REINSURANCE GROUP OF AMERICA INC
Form 10-Q
May 05, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-11848

REINSURANCE GROUP OF AMERICA, INCORPORATED
(Exact name of Registrant as specified in its charter)

MISSOURI	**43-1627032**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification number)**

1370 Timberlake Manor Parkway
Chesterfield, Missouri 63017
(Address of principal executive offices)
(636) 736-7000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ **No** o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	**Accelerated filer o**	**Non-accelerated filer o (Do not check if a smaller reporting company)**	**Smaller reporting company o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** þ

As of April 29, 2011, 73,908,117 shares of the registrant s common stock were outstanding.

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2011	December 31, 2010
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $13,636,983 and $13,345,022 at March 31, 2011 and December 31, 2010, respectively)	$ 14,531,154	$ 14,304,597
Mortgage loans on real estate (net of allowances of $5,664 and $6,239 at at March 31, 2011 and December 31, 2010, respectively)	906,869	885,811
Policy loans	1,222,016	1,228,418
Funds withheld at interest	5,595,146	5,421,952
Short-term investments	74,902	118,387
Other invested assets	756,377	707,403
Total investments	23,086,464	22,666,568
Cash and cash equivalents	467,672	463,661
Accrued investment income	155,182	127,874
Premiums receivable and other reinsurance balances	986,658	1,037,679
Reinsurance ceded receivables	807,929	769,699
Deferred policy acquisition costs	3,679,075	3,726,443
Other assets	327,039	289,984
Total assets	$ 29,510,019	$ 29,081,908
Liabilities and Stockholders Equity		
Future policy benefits	$ 9,438,432	$ 9,274,789
Interest-sensitive contract liabilities	7,747,203	7,774,481
Other policy claims and benefits	2,728,122	2,597,941
Other reinsurance balances	184,958	133,590
Deferred income taxes	1,415,333	1,396,747
Other liabilities	701,799	637,923
Short-term debt	255,989	199,985
Long-term debt	1,016,510	1,016,425
Collateral finance facility	839,354	850,039
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company	159,455	159,421
Total liabilities	24,487,155	24,041,341
Commitments and contingent liabilities (See Note 8)		
Stockholders Equity:		

Preferred stock (par value $.01 per share; 10,000,000 shares authorized; no shares issued or outstanding)		
Common stock (par value $.01 per share; 140,000,000 shares authorized; shares issued: 79,137,758 and 73,363,523 at March 31, 2011 and December 31, 2010, respectively)	791	734
Warrants		66,912
Additional paid-in-capital	1,708,096	1,478,398
Retained earnings	2,738,868	2,587,403
Treasury stock, at cost; 5,340,612 and 328 shares at March 31, 2011 and December 31, 2010, respectively	(323,689)	(295)
Accumulated other comprehensive income	898,798	907,415
Total stockholders equity	5,022,864	5,040,567
Total liabilities and stockholders equity	$ 29,510,019	$ 29,081,908

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended March 31, 2011	2010
	(Dollars in thousands, except per share data)	
Revenues:		
Net premiums	$ 1,736,130	$ 1,628,464
Investment income, net of related expenses	371,040	304,258
Investment related gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(1,556)	(7,430)
Other-than-temporary impairments on fixed maturity securities transferred to accumulated other comprehensive income		2,344
Other investment related gains (losses), net	125,176	136,271
Total investment related gains (losses), net	123,620	131,185
Other revenues	51,645	36,278
Total revenues	2,282,435	2,100,185
Benefits and Expenses:		
Claims and other policy benefits	1,469,449	1,375,180
Interest credited	106,063	56,934
Policy acquisition costs and other insurance expenses	331,153	366,302
Other operating expenses	106,150	91,199
Interest expense	24,569	15,449
Collateral finance facility expense	3,202	1,806
Total benefits and expenses	2,040,586	1,906,870
Income before income taxes	241,849	193,315
Provision for income taxes	81,033	70,876
Net income	$ 160,816	$ 122,439
Earnings per share:		
Basic earnings per share	$ 2.20	$ 1.68
Diluted earnings per share	$ 2.18	$ 1.64
Dividends declared per share	$ 0.12	$ 0.12

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2011	2010
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$ 160,816	$ 122,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(26,763)	(33,508)
Premiums receivable and other reinsurance balances	85,908	(42,145)
Deferred policy acquisition costs	67,230	59,525
Reinsurance ceded balances	(38,230)	(14,999)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	227,509	1,054,030
Deferred income taxes	23,517	63,820
Other assets and other liabilities, net	(25,759)	(96,334)
Amortization of net investment premiums, discounts and other	(27,093)	(16,833)
Investment related gains, net	(123,620)	(131,185)
Excess tax benefits from share-based payment arrangement	(932)	(565)
Other, net	53,065	(16,213)
Net cash provided by operating activities	375,648	948,032
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	910,943	800,547
Maturities of fixed maturity securities available-for-sale	85,374	23,371
Purchases of fixed maturity securities available-for-sale	(1,087,526)	(1,504,410)
Cash invested in mortgage loans	(28,493)	(12,730)
Cash invested in policy loans		(28,571)
Cash invested in funds withheld at interest	571	(60,636)
Principal payments on mortgage loans on real estate	11,843	6,121
Principal payments on policy loans	6,402	2,412
Change in short-term investments and other invested assets	(24,911)	(2,431)
Net cash used in investing activities	(125,797)	(776,327)
Cash Flows from Financing Activities:		
Dividends to stockholders	(8,832)	(8,784)
Repurchase of collateral finance facility securities	(7,586)	
Net borrowing under credit facilities	56,000	
Retirement of preferred income equity redeemable securities	154,588	
Purchases of treasury stock	(335,955)	(718)
Excess tax benefits from share-based payment arrangement	932	565
Exercise of stock options, net	(5,811)	5,762
Change in cash collateral for derivative positions	(6,120)	10,439

Deposits on universal life and other investment type policies and contracts	13,724	65,655
Withdrawals on universal life and other investment type policies and contracts	(110,703)	(231,220)
Net cash used in financing activities	(249,763)	(158,301)
Effect of exchange rate changes on cash	3,923	(71)
Change in cash and cash equivalents	4,011	13,333
Cash and cash equivalents, beginning of period	463,661	512,027
Cash and cash equivalents, end of period	$ 467,672	$ 525,360
Supplementary information:		
Cash paid for interest	$ 12,846	$ 12,780
Cash paid for income taxes, net of refunds	$ 77,441	$ 24,089

See accompanying notes to condensed consolidated financial statements (unaudited).

