Written Premium	4.6%	$88,662	$84,739	$83,095	$90,299	$92,931
Annuities	0.2%	$124,765	$124,458	$124,882	$114,456	$118,270
Deposits & Other DPW	13.6%	$108,641	$95,653	$93,285	$90,067	$101,683
Net Earned Premiums and Deposits	3.2%	$315,365	$305,634	$334,497	$289,253	$316,442
Net Investment Income	3.2%	$90,652	$87,866	$88,288	$85,227	$84,025
General Expenses	2.7%	$29,964	$29,187	$28,666	$29,119	$29,228
Operating Income	(79.4)%	$5,651	$27,434	$25,221	$31,267	$24,680
Realized Capital Gains/(Losses)	(663.2)%	($4,312)	$766	($604)	($5,940)	($4,175)
Net Income/(Loss)	(95.3)%	$1,339	$28,199	$24,617	$25,327	$20,505
Unrealized Capital Gains/(Losses)	240.2%	$8,542	($6,093)	$11,242	($634)	$3,065
ROA (Annualized)	(0.9) pts	0.0%	0.9%	0.8%	0.9%	0.8%
Net Investment Yield (Annualized)	(0.1) pts	5.0%	5.1%	5.3%	5.2%	5.3%
	6-mo. Chg.	2Q 2016	YE 2015	YE 2014	YE 2013	YE 2012
Capital & Surplus	(1.4)%	$361,764	$367,045	$350,438	$329,446	$323,409

Note: Adjustments to exclude affiliated amounts were made where appropriate.

Premium

The life industry reported a 4.8% ($18.8 billion) increase in direct written premiums and deposits to $408.3 billion for the first six months of 2016. Net written premiums and deposits increased 6.0% ($21.6 billion) to $383.1 billion. Table 2 shows, in total and by line of business, the top five states reporting the greatest dollar amount of increases and decreases in total direct written premiums and deposits for the first half of 2016 when compared to the same period in 2015.

Ceded premiums and deposits decreased 22.6% ($25.3 billion) to $86.5 billion mostly due to a $29.8 billion decrease in ceded life premiums. Similarly, assumed premiums and deposits decreased 26.8% to $61.2 billion due to a $30.6 billion decrease in assumed life premiums.

On an earned basis, the industry reported a 3.2% ($9.7 billion) increase in net premiums and deposits to $315.4 billion. As shown in Figure 1 on the following page, there were no significant changes in the industry's direct earned premium allocation by sector from mid-year 2015 to 2016. Compared to mid-year 2012, total direct earned premium has increased 4.3% from $394.2 billion. Over the same time period, deposit-type funds increased 20.1% to $69.9 billion while A&H and life premiums decreased 9.4% to $80.9 billion and 8.1% to $68.3 billion, respectively.

Table 3 on the following page illustrates total direct, assumed, ceded, and net written premiums broken out by line of business for the first six months of each of the past five years. Additionally, a chart is provided to show trending for each of the premium segments.

Table 2

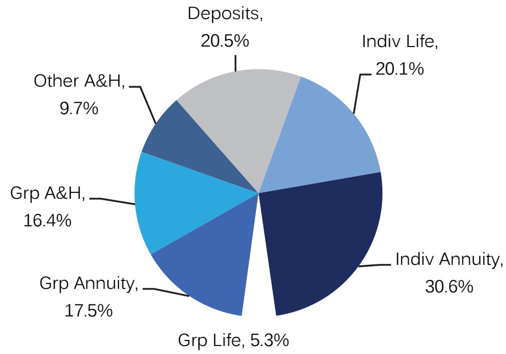
Top Five States - Change in Direct Written Premiums by Line of Business *(Based on $ Change in Millions)*

