National Association of Insurance Commissioners & The Center for Insurance Policy and Research

2013 Mid-Year Life, A&H and Fraternal Insurance Industry Report

Life and A&H Industry at a Glance

Table 1 provides the life insurance industry's aggregate financial results for the first six months of 2013. As a result of continued improving market conditions, the industry reported a substantial increase in profitability. Although insurers filing with the NAIC on the life/A&H blue blank reported a decrease in net earned premiums, the overall profitability in the life industry increased 23.6% to net income of $25.3 billion through the second quarter of 2013, up from $20.5 billion for the comparable period of 2012. Notable items included the following:

- Operating earnings increased 26.8% to $31.3 billion due to a minimal increase in net investment income combined with a nominal decrease in both benefits and expenses, which were offset by decreases in premiums across all lines of business;
    - Direct written premiums (excluding deposit-type contracts) decreased 4.5% due primarily to 4.4% and 3.2% drops in life insurance premium revenues and annuity considerations, respectively;
    - Net investment income increased marginally by 1.4% and there was a related 0.1-percentage point drop in the annualized net investment yield to 5.2% due to the following decrease in invested assets;
- Cash and invested assets dropped 3.1% from the prior year-end due primarily to a 25.3% decrease in cash/short-term investments, which was partially offset by a 1.3% increase in long-term bonds;
- Capital and surplus increased 2.2% to $330.2 billion due primarily to the aforementioned net income of $25.3 billion, which was partially offset by stockholder dividends of $12.1 billion.

Inside this issue:

Table 1

Financial Synopsis: June 30, 2013-2009

Life and Accident & Health Entities

($ In Millions)	Chg	2Q 2013	2Q 2012	2Q 2011	2Q 2010	2Q 2009
Direct Written Premium	(5.5)%	$377,149	$399,023	$383,237	$348,846	$376,041
Life Direct Written Premium	(4.4)%	$82,327	$86,138	$80,559	$78,126	$74,718
A&H Direct Written Premium	(2.8)%	$90,299	$92,931	$88,836	$86,732	$84,427
Annuities, Dep. & Other DWP	(7.0)%	$204,523	$219,954	$213,842	$183,989	$216,896
Net Earned Premium	(8.6)%	$289,187	$316,442	$314,606	$282,288	$299,706
Net Investment Income	1.4%	$85,211	$84,025	$85,331	$80,724	$77,670
General Expenses	(0.4)%	$29,102	$29,228	$28,387	$26,873	$26,335
Operating Income	26.8%	$31,284	$24,680	$20,999	$12,247	$25,055
Realized Gains/(Losses)	(42.3)%	$(5,939)	$(4,175)	$(5,225)	$(7,681)	$(16,436)
Net Income/(Loss)	23.6%	$25,344	$20,505	$15,774	$4,566	$8,619
Unrealized Gains/(Losses)	(121.1)%	$(647)	$3,065	$6,513	$8,559	$(17,581)
ROA (Annualized)	0.14 pts	0.92%	0.78%	0.63%	0.20%	0.37%
Net Investment Yield (Annualized)	(0.1) pt	5.2%	5.3%	5.5%	5.4%	5.3%
	6-mo. Chg					
Capital & Surplus	2.2%	$330,160	$315,560	$314,037	$289,723	$247,845

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

Premiums

The life industry reported a 5.5% ($21.9 billion) decrease in direct written premiums and deposits to $377.1 billion for the first six months of 2013. Similarly, net written premiums and deposits decreased 11.8% ($44.7 billion) to $332.7 billion. **Table 2** illustrates, in total and by line of business, the top five states reporting the greatest dollar amount of increases or decreases in total direct written premiums for the first half of 2013 compared to the same period in 2012.

On an earned basis, the industry reported an 8.6% ($27.3 billion) decrease in net premiums to $289.2 billion. As indicated in **Figure 1** below, there were no significant shifts in the industry's direct earned premium allocation by sector from mid-year 2012 to 2013.

Table 3 on page 3 shows total direct, assumed, ceded and net written premiums for the first six months of each of the past five years.

