



National Association of  
Insurance Commissioners

& The CENTER  
for INSURANCE  
POLICY  
and RESEARCH

# 2017

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

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#### DISCLAIMER

The NAIC 2017 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, 2017, 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.

## 2017 Mid-Year Fraternal Industry Results

### Industry Overview

**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 2017.

- Overall, the life industry reported \$28.3 billion of net income, a 2,015.9% increase compared to the first six months of 2016, mostly due to a large recapture of Modco reinsurance by one company in the prior year.
- Net premiums and deposits decreased 5.1% to \$363.7 billion, mainly due to a 42.4% increase in ceded premiums. Total direct premiums increased 3.8% to \$424.0 billion and assumed premiums increased 2.8% to \$62.9 billion.
- Life industry cash and invested assets increased 1.9% to \$3.8 trillion.
- The industry's total capital and surplus increased 3.4% to \$393.8 billion compared to prior year-end, mainly driven by the \$28.3 billion net income.
- Net cash from operations for the life industry declined by 20.2% to \$78.9 billion.
- Total separate account assets increased 4.7% to \$2.6 trillion.

Table 1 - Financial Synopsis: June 30, 2017-2013

### Life and Accident & Health Entities

(\$ In Millions)	Chg	2Q 2017	2Q 2016	2Q 2015	2Q 2014	2Q 2013
<b>Direct Written Premium and Deposits</b>	3.9%	\$424,094	\$408,334	\$389,567	\$383,124	\$377,149
<b>Life Direct Written Premium</b>	3.8%	\$89,530	\$86,265	\$84,717	\$81,862	\$82,327
<b>A&amp;H Direct Written Premium</b>	7.7%	\$95,453	\$88,662	\$84,739	\$83,095	\$90,299
<b>Annuities</b>	(3.8)%	\$119,988	\$124,765	\$124,458	\$124,882	\$114,456
<b>Deposits &amp; Other DPW</b>	9.6%	\$119,123	\$108,641	\$95,653	\$93,285	\$90,067
<b>Net Earned Premium</b>	(9.6)%	\$284,999	\$315,365	\$305,634	\$334,497	\$289,253
<b>Net Investment Income</b>	2.5%	\$92,894	\$90,652	\$87,866	\$88,288	\$85,227
<b>General Expenses</b>	5.6%	\$31,651	\$29,964	\$29,187	\$28,666	\$29,119
<b>Operating Income</b>	433.8%	\$30,162	\$5,651	\$27,434	\$25,221	\$31,267
<b>Realized Gains/(Losses)</b>	57.5%	(\$1,834)	(\$4,312)	\$766	(\$604)	(\$5,940)
<b>Net Income/(Loss)</b>	2,015.5%	\$28,328	\$1,339	\$28,199	\$24,617	\$25,327
<b>Unrealized Gains/(Losses)</b>	(50.8)%	\$4,203	\$8,542	(\$6,093)	\$11,242	(\$634)
<b>ROA (Annualized)</b>	0.9 pts	0.9%	0.0%	0.9%	0.8%	0.9%
<b>Net Investment Yield (Annualized)</b>	(0.1) pts	4.9%	5.0%	5.1%	5.3%	5.2%
	<b>6-mo. Chg</b>	<b>2Q 2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Capital &amp; Surplus</b>	3.4%	\$393,769	\$380,799	\$367,045	\$350,438	\$329,446

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

## Premium

The life industry as a whole, reported a 3.9% (\$15.7 billion) increase in direct written premiums and deposits to \$424.1 billion for the first six months of 2017. Net written premiums and deposits decreased 5.0% (\$19.3 billion) to \$363.8 billion due to a 42.5% (\$36.8 million) increase in ceded premiums. **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 2017 when compared to the same period in 2016.

**Table 3**, on the next page, illustrates total direct, assumed, ceded, and net written premiums broken out by line of business for a year over year comparison.

## Life Insurance

Gross premiums for life insurance increased 0.2% to \$121.9 billion, while ceded premiums increased 24.2% (\$13.0 billion) to \$66.4 billion, both compared to second quarter 2016. Because the increase in ceded reinsurance exceeded the increase in gross premiums, net life insurance decreased 18.7% (\$12.7 billion) to \$55.5 billion.

