U.S. Life, A&H and Fraternal Insurance Industries

Life and A&H 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 2018.

- Overall, the life industry reported $20 billion of net income, a 29% decrease compared to the first six months of 2017.
- Net premiums and deposits increased 6% to $385 billion, mainly due to a 58% increase in assumed premiums to $99 billion. Total direct premiums increased 5% to $444 billion and ceded premiums increased 29% to $157 billion.
- Life industry cash and invested assets were flat at $4 trillion.
- The industry's total capital and surplus decreased 3% to $382 billion compared to prior year-end, mainly driven by the $27 billion stockholder dividends.
- Net cash from operations for the life industry increased by 5% to $83 billion.
- Total separate account assets decreased 2% to $3 trillion.

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Table 1—Financial Synopsis: June 30, 2018-2014
Life and Accident & Health Insurance Industry

($ In Millions)	Change	2Q 2018	2Q 2017	2Q 2016	2Q 2015	2Q 2014
Direct Written Premium and Deposits	5%	$444,350	$424,159	$408,334	$389,567	$383,124
Life Direct Written Premium	0%	$89,553	$89,531	$86,265	$84,717	$81,862
A&H Direct Written Premium	6%	$101,538	$95,516	$88,662	$84,739	$83,095
Annuities	6%	$127,096	$119,988	$124,765	$124,458	$124,882
Deposits & Other DPW	6%	$126,164	$119,123	$108,641	$95,653	$93,285
Net Earned Premium	(0)%	$284,618	$285,063	$315,365	$305,634	$334,497
Net Investment Income	3%	$95,472	$92,895	$90,652	$87,866	$88,288
General Expenses	2%	$32,310	$31,659	$29,964	$29,187	$28,666
Operating Income	(11)%	$26,988	$30,165	$5,651	$27,434	$25,221
Realized Gains/(Losses)	(281)%	($6,996)	($1,834)	($4,312)	$766	($604)
Net Income/(Loss)	(29)%	$19,992	$28,331	$1,339	$28,199	$24,617
Unrealized Gains/(Losses)	(194)%	($3,930)	$4,203	$8,542	($6,093)	$11,242
ROA (Annualized)	(0) pts	0.6%	0.9%	0.0%	0.9%	0.8%
Net Investment Yield (Annualized)	0 pts	5.0%	4.9%	5.0%	5.1%	5.3%
	6-mo. Chg	**2Q 2018**	**2017**	**2016**	**2015**	**2014**
Capital & Surplus	(3)%	$382,383	$393,169	$380,799	$367,045	$350,438

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

Premium

The life industry as a whole, reported a 5% ($20 billion) increase in direct written premiums and deposits to $444 billion for the first six months of 2018. Net written premiums and deposits increased 6% ($21 billion) to $385 billion due to a 58% ($36 billion) increase in assumed premiums. **Table 2** illustrates total direct, assumed, ceded, and net written premiums broken out by line of business for a year over year comparison.

Table 2—Total Written Premium by LOB

($ in Billions)

Direct Premiums	% Chg.	2Q'18	2Q'17
Life Insurance	0%	$90	$90
Annuity Considerations	6%	$127	$120
A&H Insurance	6%	$102	$96
Deposit-type Contracts	2%	$85	$83
Other Considerations	14%	$41	$36
Total	**5%**	**$444**	**$424**

Assumed Premium	% Chg.	2Q'18	2Q'17
Life Insurance	12%	$36	$32
Annuity Considerations	172%	$42	$15
A&H Insurance	45%	$19	$13
Deposit-type Contracts	(9)%	$1	$1
Other Considerations	0%	$1	$1
Total	**58%**	**$99**	**$63**

Ceded Premium	% Chg.	2Q'18	2Q'17
Life Insurance	(21)%	$53	$66
Annuity Considerations	165%	$77	$29
A&H Insurance	(16)%	$19	$22
Deposit-type Contracts	185%	$7	$3
Other Considerations	(6)%	$3	$3
Total	**29%**	**$159**	**$123**

Net Premium	% Chg.	2Q'18	2Q'17
Life Insurance	32%	$73	$56
Annuity Considerations	(14)%	$92	$106
A&H Insurance	18%	$102	$86
Deposit-type Contracts	(3)%	$79	$82
Other Considerations	16%	$39	$34
Total	**6%**	**$385**	**$364**

Life Insurance

Gross premiums for life insurance increased 3% to $126 billion, while ceded premiums decreased 21% ($14 billion) to $53 billion, both compared to second quarter 2017. Because the decrease in ceded reinsurance exceeded the increase in gross premiums, net life insurance premiums increased 32% ($18 billion) to $73 billion. The industry retention rate on life insurance premiums increased 13 percentage points to 58%.