Table 2

Top Five States - Change in Direct Written Premiums by Line of Business

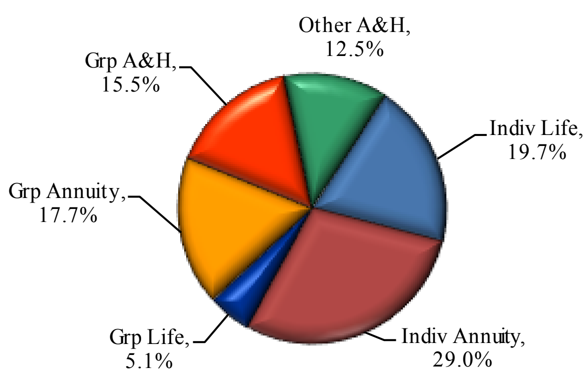
(Based on $ Change in Billions)

Total							
Increases				**Decreases**			
	% Chg	2Q'13	2Q'12		% Chg	2Q'13	2Q'12
DE	43.9%	$3.1	$2.2	PA	(13.1)%	$15.9	$18.3
GA	10.5%	$9.5	$8.6	NC	(12.2)%	$8.8	$10.0
MD	10.7%	$6.4	$5.8	NY	(5.3)%	$21.5	$22.7
MO	5.7%	$7.1	$6.7	IA	(10.4)%	$4.2	$4.6
TX	1.4%	$21.6	$21.3	OH	(3.5)%	$12.2	$12.6
Life							
Increases				**Decreases**			
	% Chg	2Q'13	2Q'12		% Chg	2Q'13	2Q'12
IL	8.9%	$3.4	$3.1	IA	(6.5)%	$0.8	$0.9
MN	15.5%	$2.0	$1.7	NE	(8.2)%	$0.5	$0.5
TX	3.6%	$5.0	$4.9	NH	(11.6)%	$0.3	$0.3
CA	2.3%	$7.2	$7.0	UT	(5.6)%	$0.6	$0.7
NY	2.3%	$5.5	$5.4	AK	(18.8)%	$0.2	$0.2
Annuities							
Increases				**Decreases**			
	% Chg	2Q'13	2Q'12		% Chg	2Q'13	2Q'12
MA	12.3%	$3.5	$3.1	NY	(4.2)%	$7.9	$8.3
MO	8.1%	$3.3	$3.1	IL	(5.9)%	$4.4	$4.7
MD	5.7%	$2.6	$2.4	CA	(2.4)%	$10.3	$10.6
NH	12.5%	$0.7	$0.7	NC	(6.6)%	$3.0	$3.2
IN	3.3%	$2.3	$2.3	CO	(5.9)%	$2.2	$2.4
A&H							
Increases				**Decreases**			
	% Chg	2Q'13	2Q'12		% Chg	2Q'13	2Q'12
TX	5.3%	$7.9	$7.5	OH	(3.9)%	$4.1	$4.3
NY	8.6%	$4.0	$3.6	WI	(6.8)%	$2.2	$2.3
CA	3.7%	$7.0	$6.7	NV	(18.0)%	$0.5	$0.7
VA	7.7%	$2.4	$2.2	IL	(3.7)%	$3.1	$3.2
KY	10.7%	$1.4	$1.3	IA	(8.8)%	$0.7	$0.8
Deposit-type Contracts							
Increases				**Decreases**			
	% Chg	2Q'13	2Q'12		% Chg	2Q'13	2Q'12
IA	45.2%	$4.1	$2.8	NY	(34.7)%	$12.5	$19.1
OH	99.1%	$1.9	$0.9	DE	(18.0)%	$14.3	$17.5
CT	16.9%	$4.6	$3.9	ID	(93.8)%	$0.0	$0.6
PA	88.4%	$1.2	$0.6	MD	(43.2)%	$0.3	$0.6
NC	105.0%	$1.0	$0.5	AZ	(36.3)%	$0.2	$0.2