## Annuities

Gross premiums for annuities decreased by only 0.1% (\$113.4 million) but direct premiums decreased 3.8% (\$4.8 billion) and assumed premiums increased 43.3% (\$4.7 billion). Ceded reinsurance increased significantly by 250.3% (\$20.8 billion) compared to second quarter of 2016. Total net premiums for annuities decreased 16.5% (\$20.9 billion) to \$106.3 billion for second quarter 2017. The industry retention rate on annuities decreased 15.4 percentage points to 78.5%.

## A&H

Gross A&H premiums increased by 7.0% (\$7.1 billion) due to an increase in both direct premiums and assumed premiums. Ceded premiums increased 8.6% (\$1.8 billion). Total net A&H premiums increased 6.5% (\$5.3 billion) to \$86.2 billion.

Table 2

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

TOTAL							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
DE	24.6%	\$6,593.9	\$33,401.7	PA	(15.4)%	(\$2,864.3)	\$15,737.7
NY	16.1%	\$5,636.9	\$40,715.6	CA	(3.5)%	(\$1,175.2)	\$32,165.1
GA	16.8%	\$1,689.0	\$11,740.3	NH	(38.8)%	(\$1,110.6)	\$1,755.3
OH	11.6%	\$1,638.3	\$15,751.1	FL	(2.1)%	(\$483.2)	\$22,854.3
KS	21.6%	\$1,032.9	\$5,813.3	OT	(4.6)%	(\$388.8)	\$7,996.3
LIFE							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
KS	131.3%	\$899.7	\$1,585.0	NM	(16.7)%	(\$415.8)	\$326.9
CA	6.3%	\$493.3	\$8,335.0	OH	(6.5)%	(\$75.7)	\$2,519.3
GA	14.2%	\$314.6	\$2,528.0	AR	(7.6)%	(\$44.3)	\$534.8
TX	5.1%	\$283.1	\$5,810.4	AL	(1.6)%	(\$41.9)	\$1,094.2
MN	12.7%	\$281.2	\$2,490.6	OT	(7.5)%	(\$26.5)	\$2,079.8
ANNUITIES							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
DE	35.3%	\$448.3	\$1,718.9	FL	(8.1)%	(\$753.5)	\$8,497.5
GA	12.0%	\$312.7	\$2,927.5	CA	(6.1)%	(\$738.9)	\$11,348.4
CT	10.6%	\$227.0	\$2,359.6	TX	(5.6)%	(\$446.8)	\$7,590.5
MD	4.3%	\$106.3	\$2,575.2	NJ	(7.9)%	(\$442.5)	\$5,132.1
AK	27.3%	\$52.7	\$246.1	MA	(9.4)%	(\$367.9)	\$3,525.7
A&H							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
GA	41.7%	\$1,159.6	\$3,939.2	KS	(53.8)%	(\$897.8)	\$772.1
SC	87.2%	\$882.6	\$1,895.1	CA	(1.0)%	(\$75.6)	\$7,125.4
FL	10.4%	\$655.5	\$6,969.7	DC	(6.7)%	(\$31.4)	\$438.9
NJ	14.5%	\$437.6	\$3,462.1	WI	(1.6)%	(\$27.7)	\$1,746.8
IL	15.4%	\$423.7	\$3,175.7	MS	(2.2)%	(\$17.0)	\$739.7
OTHER							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
TX	14.4%	\$228.6	\$1,816.0	NH	(87.2)%	(\$930.1)	\$136.6
SC	58.0%	\$164.3	\$447.5	NY	(19.1)%	(\$687.6)	\$2,911.2
VA	20.8%	\$151.7	\$879.2	CA	(12.3)%	(\$575.1)	\$4,109.8
MN	15.0%	\$135.3	\$1,035.7	GA	(23.1)%	(\$430.1)	\$1,435.0
MI	15.0%	\$128.2	\$984.7	FL	(16.8)%	(\$396.4)	\$1,957.9
DEPOSIT-TYPE CONTRACTS							
Increases			Decreases				
	% Chg	\$ Chg	2Q'17		% Chg	\$ Chg	2Q'17
DE	24.9%	\$6,109.3	\$30,597.1	PA	(70.1)%	(\$2,979.6)	\$1,273.4
NY	50.4%	\$6,040.7	\$18,014.8	CA	(18.3)%	(\$278.9)	\$1,246.5
OH	74.6%	\$1,384.2	\$3,239.3	NJ	(23.9)%	(\$226.9)	\$723.6
KS	87.2%	\$1,010.4	\$2,168.5	CO	(23.3)%	(\$163.3)	\$538.9
CT	19.9%	\$732.2	\$4,409.5	WA	(48.8)%	(\$155.0)	\$162.5