	Increases				Decreases		
TOTAL	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
DE	23.6%	$11,871.5	$62,230.7	OT	(14.9)%	($2,779.0)	$15,820.5
CA	6.4%	$3,926.4	$65,506.7	MI	(4.5)%	($937.5)	$19,815.2
NY	4.9%	$3,497.0	$74,243.0	NJ	(2.4)%	($693.1)	$27,637.2
TX	5.7%	$2,608.7	$48,641.7	MO	(3.9)%	($611.5)	$15,069.9
OH	8.7%	$2,354.3	$29,375.7	AK	(21.4)%	($392.0)	$1,443.1
LIFE	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
MA	35.1%	$1,237.9	$4,761.8	AN	(12.3)%	($687.4)	$326.0
CT	34.0%	$818.4	$3,228.1	IA	(8.9)%	($201.7)	$1,676.8
CA	4.8%	$726.6	$15,839.3	AK	(27.4)%	($200.5)	$531.6
NY	4.3%	$480.3	$11,740.6	AL	(2.3)%	($40.0)	$2,076.6
FL	5.0%	$417.7	$8,838.9	OT	(8.7)%	($31.0)	$4,895.3
ANNUITIES	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
OH	15.7%	$1,577.9	$11,600.2	MI	(14.2)%	($1,547.7)	$9,316.6
CA	5.9%	$1,355.9	$24,497.2	OT	(64.1)%	($1,055.3)	$591.7
TX	6.5%	$1,037.8	$16,910.7	MO	(12.7)%	($967.5)	$6,651.3
PA	6.1%	$773.8	$13,468.9	AZ	(13.7)%	($750.0)	$4,725.7
WI	13.3%	$646.0	$5,489.2	IL	(5.1)%	($525.9)	$9,799.2
A&H	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
TX	11.4%	$1,652.8	$16,182.4	NJ	(17.0)%	($1,113.8)	$5,420.1
FL	6.7%	$793.9	$12,584.5	OT	(9.2)%	($1,021.2)	$10,136.8
NY	8.3%	$709.5	$9,207.5	NC	(10.4)%	($536.9)	$4,610.3
OH	6.6%	$422.3	$6,796.3	IL	(5.2)%	($334.2)	$6,085.9
GA	8.6%	$406.3	$5,151.2	RI	(31.1)%	($214.7)	$476.2
OTHER	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
CA	14.3%	$1,050.0	$8,373.9	PA	(43.9)%	($2,601.7)	$3,322.5
CT	59.9%	$845.0	$2,256.5	NY	(5.6)%	($531.0)	$8,922.8
VA	61.0%	$684.6	$1,806.4	NV	(26.9)%	($149.9)	$407.2
IA	26.0%	$516.9	$2,501.6	AL	(18.7)%	($109.8)	$477.2
DC	64.3%	$500.4	$1,279.1	WA	(7.0)%	($104.1)	$1,372.5
DEPOSIT-TYPE CONTRACTS	% Chg	$ Chg	2Q'16		% Chg	$ Chg	2Q'16
DE	26.3%	$11,991.0	$57,516.1	CT	(10.2)%	($864.0)	$7,581.2
PA	89.8%	$2,682.6	$5,670.1	IA	(9.6)%	($792.1)	$7,421.7
NY	10.0%	$2,411.7	$26,563.9	TX	(35.5)%	($771.1)	$1,399.2
TN	295.7%	$1,171.8	$1,568.0	MA	(39.0)%	($640.1)	$1,000.0
KS	143.8%	$1,072.7	$1,818.5	OH	(2.2)%	($83.6)	$3,806.0