Figure 1

Direct Premium Allocation by Sector

2Q'13



2Q'12

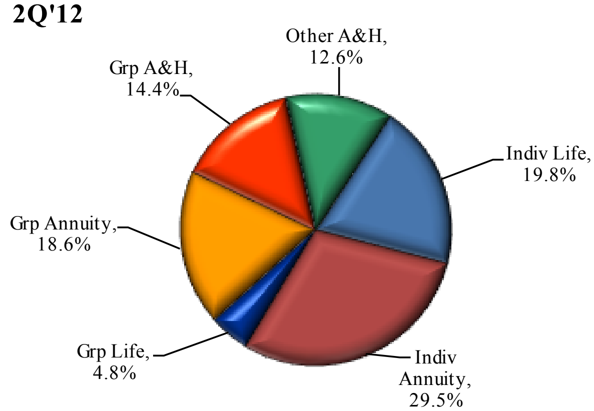


Table 3

Total Written Premium by LOB

($ in Billions)

Direct Premiums	% Chg.	2Q'13	2Q'12	2Q'11	2Q'10	2Q'09
Life Insurance	-4.4%	$ 82.3	$ 86.1	$ 80.6	$ 78.1	$ 74.7
Annuity Considerations	-3.2%	114.5	118.3	126.1	111.0	124.2
A&H Insurance	-2.8%	90.3	92.9	88.8	86.7	84.4
Deposit-type Contracts	-11.1%	51.7	58.1	46.0	41.5	55.1
Other	-11.9%	38.4	43.5	41.7	31.5	37.6
Total	**-5.5%**	**$ 377.1**	**$ 399.0**	**$ 383.2**	**$ 348.8**	**$ 376.0**

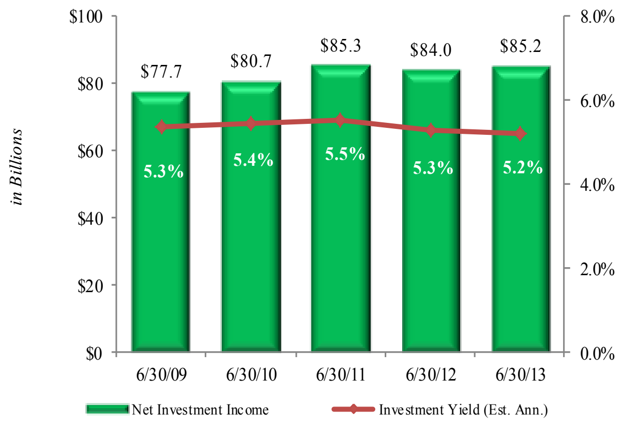
Assumed Premium	% Chg.	2Q'13	2Q'12	2Q'11	2Q'10	2Q'09
Life Insurance	47.6%	$ 31.6	$ 21.4	$ 21.1	$ 22.8	$ 20.7
Annuity Considerations	-74.0%	2.3	9.0	3.2	1.5	4.8
A&H Insurance	-2.7%	10.3	10.6	10.4	11.4	9.1
Deposit-type Contracts	-44.3%	0.2	0.3	0.1	0.0	0.1
Other	7.7%	1.6	1.5	1.2	2.2	0.3
Total	**7.6%**	**$ 46.0**	**$ 42.8**	**$ 36.1**	**$ 38.0**	**$ 35.0**

Ceded Premium	% Chg.	2Q'13	2Q'12	2Q'11	2Q'10	2Q'09
Life Insurance	60.3%	$ 53.3	$ 33.2	$ 36.3	$ 44.6	$ 35.3
Annuity Considerations	-45.1%	6.7	12.2	7.3	3.4	4.5
A&H Insurance	2.3%	14.5	14.2	13.4	13.6	9.9
Deposit-type Contracts	1753.2%	5.8	0.3	0.2	0.0	0.1
Other	129.2%	10.1	4.4	4.2	6.2	6.2
Total	**40.4%**	**$ 90.5**	**$ 64.4**	**$ 61.4**	**$ 67.9**	**$ 55.9**