## Deposit-Type Contracts

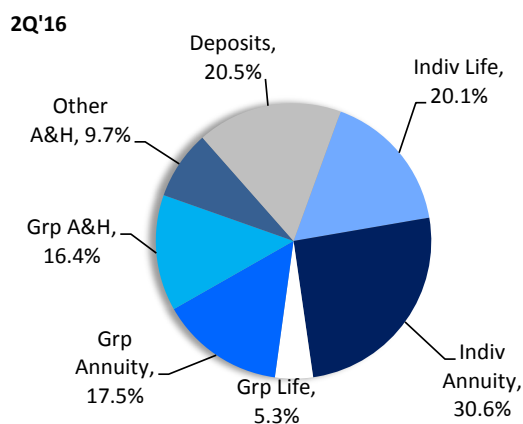
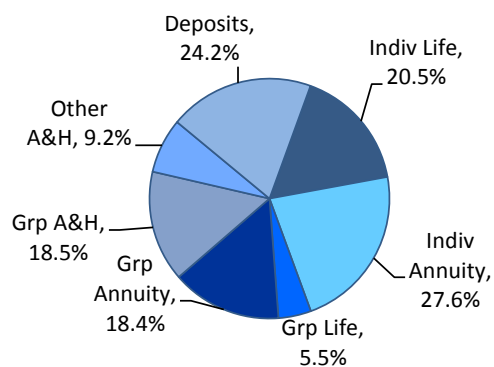
Total net deposits increased 18.4% (\$13.1 billion) driven by an 18.6% (\$13.0 billion) increase in direct premiums and a 3.5% (\$41.1 million) increase in assumed premiums. Ceded premiums increased 108.4% (\$1.3 billion).

## Other Considerations

Both direct and assumed premiums declined for other premiums by \$6.6% (\$15.6 billion) and 34.6% (\$368.4 million), respectively. Ceded premiums also decreased by 5.8% (\$173.6 million) for a total net premiums decline of 7.4% (\$2.7 billion) to \$34.1 billion.

On an earned basis, the industry reported a 9.6% (\$30.4 billion) decrease in net premiums and deposits to \$285.0 billion. As shown in **Figure 1**, there were no significant changes in the industry's direct earned premium allocation by sector from mid-year 2016 to 2017.

**Figure 1**  
2Q'17 Direct Earned Premiums & Deposits by Sector



**Table 3—Total Written Premium by LOB**

(\$ in Billions)

### Direct Premiums

	<u>% Chg.</u>	<u>2Q'17</u>	<u>2Q'16</u>
Life Insurance	3.8%	\$89.5	\$86.3
Annuity Considerations	(3.8)%	\$120.0	\$124.8
A&H Insurance	7.7%	\$95.5	\$88.7
Deposit-type Contracts	18.6%	\$82.9	\$69.9
Other Considerations	(6.6)%	\$36.2	\$38.8
<b>Total</b>	<b>3.9%</b>	<b>\$424.1</b>	<b>\$408.3</b>

### Assumed Premium

	<u>% Chg.</u>	<u>2Q'17</u>	<u>2Q'16</u>
Life Insurance	(8.6)%	\$32.4	\$35.5
Annuity Considerations	43.3%	\$15.4	\$10.8
A&H Insurance	3.2%	\$13.1	\$12.7
Deposit-type Contracts	3.5%	\$1.2	\$1.2
Other Considerations	(34.6)%	\$0.7	\$1.1
<b>Total</b>	<b>2.8%</b>	<b>\$62.9</b>	<b>\$61.2</b>

### Ceded Premium

	<u>% Chg.</u>	<u>2Q'17</u>	<u>2Q'16</u>
Life Insurance	24.2%	\$66.4	\$53.5
Annuity Considerations	250.3%	\$29.1	\$8.3
A&H Insurance	9.0%	\$22.3	\$20.5
Deposit-type Contracts	108.4%	\$2.5	\$1.2
Other Considerations	(5.8)%	\$2.8	\$3.0
<b>Total</b>	<b>42.5%</b>	<b>\$123.3</b>	<b>\$86.5</b>