Annuities

Gross premiums for annuities increased 25% ($34 billion) primarily from the large increase in assumed premiums of 172% ($27 billion). Ceded reinsurance increased significantly by 165% ($48 billion) compared to second quarter of 2017. Total net premiums for annuities decreased 14% ($15 billion) to $92 billion for second quarter 2018. The industry retention rate on annuities decreased 24 percentage points to 54%.

A&H

Gross A&H premiums increased by 11% ($12 billion) due to an increase in both direct premiums and assumed premiums of 6% ($6 billion) and 45% ($6 billion), respectively. Ceded premiums decreased 16% ($4 billion). Total net A&H premiums increased 18% ($15 billion) to $102 billion.

Deposit-Type Contracts

Total net deposits decreased 4% ($3 billion) driven by a 9% ($110 million) decrease in assumed premiums. Ceded premiums decreased significantly by 185% ($5 billion).

Other Considerations

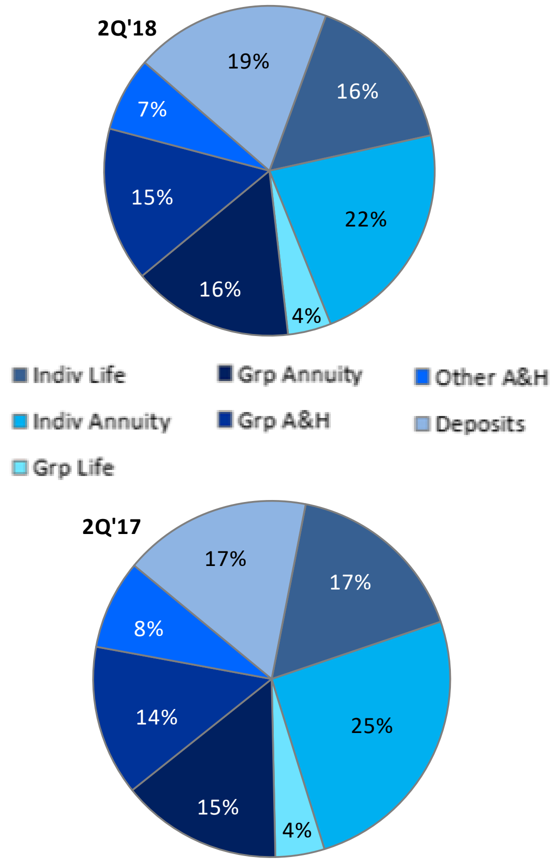
Direct premiums increased 14% ($5 billion) and assumed premiums increased less than 1% ($1 million). Ceded premiums decreased by 6% ($174 million) for a total net premiums increase of 16% ($5 billion) to $39 billion.

On an earned basis, the industry reported no change in net premiums and deposits of $285 billion. As shown in **Figure 1**, on the next page, there were no significant changes in the industry's direct earned premium allocation, by sector, from mid-year 2017 to 2018.

Table 3, on the next page, 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 2018 when compared to the same period in 2017.

Texas reported the largest increase on a total basis which was mostly from increases in deposit-type contracts; followed by Ohio with the largest reported increases in deposit-type contracts. Iowa reported the largest decrease on a total basis which was mostly from decreases in deposit-type contracts; followed by Aggregate Other Alien with the largest decreases in A&H. The top five states accounted for approximately 50% of increases in direct written premiums for each line of business with the exception of deposit-type contracts which accounted for 83%. The top five states accounted for approximately 90% to 99% of decreases in direct written premiums for each line of business with the exception of other which accounted for 67%.

Figure 1—Direct Earned Premiums & Deposits by Sector



Investment Income

Net investment income increased 3% ($3 billion) to $95 billion through the first half of 2018. Concurrently, the industry's annualized net investment yield increased 0.1 percentage point to 5% as seen in **Figure 2**, on the following page.