Net Premium	% Chg.	2Q'13	2Q'12	2Q'11	2Q'10	2Q'09
Life Insurance	-18.4%	$ 60.7	$ 74.3	$ 65.4	$ 56.3	$ 60.1
Annuity Considerations	-4.3%	110.1	115.0	122.1	109.1	124.6
A&H Insurance	-3.6%	86.1	89.3	85.8	84.6	83.6
Deposit-type Contracts	-20.8%	46.1	58.2	45.9	41.5	55.1
Other	-26.5%	29.9	40.6	38.8	27.5	31.7
Total	**-11.8%**	**$ 332.7**	**$ 377.4**	**$ 357.9**	**$ 318.9**	**$ 355.1**

Figure 2

Net Investment Income and Yield



Investment Income

Net investment income increased marginally by 1.4% ($1.2 billion) to $85.2 billion in the first half of 2013, while the industry's annualized net investment yield decreased 0.1-percentage point to 5.2% as seen in **Figure 2**. The industry's invested asset portfolio decreased 3.1% ($106.4 billion) from the prior year-end to $3.3 trillion at June 30, 2013. The decrease in invested assets was due primarily to a 25.3% ($27.0 billion) drop in cash/ short-term investments, which was partially offset by a 1.2% increase in long-term bonds.

The Federal Reserve maintained the fed funds interest rate at 0.25%, which has resulted in a continued low short-term interest rate environment.

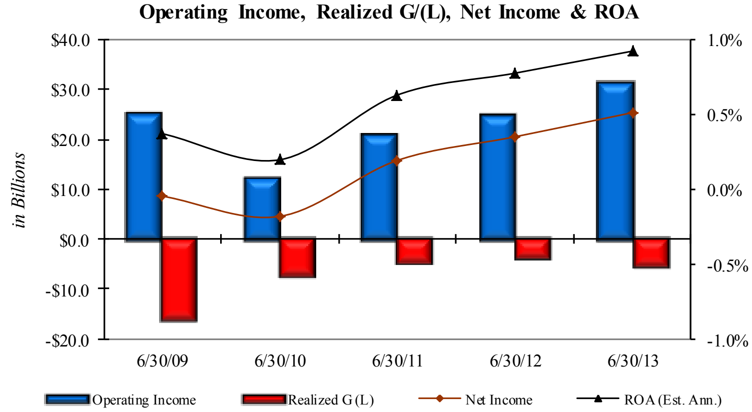
Operations

Net earnings increased considerably as the industry reported net income of $25.3 billion for the first six months of 2013. This was predominantly due to a 26.8% rise in operating income to $31.3 billion. The industry reported an 8.6% decrease in net earned premiums as has been previously discussed. This was partially offset by a minimal increase in net investment income combined with a nominal decrease in both benefits and general expenses.

Also, realized capital losses worsened 42.3% to $5.9 billion in the first half of 2013 compared to $4.2 billion for the same period in 2012. It should be noted that five insurance groups accounted for about 81.5% ($4.8 billion) of the industry's total realized capital losses for the first half of 2013.

Figure 3

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



The increase in operating income is illustrated in **Figure 3** above. Additionally, the various fluctuations in realized capital losses, net income and estimated annualized return on assets (ROA) for the first six months of each of the past five years can also be seen. The industry's ROA rose to 0.92% at June 30, 2013, from 0.78% at the prior mid-year date, influenced by the aforementioned changes.

Liquidity

The life industry reported a 27.2% ($19.4 billion) decrease in operating cash flow to $51.9 billion in the first half of 2013 from $71.2 billion in the comparable period of 2012. The drop is due primarily to a 10.7% ($34.9 billion) decrease in premiums collected and a 1.3% ($3.4 billion) increase in benefits and loss-related payments. These changes were partially offset by an 84.4% ($14.2 billion) decrease in net transfers to Separate Accounts. **Figure 4** on page 5 shows the industry's operating cash flow and surrenders activity through the first half of each of the past five years.

Surrender benefits through June 30, 2013, increased marginally by 0.3% ($305.5 million) to $120.1 billion. This is the second consecutive year of minimal increases (1.7% in the first half of 2012) in surrender benefits. However, in 2010, the industry had experienced a considerable drop in surrenders over the previous four years.