2Q'16

Figure 1

Direct Earned Premiums & Deposits by Sector



2Q'15

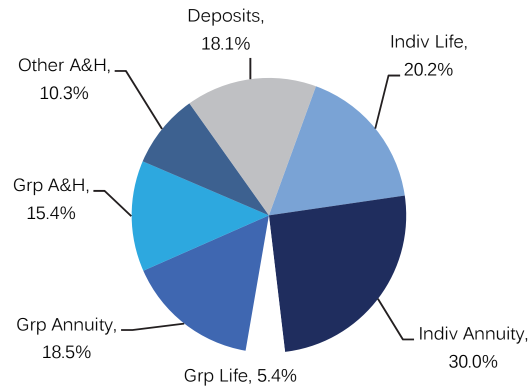
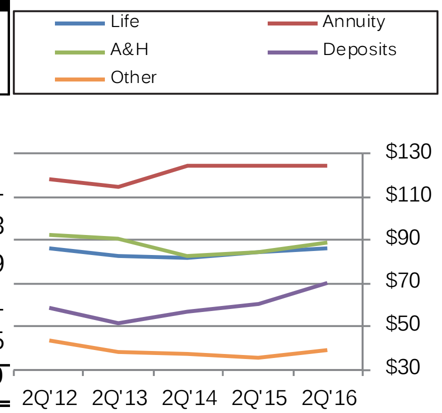


Table 3

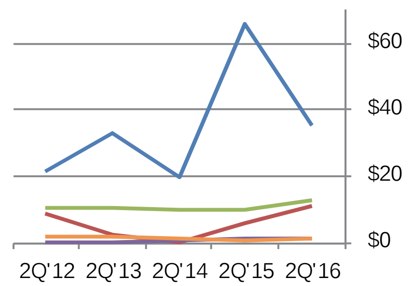
Total Written Premium by LOB

($ in Billions)

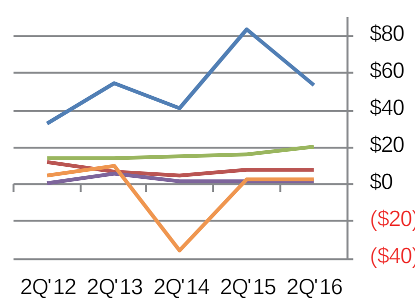
Direct Premiums	% Chg.	2Q'16	2Q'15	2Q'14	2Q'13	2Q'12
Life Insurance	1.8%	$86.3	$84.7	$81.9	$82.3	$86.1
Annuity	0.2%	$124.8	$124.5	$124.9	$114.5	$118.3
A&H Insurance	4.6%	$88.7	$84.7	$83.1	$90.3	$92.9
Deposit-type	16.3%	$69.9	$60.1	$56.4	$51.7	$58.1
Other Considerations	9.0%	$38.8	$35.6	$36.9	$38.4	$43.5
Total	4.8%	$408.3	$389.6	$383.1	$377.1	$399.0



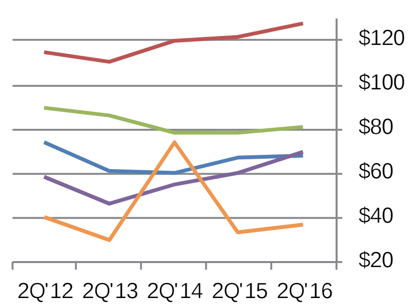
Assumed Premium	% Chg.	2Q'16	2Q'15	2Q'14	2Q'13	2Q'12
Life Insurance	(46.3)%	$35.5	$66.1	$19.8	$33.0	$21.4
Annuity	94.5%	$10.8	$5.5	$0.3	$2.3	$9.0
A&H Insurance	27.5%	$12.7	$10.0	$10.1	$10.3	$10.6
Deposit-type	(5.6)%	$1.2	$1.3	$0.3	$0.2	$0.3
Other Considerations	26.2%	$1.1	$0.8	$1.1	$1.6	$1.5
Total	(26.8)%	$61.2	$83.7	$31.6	$47.5	$42.8



Ceded Premium	% Chg.	2Q'16	2Q'15	2Q'14	2Q'13	2Q'12
Life Insurance	(35.8)%	$53.5	$83.3	$41.3	$54.6	$33.2
Annuity	3.2%	$8.3	$8.1	$5.1	$6.7	$12.2
A&H Insurance	26.8%	$20.5	$16.1	$14.9	$14.5	$14.2
Deposit-type	(5.2)%	$1.2	$1.3	$1.4	$5.8	$0.3
Other Considerations	(0.2)%	$3.0	$3.0	($36.2)	$10.1	$4.4
Total	(22.6)%	$86.5	$111.8	$26.5	$91.8	$64.4