Table 3—Top Five States - Change in Direct Written Premiums by Line of Business *(Based on $ Change in Millions)*

TOTAL

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
TX	16%	$3,898	$28,957	IA	(26)%	($3,400)	$9,689
OH	22%	$3,430	$19,181	OT	(36)%	($2,874)	$5,122
CA	8%	$2,623	$34,788	KS	(16)%	($954)	$4,859
FL	8%	$1,869	$24,723	IL	(2)%	($243)	$13,355
NY	3%	$1,286	$42,001	VT	(9)%	($69)	$712

LIFE

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
CA	3%	$268	$8,603	KS	(58)%	($914)	$671
TX	3%	$200	$6,010	OT	(21)%	($431)	$1,648
IL	4%	$134	$3,491	MN	(7)%	($184)	$2,306
LA	9%	$107	$1,272	GA	(5)%	($133)	$2,395
FL	2%	$92	$4,802	PA	(2)%	($59)	$3,205

ANNUITIES

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
CA	9%	$1,016	$12,365	DE	(33)%	($568)	$1,151
TN	38%	$828	$3,012	GA	(13)%	($384)	$2,543
NJ	15%	$788	$5,920	MO	(5)%	($140)	$2,858
FL	9%	$753	$9,251	MD	(2)%	($54)	$2,521
NY	7%	$609	$9,330	AL	(4)%	($52)	$1,304

A&H

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
KS	158%	$1,222	$1,995	OT	(42)%	($2,345)	$3,266
VA	35%	$769	$2,986	ND	(33)%	($89)	$178
FL	11%	$756	$7,726	HI	(11)%	($78)	$640
GA	15%	$572	$4,511	MN	(4)%	($40)	$867
TX	6%	$548	$9,123	NJ	(1)%	($21)	$3,441

OTHER

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
NY	51%	$1,493	$4,404	TX	(11)%	($193)	$1,623
CA	23%	$927	$5,037	SC	(43)%	($191)	$256
MO	148%	$900	$1,506	VA	(18)%	($158)	$721
NH	418%	$571	$708	MA	(9)%	($155)	$1,556
IA	28%	$361	$1,647	OH	(10)%	($131)	$1,193

DEPOSIT-TYPE CONTRACTS

Increases				Decreases			
	% Chg	$ Chg	2Q'18		% Chg	$ Chg	2Q'18
OH	93%	$3,012	$6,251	IA	(44)%	($3,849)	$4,934
TX	229%	$2,896	$4,163	KS	(59)%	($1,270)	$899
DE	3%	$966	$31,563	NY	(7)%	($1,237)	$16,778
MA	192%	$674	$1,026	IL	(48)%	($517)	$568
GA	52%	$471	$1,381	IN	(16)%	($195)	$993

The industry's cash and adjusted invested asset portfolio has increased steadily over the past ten years, increasing 2% from the prior year-end to $4 trillion at June 30, 2018. **Table 4** provides a breakdown of the industry's asset concentration and trending over the previous five years. The five-year increase was due primarily to an 11% ($279 billion) increase in adjusted bonds and a 39% ($138 billion) increase in adjusted mortgages. Short-term investments have declined nearly 50% over the past five years.

The Federal Reserve raised the federal funds interest rate three times in both 2017 and 2018, from 0.75% at the beginning of the year to 1.50% at year-end 2017. It was increased in March 2018 to 1.75%, in June 2018 to 2% and in September 2018 to 2.25%. Even after the rate hikes, the industry continues to see a low short-term interest rate environment.