### Net Premium

	<u>% Chg.</u>	<u>2Q'17</u>	<u>2Q'16</u>
Life Insurance	(18.7)%	\$55.5	\$68.3
Annuity Considerations	(16.5)%	\$106.3	\$127.2
A&H Insurance	6.6%	\$86.3	\$80.9
Deposit-type Contracts	16.8%	\$81.6	\$69.9
Other Considerations	(7.4)%	\$34.1	\$36.8
<b>Total</b>	<b>(5.0)%</b>	<b>\$363.8</b>	<b>\$383.1</b>

## Investment Income

Net investment income increased 2.5% (\$2.2 billion) to \$92.9 billion in the first half of 2017. Concurrently, the industry’s annualized net investment yield decreased 0.1 percentage point to 4.9% as seen in **Figure 2**. The industry’s cash and adjusted invested asset portfolio has increased steadily over the past ten years, increasing 2.3% from the prior year-end to \$3.8 trillion at June 30, 2017. The increase was due primarily to a 1.9% (\$53.2 billion) increase in adjusted bonds and a 5.3% (\$23.2 billion) increase in adjusted mortgages. **Table 4** provides a breakdown of the industry’s asset concentration and trending over the previous five years.

The Federal Reserve raised the federal funds interest rate three times in the last year, increasing it to 1.25% from 0.5% a year earlier. Even after the rate hikes, the industry continues to see a low short-term interest rate environment.

Figure 2

### Net Investment Income and Yield

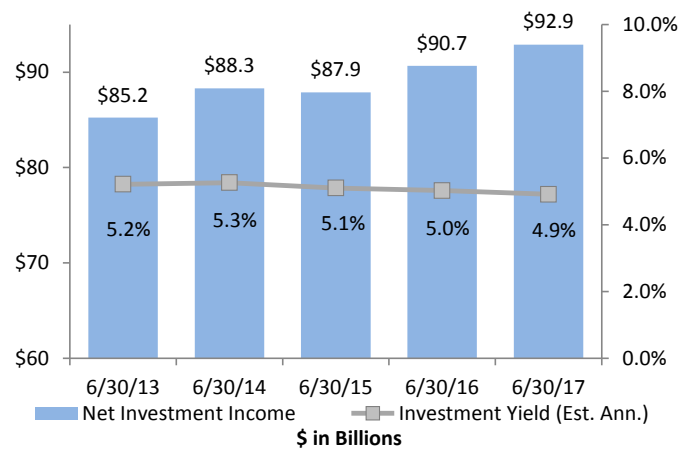


Table 4								
Asset Concentration								
<i>(Based on \$ Change in Billions)</i>								
	% Chg. Over 5 Years	% Chg from PYE	2Q'17	YE'16	2Q'16	2Q'15	2Q'14	2Q'13
Bonds*	13.2%	1.9%	\$2,892.4	\$2,839.3	\$2,807.9	\$2,663.7	\$2,637.3	\$2,555.2
Preferred Stock*	28.7%	2.6%	\$9.3	\$9.1	\$8.9	\$9.0	\$8.4	\$7.2
Common Stock*	18.1%	7.9%	\$33.4	\$31.0	\$29.3	\$30.4	\$33.0	\$28.3
Mortgages*	35.9%	5.3%	\$458.9	\$435.8	\$416.2	\$377.1	\$357.1	\$337.7
Real Estate	10.5%	(2.1)%	\$23.9	\$24.5	\$23.9	\$24.3	\$22.0	\$21.7
BA Assets	17.3%	4.1%	\$165.4	\$158.8	\$155.9	\$162.3	\$149.3	\$141.0
Cash	69.2%	8.1%	\$47.6	\$44.1	\$62.8	\$27.6	\$33.9	\$28.1
Short-term Investments	15.1%	3.0%	\$59.6	\$57.8	\$62.3	\$57.9	\$54.7	\$51.8

\*adjusted to exclude affiliated amounts

## Operations

Net earnings increased 1,701.5% (\$26.8 billion) as the industry reported net income of \$28.3 billion for the first six months of 2017. The increase for 2017 was primarily due to a few new reinsurance agreements in 2016. Aggregate reserves increased \$36.7 billion compared to a \$93.3 billion increase last year while net premiums decreased \$30.5 billion and surrenders increased \$25.2 billion.

