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

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<th>Life and Accident &amp; Health Insurance Industry</th>
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<tr>
<td>Direct Written Premium and Deposits</td>
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<td>Life Direct Written Premium</td>
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<tr>
<td>A&amp;H Direct Written Premium</td>
</tr>
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<td>Annuities</td>
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<td>Deposits &amp; Other DPW</td>
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<tr>
<td>Net Earned Premium</td>
</tr>
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<td>Net Investment Income</td>
</tr>
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<td>General Expenses</td>
</tr>
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<td>Operating Income</td>
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<tr>
<td>Realized Gains/(Losses)</td>
</tr>
<tr>
<td>Net Income/(Loss)</td>
</tr>
<tr>
<td>Unrealized Gains/(Losses)</td>
</tr>
<tr>
<td>ROA (Annualized)</td>
</tr>
<tr>
<td>Net Investment Yield (Annualized)</td>
</tr>
</tbody>
</table>


| 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

<table>
<thead>
<tr>
<th>Premiums</th>
<th>% Chg.</th>
<th>2Q'18</th>
<th>2Q'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Premiums</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance</td>
<td>0%</td>
<td>$90</td>
<td>$90</td>
</tr>
<tr>
<td>Annuity Considerations</td>
<td>6%</td>
<td>$127</td>
<td>$120</td>
</tr>
<tr>
<td>A&amp;H Insurance</td>
<td>6%</td>
<td>$102</td>
<td>$96</td>
</tr>
<tr>
<td>Deposit-type Contracts</td>
<td>2%</td>
<td>$85</td>
<td>$83</td>
</tr>
<tr>
<td>Other Considerations</td>
<td>14%</td>
<td>$41</td>
<td>$36</td>
</tr>
<tr>
<td>Total</td>
<td>5%</td>
<td>$444</td>
<td>$424</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assumed Premium</th>
<th>% Chg.</th>
<th>2Q'18</th>
<th>2Q'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>12%</td>
<td>$36</td>
<td>$32</td>
</tr>
<tr>
<td>Annuity Considerations</td>
<td>172%</td>
<td>$42</td>
<td>$15</td>
</tr>
<tr>
<td>A&amp;H Insurance</td>
<td>45%</td>
<td>$19</td>
<td>$13</td>
</tr>
<tr>
<td>Deposit-type Contracts</td>
<td>(9)%</td>
<td>$1</td>
<td>$1</td>
</tr>
<tr>
<td>Other Considerations</td>
<td>0%</td>
<td>$1</td>
<td>$1</td>
</tr>
<tr>
<td>Total</td>
<td>58%</td>
<td>$99</td>
<td>$63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ceded Premium</th>
<th>% Chg.</th>
<th>2Q'18</th>
<th>2Q'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>(21)%</td>
<td>$53</td>
<td>$66</td>
</tr>
<tr>
<td>Annuity Considerations</td>
<td>165%</td>
<td>$77</td>
<td>$29</td>
</tr>
<tr>
<td>A&amp;H Insurance</td>
<td>(16)%</td>
<td>$19</td>
<td>$22</td>
</tr>
<tr>
<td>Deposit-type Contracts</td>
<td>185%</td>
<td>$7</td>
<td>$3</td>
</tr>
<tr>
<td>Other Considerations</td>
<td>(6)%</td>
<td>$3</td>
<td>$3</td>
</tr>
<tr>
<td>Total</td>
<td>29%</td>
<td>$159</td>
<td>$123</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Premium</th>
<th>% Chg.</th>
<th>2Q'18</th>
<th>2Q'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>32%</td>
<td>$73</td>
<td>$56</td>
</tr>
<tr>
<td>Annuity Considerations</td>
<td>(14)%</td>
<td>$92</td>
<td>$106</td>
</tr>
<tr>
<td>A&amp;H Insurance</td>
<td>18%</td>
<td>$102</td>
<td>$86</td>
</tr>
<tr>
<td>Deposit-type Contracts</td>
<td>(3)%</td>
<td>$79</td>
<td>$82</td>
</tr>
<tr>
<td>Other Considerations</td>
<td>16%</td>
<td>$39</td>
<td>$34</td>
</tr>
<tr>
<td>Total</td>
<td>6%</td>
<td>$385</td>
<td>$364</td>
</tr>
</tbody>
</table>

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%.

**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.
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.

**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.

**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.

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.

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.
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.

### 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

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• $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.

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**NAIC Financial Regulatory Services**

Financial Analysis and Examination Department

**Contributors:**
Ann Farr, Senior Financial Analyst

**Contacts:**
Bruce Jenson, Sr. Manager II Solvency Monitoring
BJenson@naic.org
816.783.8348

Jane Koenigsman, Senior Manager I
JKoenigsman@naic.org
816.783.8145

Ralph Villegas, Manager I
RVillegas@naic.org
816.783.8411

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**DISCLAIMER**
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