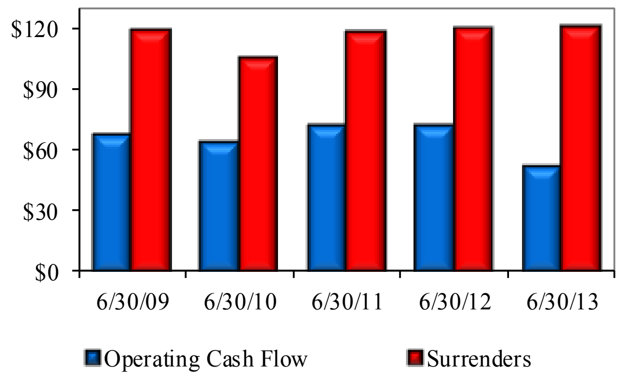
The life industry reported a 25.0% ($17.1 billion) decrease in net cash outflow from investing activities to $51.4 billion in the first six months of 2013 from $68.5 billion for the comparable period of

Liquidity, cont.

2012. The decrease can be attributed primarily to a 19.0% ($60.6 billion) rise in long-term bonds sold year-to-date during 2013, which was partially offset by a 12.0% ($44.3 billion) increase in long-term bonds acquired compared to the prior year.

The life industry reported a net cash outflow from financing activities of $27.0 billion in the first half of 2013 compared to a net inflow of nearly $4.7 billion in the first six months of 2012. The deterioration was due primarily to significant decreases of $15.0 billion and $14.9 billion in other cash applied and net deposits on deposit-type contracts, respectively.

Figure 4
Operating Cash Flow & Surrenders
in Billions



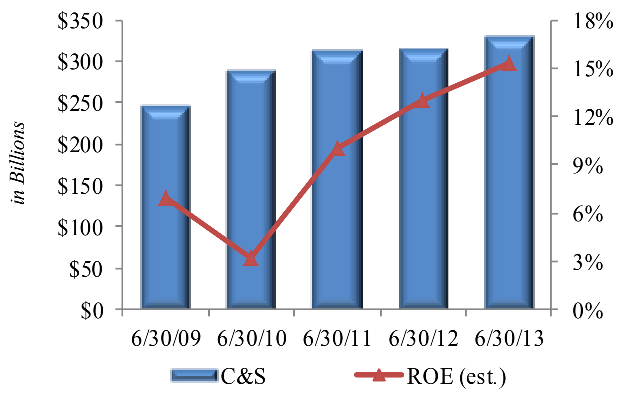
Capital and Surplus

The life industry's capital and surplus increased 2.2% ($7.2 billion) to $330.2 billion at June 30, 2013, from $323.0 billion at Dec. 31, 2012, due primarily to year-to-date net income of $25.3 billion, which was partially offset by stockholder dividends of $12.1 billion and surplus distributions of $5.4 billion.

The industry reported nearly $650 million of unrealized capital losses through June 30, 2013. This ended three consecutive years of unrealized capital gains going back to 2010.

As illustrated in **Figure 5**, estimated annualized return on equity (ROE) improved to 15.4% through the second quarter of 2013 compared to 13.0% for the same period of 2012. This continues three consecutive years of increasing annualized ROE.

Figure 5
Industry C&S and ROE



Separate Accounts

The industry's separate account assets increased 5.2% ($106.6 billion) to approximately $2.2 trillion through the first half of 2013 over the prior year-end. The increase can be attributed to a moderate increase in asset values as well as an improvement in the equity markets.

Separate account fee income increased 9.6% ($1.3 billion) to nearly $15.0 billion in the first six months of 2013 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 minimally by 1.4% from negative $27.9 billion at year-end 2012 to negative $27.5 billion at June 30, 2013, which led to a widening of the difference between the fund balance and the CARVM reserve.