Net Premium	% Chg.	2Q'16	2Q'15	2Q'14	2Q'13	2Q'12
Life Insurance	1.2%	$68.3	$67.5	$60.4	$60.7	$74.3
Annuity	4.3%	$127.2	$121.9	$120.1	$110.1	$115.0
A&H Insurance	3.0%	$80.9	$78.6	$78.2	$86.1	$89.3
Deposit-type	16.3%	$69.9	$60.1	$55.4	$46.1	$58.2
Other Considerations	10.2%	$36.8	$33.4	$74.1	$29.9	$40.6
Total	6.0%	$383.1	$361.4	$388.2	$332.8	$377.4

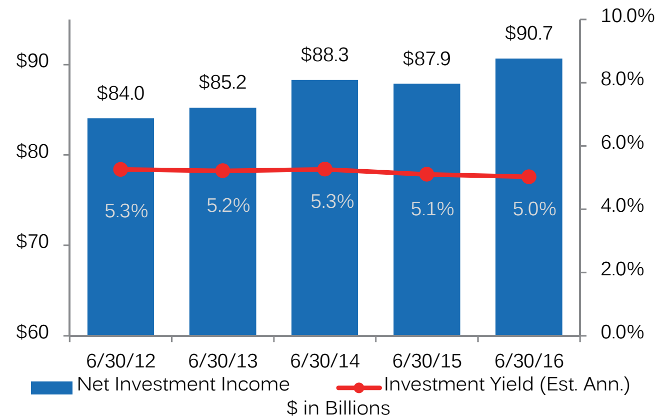


Investment Income

Net investment income increased 3.2% ($2.8 billion) to $90.7 billion in the first half of 2016. Concurrently, the industry's annualized net investment yield decreased 0.1 percentage point to 5.0% as seen in Figure 2. The industry's cash and adjusted invested asset portfolio has increased steadily over the past ten years, increasing 5.4% from the prior year-end to $3.7 trillion at June 30, 2016. The increase was due primarily to a 3.5% ($96.3 billion) increase in adjusted bonds and a 20.6% ($21.4 billion) increase in cash and short-term investments.

Figure 2

Net Investment Income and Yield



The Federal Reserve raised the fed funds interest rate to 0.5% from 0.25% a year earlier. Even after the rate hike, the industry continues to see a low short-term interest rate environment.

Table 4 provides a breakdown of the industry's asset concentration and trending over the previous five years.

Table 4

Asset Concentration

(Based on $ Change in Billions)

	% Chg. Over 5 Years	% Chg from PYE	2Q'16	YE'15	2Q'15	2Q'14	2Q'13	2Q'12
Bonds*	12.4%	2.2%	$2,807.9	$2,746.2	$2,663.7	$2,637.3	$2,555.2	$2,497.6
Preferred Stock*	28.6%	(7.9)%	$8.9	$9.6	$9.0	$8.4	$7.2	$6.9
Common Stock*	22.1%	(58.8)%	$29.3	$71.0	$30.4	$33.0	$28.3	$24.0
Mortgages*	26.7%	3.0%	$416.2	$404.2	$377.1	$357.1	$337.7	$328.5
Real Estate	18.3%	0.7%	$23.9	$23.7	$24.3	$22.0	$21.7	$20.2
BA Assets	18.7%	0.3%	$155.9	$155.4	$162.3	$150.7	$142.3	$131.3
Cash	66.5%	40.5%	$62.8	$44.7	$27.6	$33.9	$28.1	$37.7
Short-term Investments	(5.7)%	5.6%	$62.3	$59.0	$57.9	$54.7	$51.8	$66.1