Figure 2—Net Investment Income and Yield

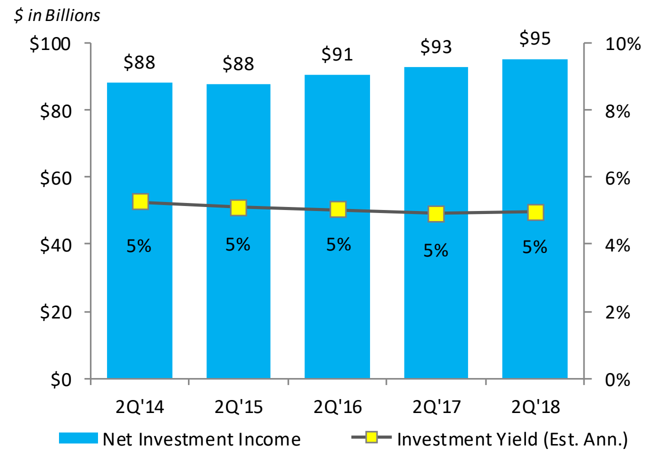


Table 4—Asset Concentration

($ Change in Billions)	% Chg. Over 5 Years	% Chg from PYE	2Q'18	YE'17	2Q'17	2Q'16	2Q'15	2Q'14
Bonds*	11%	(1)%	$2,917	$2,948	$2,892	$2,808	$2,664	$2,637
Preferred Stock*	26%	6%	$11	$10	$9	$9	$9	$8
Common Stock*	10%	2%	$36	$35	$33	$29	$30	$33
Mortgages*	39%	4%	$495	$474	$459	$416	$377	$357
Real Estate	2%	(4)%	$23	$24	$24	$24	$24	$22
BA Assets	21%	3%	$180	$175	$165	$156	$162	$149
Cash	126%	9%	$77	$70	$48	$63	$28	$34
Short-term Investments	(47)%	(16)%	$29	$35	$60	$62	$58	$55

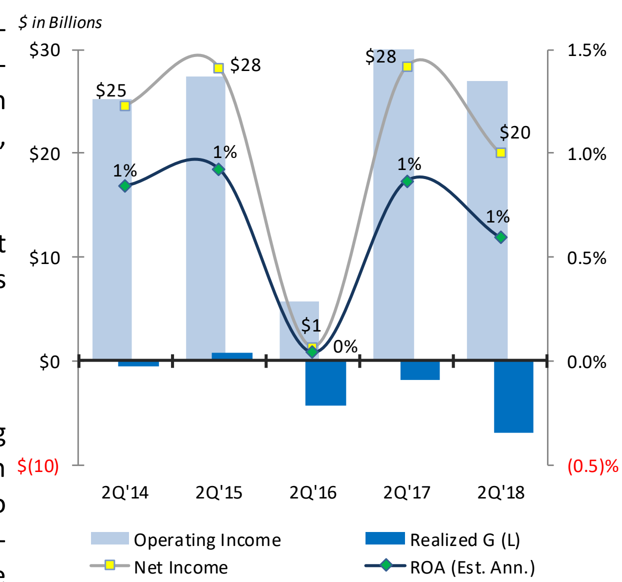
**adjusted to exclude affiliated amounts*

Operations

Net earnings decreased 29% ($8 billion) as the industry reported net income of $20 billion for the first six months of 2018. Aggregate reserves increased $62 billion compared to a $38 billion increase last year while net premiums decreased $1 billion and surrenders increased $22 billion. The 281% ($5 billion) deterioration in net realized losses was mainly from three insurance companies, which made up 79% of total realized losses.

As illustrated in **Figure 3**, the industry's ROA decreased to 0.6% at June 30, 2018, from 0.9% at the prior mid-year date. The ROA has remained around 1% for the past five years.

Figure 3—Operating Income, Realized G/(L), Net Income &ROA



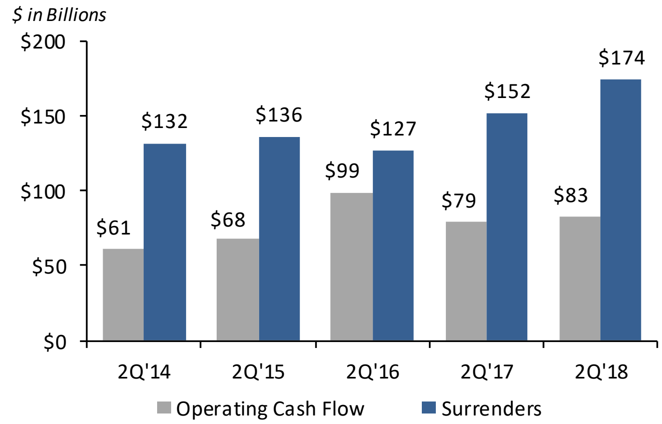
Liquidity

The life industry reported a 5% ($4 billion) increase in operating cash flow to $83 billion in the first half of 2018 from $79 billion in the comparable period of 2017. The largest contributing factors to the increase was a 64% ($23 billion) increase in miscellaneous income and a 46% ($15 billion) decrease in net transfers to separate accounts.