As illustrated in **Figure 3**, the industry's ROA increased to 0.9% at June 30, 2017, from 0.0% at the prior mid-year date. The 0.9% ROA was unchanged compared to 2015 mid-year.

## Liquidity

The life industry reported a 20.2% (\$20.0 billion) decrease in operating cash flow to \$78.9 billion in the first half of 2017 from \$98.9 billion in the comparable period of 2016. The largest contributing factor to the decline was an 11.7% (\$31.8 billion) increase in benefits and loss related payments and a 5.4% (\$17.4 billion) decrease in premiums collected net of reinsurance.

Surrender benefits through June 30, 2017, increased 19.9% (\$25.2 billion) to \$151.9 billion compared to \$126.7 billion in the prior mid-year date. Surrenders have continually increased over the past five years from \$120.1 billion for the same period in 2013, a 26.5% increase. See **Figure 4**.

Net cash from investments increased 24.0% (\$23.1 billion) but remained negative, for a cash outflow of \$73.4 billion compared to net out-flow of \$96.5 billion in the same period of 2016. The increase was attributed to a 17.1% (\$70.4 billion) decrease in the acquisition cost of bonds, offset by a 9.5% (\$31.2 billion) decrease in bond investment proceeds and a 42.0% (\$10.8 billion) decrease in miscellaneous investment proceeds.

The life industry reported a net cash from financing activities cash out-flow of \$142.6 million in the first half of 2017 compared to a net in-flow of \$21.3 billion in the first six months of 2016. The 100.7% decrease was mainly due to a \$21.6 billion decrease in other cash provided to \$6.3 billion.

Figure 3

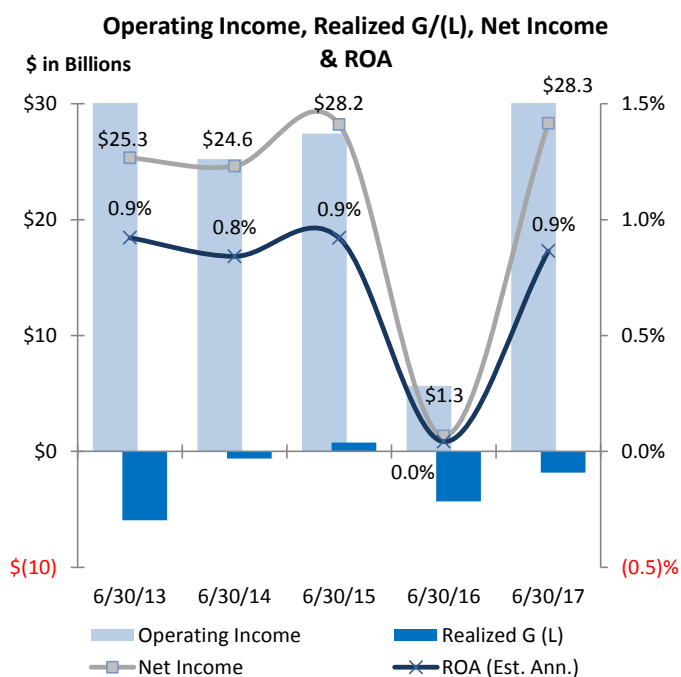
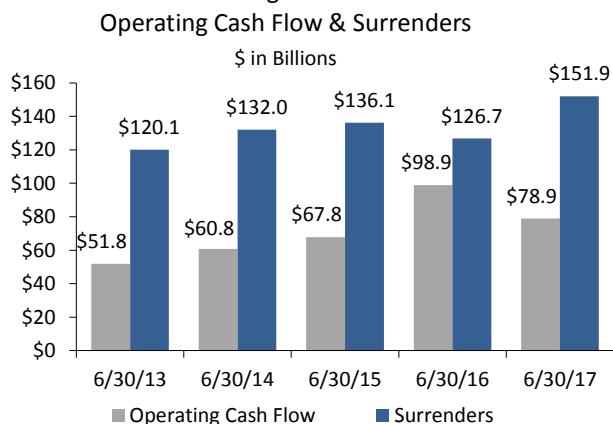


Figure 4



## Capital and Surplus

The life industry's capital and surplus increased 3.4% (\$13.0 billion) to \$393.8 billion at June 30, 2017, from \$380.8 billion at December 31, 2016, due primarily to a \$28.3 billion net income and a \$4.2 billion unrealized capital gains, partially offset by \$19.6 billion in stockholder dividends.