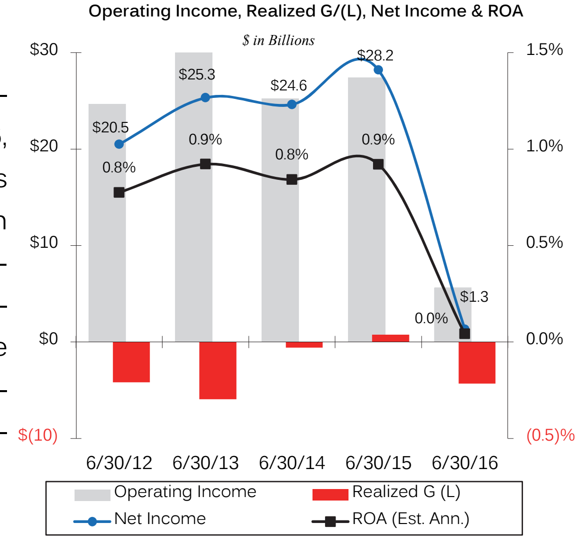
**adjusted to exclude affiliated amounts*

Operations

Net earnings decreased 95.3% ($26.9 billion) as the industry reported net income of $1.3 billion for the first six months of 2016, driven mostly by large net losses in five companies due to various reinsurance agreements. The decline was due to a $92.9 billion increase in aggregate reserves for life and A&H contracts compared to a $1.5 billion increase a year earlier. The industry reported a $61.1 billion increase in reserve adjustment on reinsurance ceded and a $48.0 billion decrease in aggregate write-ins primarily due to one company transaction (prior-year Modco reserve adjustment).

Figure 3

Operating Income, Realized G/(L), Net Income & ROA



As illustrated in Figure 3, the industry's ROA decreased to 0.0% at June 30, 2016, from 0.9% at the prior mid-year date, influenced by the aforementioned changes.

Liquidity

The life industry reported a 45.9% ($31.1 billion) increase in operating cash flow to $98.9 billion in the first half of 2016 from $67.8 billion in the comparable period of 2015. The improvement resulted from cash in-flows of $438.3 billion outpacing out-flows of $339.5 billion. Premiums collected net of reinsurance increased 5.7% ($17.1 billion) to $319.5 billion. Benefit and loss related payments decreased 3.5% ($9.8 billion) and the aggregate of commissions, expenses paid and write-ins for deductions increased 8.2% ($5.3 billion) to $69.8 billion.
Surrender benefits through June 30, 2016, decreased slightly to $126.7 billion compared to $136.1 billion in the prior mid-year date. Surrenders have continually increased over the past five years from $119.8 billion for the same period in 2012, a 5.8% change. See Figure 4.

Net cash from investments decreased 51.5% ($32.8 billion) to net out-flow of $96.5 billion compared to net out-flow of $63.7 billion in the same period of 2015. The decrease was attributed to a 2.6% ($11.0 billion) decrease in investment proceeds to $414.7 billion and a 4.6% ($22.4 billion) increase in investment acquisition to $511.2 billion. The decrease in investment proceeds came primarily from a 44.7% decrease in other invested assets to $16.0 billion and a 1.6% decrease in bonds to $330.3 billion. Similarly, other invested assets acquired decreased 41.3% to $23.1 billion while bond acquisitions increased 10.8% to $412.2 billion.

The life industry reported net cash from financing activities of $21.3 billion in the first half of 2016 compared to a net out-flow of $19.3 billion in the first six months of 2015. The 210.7% increase was mainly due to a $33.5 billion increase in other cash provided to $21.3 billion.