Surrender benefits through June 30, 2018, increased 15% ($22 billion) to $174 billion compared to $152 billion in the prior mid-year date. Surrenders have continually increased over the past five years from $132 billion for the same period in 2014, a 32% increase. See **Figure 4.**

Net cash from investments increased 2% ($1 billion) but remained negative, for a net cash outflow of $72 billion compared to net out-flow of $73 billion in the same period of 2017. The increase was attributed to an 8% ($35 billion) increase in the acquisition of investments, offset by a 10% ($37 billion) increase in investment proceeds. The largest increases were in bonds for both acquisitions and proceeds.

Figure 4—Operating Cash Flow & Surrenders



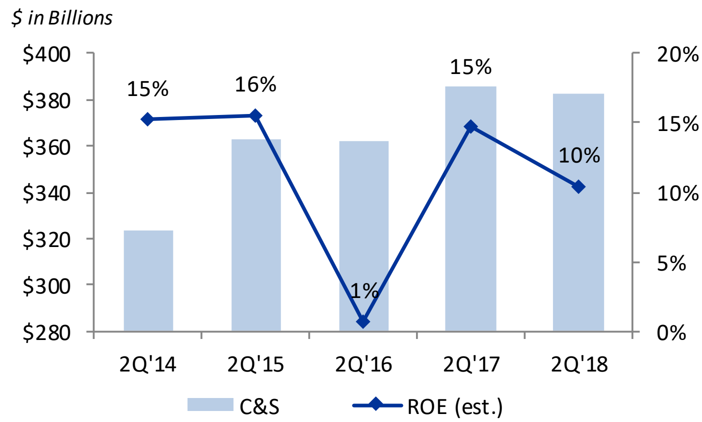
The life industry reported a net cash from financing activities cash out-flow of $11 billion in the first half of 2018 compared to a net out-flow of $143 million in the first six months of 2017. The $11 billion decrease was mainly due to a $15 billion increase in other cash applied to $8 billion.

Capital and Surplus

The life industry's capital and surplus decreased 3% ($11 billion) to $382 billion at June 30, 2018, from $393 billion at December 31, 2017, due primarily to stockholder dividends of $27 billion and unrealized capital losses of $4 billion, partially offset by net income of $20 billion.

As illustrated in **Figure 5**, estimated annualized return on equity (ROE) declined 5 percentage points to 10% through the second quarter of 2018 compared to 15% for the same period of 2017. The decrease was driven by the decline in net income, as previously mentioned.

Figure 5—Industry C&S and ROE



Separate Accounts

The industry's separate account assets decreased 2% ($44 billion) to approximately $3 trillion at June 30, 2018 compared to year-end 2017. Looking on a year-end basis, separate account assets have steadily climbed over the past five years from $2 trillion at year-end 2014, a 15% increase. Separate account fee income increased 3% ($520 million) to $18 billion in the first six months of 2018 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 increased by 4% from negative $29 billion at second quarter 2017 to negative $28 billion at June 30, 2018.

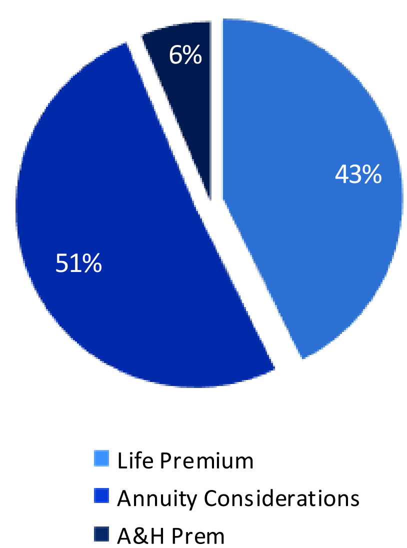
CARVM
An insurer's CARVM allowance is generally negative as it represents primarily the difference between the fund balance and the CARVM reserve. The CARVM allowance is generally an indicator of how the market is performing. As the market deteriorates or becomes stagnant, fund balances decline, thereby 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, 2018-2014
Fraternal Societies Insurance Industry