As illustrated in **Figure 5**, estimated annualized return on equity (ROE) rose 13.6 percentage point to 14.4% through the second quarter of 2017 compared to 0.7% for the same period of 2016. The increase was driven by the rise in net income, as previously mentioned.

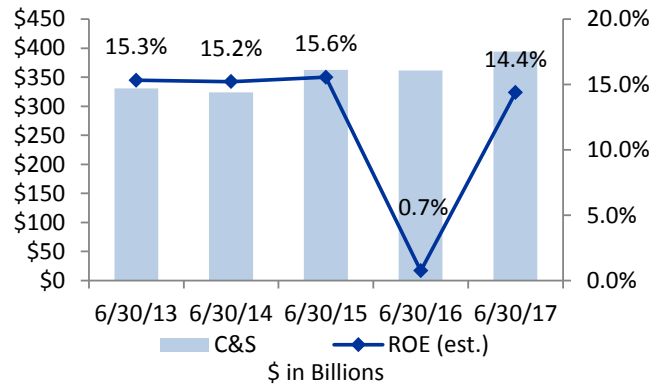
## Separate Accounts

The industry's separate account assets increased 4.7% (\$116.7 billion) to approximately \$2.6 trillion at June 30, 2017 compared to year-end 2016. 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 \$2.3 trillion at year-end 2013, a 12.1% increase.

Separate account fee income increased 6.1% (\$1.0 billion) to \$18.0 billion in the first six months of 2017 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 9.4% from negative \$25.6 billion at second quarter 2016 to negative \$29.4 billion at June 30, 2017.

Figure 5  
Industry C&S and ROE



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.

## 2017 Mid-Year Fraternal Industry Results

Table 5  
Financial Synopsis: June 30, 2017-2013

Fraternal Societies						
(In Millions)	Chg.	2Q 2017	2Q 2016	2Q 2015	2Q 2014	2Q 2013
Total Direct Written Premium	(6.1)%	\$5,345	\$5,691	\$5,399	\$5,405	\$5,140
Life Direct Written Premium	4.1%	\$2,195	\$2,110	\$2,008	\$2,010	\$2,041
A&H Direct Written Premium	2.6%	\$320	\$312	\$314	\$318	\$329
Annuities Direct Written Premium	(13.5)%	\$2,829	\$3,270	\$3,075	\$3,077	\$2,769
Deposits & Other DPW	(14.8)%	\$347	\$407	\$320	\$326	\$407
Net Earned Premium	(1.8)%	\$5,117	\$5,210	\$5,224	\$5,231	\$4,959
Net Investment Income	1.9%	\$2,814	\$2,762	\$2,801	\$2,746	\$2,674
Benefits	(0.3)%	\$6,072	\$6,090	\$5,722	\$5,486	\$5,322
General Expenses	(3.3)%	\$831	\$860	\$808	\$759	\$760
Operating Income (before refunds to members)	23.6%	\$811	\$656	\$754	\$847	\$730
Refunds to Members	(3.7)%	\$337	\$350	\$319	\$335	\$330
Realized Gains/(Losses)	359.1%	\$153	\$33	\$83	\$77	\$45
Net Income/(Loss)	84.7%	\$626	\$339	\$518	\$589	\$444
ROA (Annualized)	(0.4) pt	0.8%	0.4%	0.7%	0.9%	0.7%
Investment Yield (Annualized)	(0.1) pt	4.3%	4.4%	4.7%	4.7%	4.8%
<b>6-mo. Chg.</b>						
Surplus	10.7%	\$15,301	\$13,823	\$13,034	\$12,477	\$10,033

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 an 84.7% increase in net income to \$626.3 million in the first six months of 2017 compared to \$339.2 million for the prior year period.