Figure 4

Operating Cash Flow & Surrenders

$ in Billions

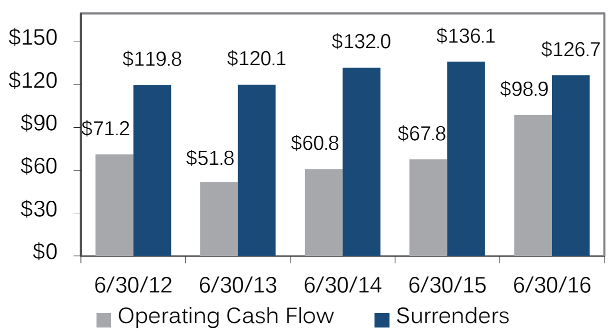
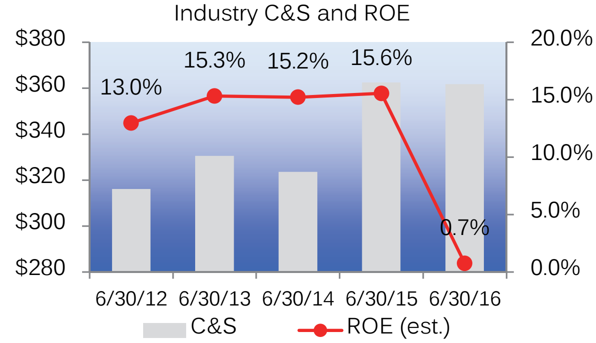


Figure 5

Industry C&S and ROE



$ in Billions

Capital and Surplus

The life industry's capital and surplus decreased 1.4% ($5.3 billion) to $361.8 billion at June 30, 2016, from $367.0 billion at December 31, 2015, due primarily to $24.8 billion in stockholder dividends, partially offset by $9.6 billion in paid-in capital and surplus, and $8.5 billion in unrealized capital gains, and net income of $1.3 billion, .

As illustrated in Figure 5, estimated annualized return on equity (ROE) dropped 14.8 percentage point to 0.7% through the second quarter of 2016 compared to 15.6% for the same period of 2015. The decline was driven by the drop in net income, as previously mentioned.

Separate Accounts

The industry's separate account assets increased 1.1% ($27.2 billion) to approximately $2.4 trillion at June 30, 2016 compared to year-end 2015. The increase can be attributed to a moderate increase in asset values, as well as an improvement in the equity markets. Separate account assets have steadily climbed over the past five years from $2.1 trillion at year-end 2012, an 18.9% increase.

Separate account fee income decreased 2.3% ($400.7 million) to $16.9 billion in the first six months of 2016 compared to the prior-year period. The ratio of separate account fee income to separate account assets remained constant at 1.4%.

The life industry's CARVM allowance decreased by 21.6% from negative $32.6 billion at second quarter 2015 to negative $25.6 billion at June 30, 2016.

CARVM
An insurer's CARVM allowance is generally negative as it represents primarily the difference between the fund balance and the CARVM reserve. The CARVM allowance is generally an indicator of how the market is performing. As the market deteriorates or becomes stagnant, fund balances decline, thereby decreasing the CARVM allowance and vice versa. This degree of negative impact generally results in losses on the general account.

Table 5

Financial Synopsis: June 30, 2016-2012

Fraternal Societies

(In Millions)	Chg.	2Q 2016	2Q 2015	2Q 2014	2Q 2013	2Q 2012
Total Direct Written Premium	5.4%	$5,691	$5,399	$5,405	$5,140	$5,272
Life Direct Written Premium	5.0%	$2,110	$2,008	$2,010	$2,041	$2,118
A&H Direct Written Premium	(0.7)%	$312	$314	$318	$329	$340
Annuities Direct Written Premium	6.3%	$3,270	$3,075	$3,077	$2,769	$2,812
Deposits & Other DPW	27.2%	$407	$320	$326	$407	$392
Net Earned Premium	(0.3)%	$5,210	$5,224	$5,231	$4,959	$5,074
Net Investment Income	(1.3)%	$2,763	$2,801	$2,746	$2,674	$2,676
Benefits	6.4%	$6,090	$5,722	$5,486	$5,322	$5,757
General Expenses	6.5%	$860	$808	$759	$760	$738
Operating Income *(before refunds to members)*	(13.0)%	$656	$754	$847	$730	$722
Refunds to Members	9.9%	$350	$319	$335	$330	$406
Realized Gains/(Losses)	(59.8)%	$33	$83	$77	$45	$56
Net Income/(Loss)	(34.5)%	$339	$518	$589	$444	$372
ROA (Annualized)	(0.3) pt	0.4%	0.7%	0.9%	0.7%	0.6%
Investment Yield (Annualized)	(0.3) pt	4.4%	4.7%	4.7%	4.8%	5.1%
	6-mo. Chg.					
Surplus	6.1%	$13,823	$13,034	$12,477	$10,033	$9,309