($ In Millions)	Chg.	2Q 2018	2Q 2017	2Q 2016	2Q 2015	2Q 2014
Total Direct Written Premium	(2)%	$5,551	$5,691	$6,099	$5,718	$5,731
Life Direct Written Premium	2%	$2,242	$2,195	$2,110	$2,008	$2,010
A&H Direct Written Premium	4%	$332	$320	$312	$314	$318
Annuities Direct Written Premium	(5)%	$2,674	$2,829	$3,270	$3,075	$3,077
Deposits & Other DPW	(13)%	$303	$347	$407	$320	$326
Net Earned Premium	(2)%	$5,029	$5,117	$5,210	$5,224	$5,231
Net Investment Income	1%	$2,853	$2,814	$2,762	$2,801	$2,746
Benefits	4%	$6,327	$6,072	$6,090	$5,722	$5,486
General Expenses	8%	$898	$831	$860	$808	$759
Operating Income *(before refunds to members)*	(11)%	$722	$811	$656	$754	$847
Refunds to Members	1%	$339	$337	$350	$319	$335
Realized Gains/(Losses)	21%	$185	$153	$33	$83	$77
Net Income/(Loss)	(9)%	$568	$626	$339	$518	$589
ROA (Annualized)	(0.1) pt	0.7%	0.8%	0.4%	0.7%	0.9%
Investment Yield (Annualized)	(0.1) pt	4.2%	4.3%	4.4%	4.7%	4.7%
	6-mo. Chg.					
Surplus	5%	$16,017	$15,301	$13,823	$13,034	$12,477

Table 5 illustrates the fraternal societies insurance industry's aggregate financial results for societies which file on the fraternal brown blank for the first six months of 2018. The fraternal industry exhibited a 9% decrease in net income to $568 million in the first six months of 2018 compared to $626 million for the prior year period.

Figure 6—Direct Premium Written



Premiums

Total net premiums for the fraternal industry decreased 3% ($134 million) to $5 trillion compared to just under $6 trillion for the prior year period. Direct premiums decreased 3% to $6 trillion while ceded premiums decreased 3% to $206 million, both compared to second quarter 2017. **Figure 6** gives a breakdown of direct premiums by business type.

On an earned basis, net premiums decreased 2% ($88 million) to $5 billion compared to a year earlier.

Operations

Total net income for the fraternal industry decreased 9% ($58 million) to $568 million compared to $626 million a year earlier, as seen in **Figure 7** on the next page. Total revenue increased $4 million to $9 billion mainly due to:

- $39 million increase in net investment income
- $26 million increase in fee income from separate accounts
- $24 million increase in considerations for supplementary contracts with life
- $88 million decline in premiums and annuity considerations for life and A&H.

Benefits and expenses increased 4% ($255 million) to $6 billion driven by:

- $233 million increase in surrender benefits

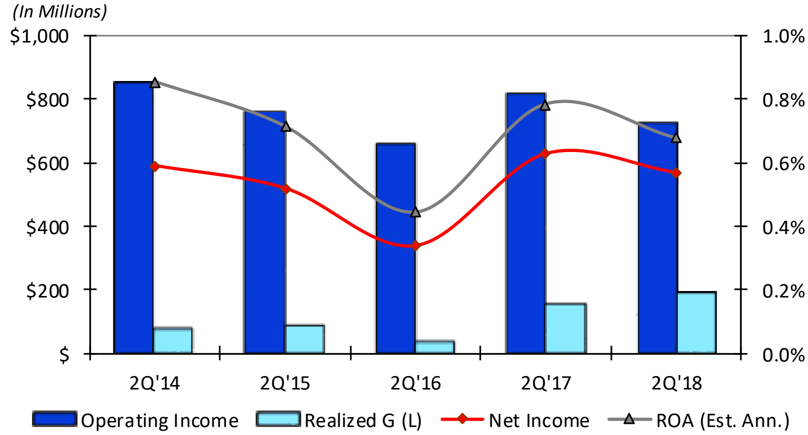
- $165 million increase in annuity benefits
- $77 million increase in death benefits

Net realized capital gains also contributed to the increase in net income with a 21% ($32 million) increase to $185 million.

Capital and Surplus

The fraternal industry's surplus increased 2% ($378 million) to $16 billion at June 30, 2018, due primarily to net income of $568 million, partially offset by a $114 million increase in asset valuation reserve.

Figure 7—Operating Income, Realized G(L), Net Income & ROA



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