### Premiums

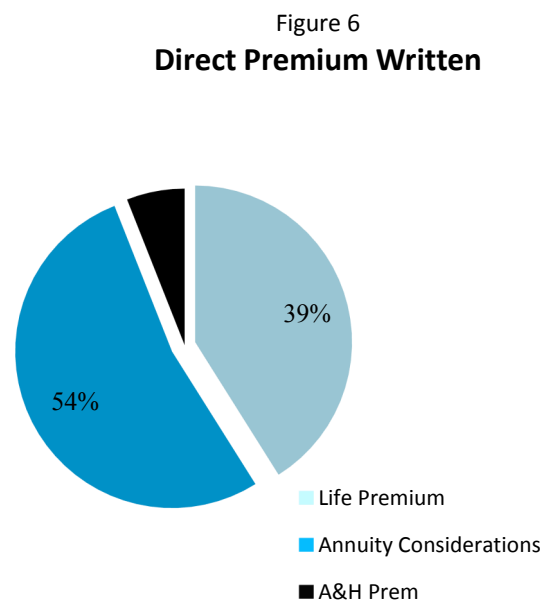
Total net premiums for the Fraternal industry decreased 2.5% (\$138.2 million) to \$5.5 trillion compared to \$5.6 trillion a year earlier. Direct premiums decreased 6.7% to \$5.7 trillion while ceded premiums decreased 55.9% to \$212.1 million, both compared to second quarter 2016. Figure 6 gives a breakdown of direct premiums by business type.

On an earned basis, net premiums decreased 1.8% to \$5.1 billion compared to \$5.2 billion a year earlier.

### Operations

Total net income for the fraternal industry increased 84.7% (\$287.2 million) to \$626.3 million compared to \$339.2 million a year earlier, as seen in Figure 7, on the next page. Total revenue didn't change much, increasing only 0.3% (\$24.6 million) to \$8.5 billion mainly due to:

- \$51.3 million increase in net investment income



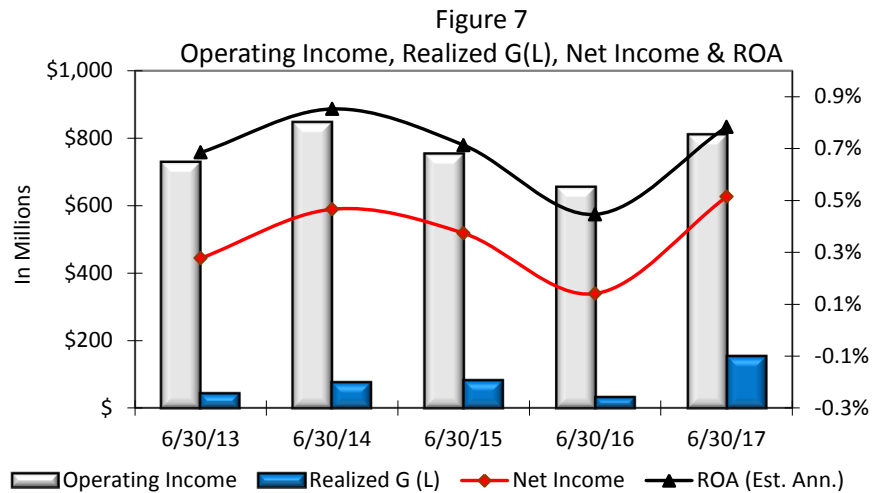


- \$37.9 million increase in fee income from separate accounts
- \$92.7 million decline in premiums and annuity considerations for life and A&H.

Benefits and expenses declined by only 0.3% (\$17.8 million) to \$6.1 billion drive by:

- \$1.5 billion increase in aggregate reserves for life and A&H compared to \$2.0 billion a year earlier.
- \$261.4 million increase in surrender benefits
- \$77.9 million increase in annuity benefits
- \$67.4 million increase in death benefits

Net realized capital gains also contributed to the increase in net income with a 359.1% (\$119.5 million) increase to \$152.8 million.



### Capital and Surplus

The fraternal industry’s surplus increased 10.7% to \$15.3 billion at June 30, 2017, \$14.5 billion at December 31, 2016, due primarily to the aforementioned \$626.3 million net income and a \$204.3 million increase in net unrealized capital gains, partially offset by a \$64.0 million increase in asset valuation reserve.

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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.