Table 4
Financial Synopsis: June 30, 2013-2009

Fraternal Societies						
(In Millions)	Chg	2Q 2013	2Q 2012	2Q 2011	2Q 2010	2Q 2009
Total Direct Written Premium	(10.1)%	$4,729	$5,259	$5,053	$5,043	$4,858
Life Direct Written Premium	(13.2)%	$1,834	$2,114	$1,980	$1,865	$1,721
A&H Direct Written Premium	(6.4)%	$318	$339	$347	$362	$345
Annuities, Dep. & Other DWP	(9.0)%	$2,908	$3,197	$3,120	$3,251	$2,792
Net Earned Premium	(1.4)%	$4,561	$4,623	$4,867	$4,840	$4,233
Net Investment Income	(0.6)%	$2,446	$2,460	$2,552	$2,484	$2,358
Benefits	(7.4)%	$4,851	$5,241	$5,506	$5,548	$5,277
General Expenses	2.8%	$681	$662	$720	$667	$708
Operating Income (before refunds to members)	(0.3)%	$673	$675	$694	$640	$493
Refunds to Members	(19.1)%	$295	$365	$418	$427	$430
Realized Gains/(Losses)	(42.2)%	$29	$50	$69	$33	$(384)
Net Income/(Loss)	12.9%	$406	$360	$345	$246	$(321)
ROA (Annualized)	0.1 pt	0.7%	0.6%	0.6%	0.5%	(0.6)%
Investment Yield (Annualized)	(0.1) pt	4.6%	4.7%	5.2%	5.4%	5.4%
	6-mo. Chg.					
Surplus	1.5%	$9,074	$8,484	$9,601	$8,928	$8,564

Table 4 illustrates the fraternal insurance industry's aggregate financial results for societies which file on the fraternal annual statement blank. The fraternal industry continued to show improvement as it reported a 12.9% increase in net income in the first six months of 2013 to $406.4 million compared to $360.0 million for the prior year period.

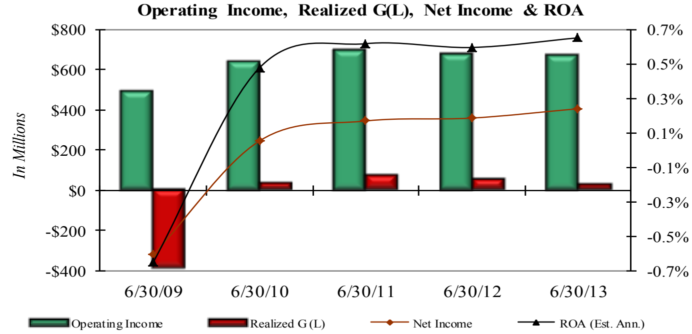
The improvement in profitability can be attributed to the industry reporting a 7.4% ($389.9 million) decrease in benefits, which was partially offset by 1.4% ($108.7 million) and 19.1% decreases in net earned premium and refunds to members, respectively. As seen in **Figure 6**, the industry reported a minimal 0.3% decrease in operating income to $672.6 million compared to $674.8 million for the first half of 2012. Similarly, the industry reported a 42.2% drop in realized capital gains to $28.8 million for the first six months of 2013 from $49.9 million in the prior year period.

Year-to-date direct written premium decreased 10.1% ($530.4 million) to $4.7 billion. This was due to 13.2% ($279.7 million) and 1.3% ($229.1 million) drops in premiums from life insurance products and annuity considerations, respectively.

Net investment income decreased only 0.6% to $2.4 billion while the industry's annualized net investment yield decreased moderately, down 12 basis points to 4.6% for the period ended June 30, 2013. The industry reported a 6.0% ($6.7 billion) decrease in invested assets from prior year-end to $105.1 billion mostly in long-term bonds, which were down nearly 4.9% ($4.2 billion).

Surplus increased 1.5% to $9.1 billion from Dec. 31, 2012, due primarily to the aforementioned net income and a $260.9 million decrease in nonadmitted assets. These changes were partially offset by $250.0 million in aggregate write-ins against surplus and a $228.0 million increase in the asset valuation reserve.

Figure 6
Operating Income, Realized G(L), Net Income & ROA



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