Table 5 illustrates the fraternal insurance industry's aggregate financial results for societies which file on the fraternal brown blank for the first six months of 2016. The fraternal industry exhibited a 34.5% decrease in net income to $339.4 million in the first six months of 2016 compared to $518.2 million for the prior year period. As seen in Figure 6, the industry reported a 13.0% decrease in operating income to $656.4 million compared to $754.3 million for the first half of 2015. The industry also reported a 59.8% decrease in realized capital gains to $33.3 million for the first six months of 2016 from $82.8 million in the prior-year period.

Year-to-date direct written premium increased 5.4% ($292.0 million) to $5.7 billion which was due primarily to a 6.3% ($194.5 million) increase in annuitiy considerations to $3.3 billion and a 5.0% ($101.2 million) increase in life premiums to $2.1 billion. Figure 7 illustrates the premium concentration for fraternal societies by business type. Net investment income decreased 1.3% ($37.4 million) to $2.8 billion while the industry's annualized net invest-

Figure 6

Operating Income, Realized G(L), Net Income & ROA

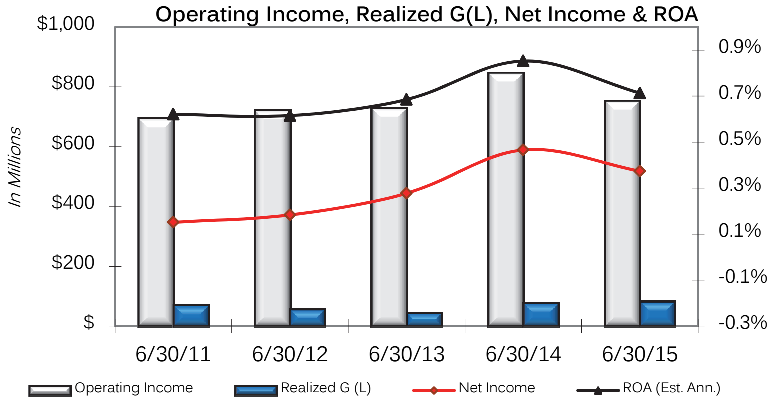
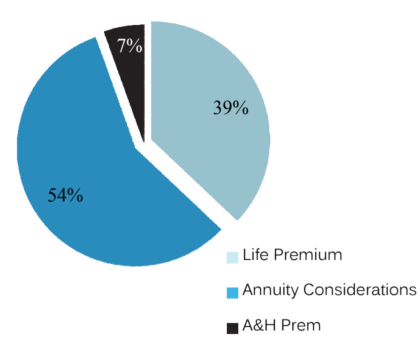


Figure 7

Direct Premium Written



ment yield was decreased 0.3 percentage points to 4.4% for the period ended June 30, 2016. The industry reported a 3.0% ($3.7 billion) increase in cash and invested assets from prior year-end to $128.0 billion mostly in long-term bonds and cash, which increased 2.4% ($2.4 billion) and 21.4% ($639.1 million), respectively.

The fraternal industry's surplus increased 6.1% to $13.8 billion at June 30, 2016, $13.4 billion at December 31, 2015, due primarily to the aforementioned net income and a $145.5 million increase in surplus as a result of reinsurance partially offset by a $136.0 million increase in asset valuation reserve.