5

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

Reinsurance Group of America, Incorporated (RGA) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The Company has determined that there were no subsequent events that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2010 Annual Report on Form 10-K (2010 Annual Report) filed with the Securities and Exchange Commission on February 28, 2011.

The accompanying unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries. The Company has reclassified the presentation of certain prior-period information to conform to the current presentation. Such reclassifications include separately disclosing the deposits and the withdrawals on universal life and other investment type policies and contracts in the condensed consolidated statements of cash flows. All intercompany accounts and transactions have been eliminated.

2. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share on net income (in thousands, except per share information):

	Three months ended March 31,	
	2011	2010
Earnings:		
Net income (numerator for basic and diluted calculations)	$ 160,816	$ 122,439
Shares:		
Weighted average outstanding shares (denominator for basic calculation)	73,213	73,046
Equivalent shares from outstanding stock options	623	1,532
Denominator for diluted calculation	73,836	74,578
Earnings per share:		
Basic	$ 2.20	$ 1.68
Diluted	$ 2.18	$ 1.64

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended March 31, 2011, approximately 0.8 million stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. For the three months ended March 31, 2010, approximately 0.7 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation.

Table of Contents

3. Comprehensive Income

The following table presents the components of the Company s comprehensive income (dollars in thousands):

	Three months ended March 31, 2011	March 31, 2010
Net income	$ 160,816	$ 122,439
Other comprehensive income (loss), net of income tax:		
Unrealized investment gains (losses), net of reclassification adjustment for gains (losses) included in net income	(35,818)	149,972
Reclassification adjustment for other-than-temporary impairments		(1,524)
Currency translation adjustments	26,987	26,671
Unrealized pension and postretirement benefit adjustments	214	60
Comprehensive income	$ 152,199	$ 297,618

The balance of and changes in each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2011 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation of Securities	Pension and Postretirement Benefits	Total
Balance, December 31, 2010	$ 270,526	$ 651,449	$ (14,560)	$ 907,415
Change in component during the period	26,987	(35,818)	214	(8,617)
Balance, March 31, 2011	$ 297,513	$ 615,631	$ (14,346)	$ 898,798

4. Investments

The Company had total cash and invested assets of $23.6 billion and $23.1 billion at March 31, 2011 and December 31, 2010, respectively, as illustrated below (dollars in thousands):

	March 31, 2011	December 31, 2010
Fixed maturity securities, available-for-sale	$ 14,531,154	$ 14,304,597
Mortgage loans on real estate	906,869	885,811
Policy loans	1,222,016	1,228,418
Funds withheld at interest	5,595,146	5,421,952
Short-term investments	74,902	118,387
Other invested assets	756,377	707,403
Cash and cash equivalents	467,672	463,661
Total cash and invested assets	$ 23,554,136	$ 23,130,229

All investments held by the Company are monitored for conformance to the qualitative and quantitative limits prescribed by the applicable jurisdiction s insurance laws and regulations. In addition, the operating companies boards of directors periodically review their respective investment portfolios. The Company s investment strategy is to maintain a predominantly investment-grade, fixed maturity securities portfolio, which will provide adequate liquidity for expected reinsurance obligations and maximize total return through prudent asset management. The Company s asset/liability duration matching differs between operating segments. Based on Canadian reserve requirements, the Canadian liabilities are matched with long-duration Canadian assets. The duration of the Canadian portfolio exceeds twenty years. The average duration for all portfolios, when consolidated, ranges between eight and ten years.

The Company participates in a securities borrowing program whereby blocks of securities, which are not included in investments, are borrowed from a third party. The Company is required to maintain a minimum of 100% of the market value of the borrowed securities as collateral. The Company had borrowed securities with an amortized cost of $150.0 million and a market value of $150.9 million as of March 31, 2011. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction. There were no securities borrowed as of December 31, 2010.

Table of Contents

Investment Income, Net of Related Expenses

Major categories of investment income, net of related expenses, consist of the following (dollars in thousands):

	Three months ended March 31, 2011	Three months ended March 31, 2010
Fixed maturity securities available-for-sale	$ 184,561	$ 177,491
Mortgage loans on real estate	13,734	12,207
Policy loans	16,371	19,843
Funds withheld at interest	153,060	91,181
Short-term investments	925	1,248
Other invested assets	9,698	8,511
Investment revenue	378,349	310,481
Investment expense	7,309	6,223
Investment income, net of related expenses	$ 371,040	$ 304,258

Investment Related Gains (Losses), Net

Investment related gains (losses), net consist of the following (dollars in thousands):

	Three months ended March 31, 2011	Three months ended March 31, 2010
Fixed maturities and equity securities available for sale:		
Other-than-temporary impairment losses on fixed maturities	$ (1,556)	$ (7,430)
Portion of loss recognized in accumulated other comprehensive income (before taxes)		2,344
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(1,556)	(5,086)
Impairment losses on equity securities		(22)
Gain on investment activity	29,376	16,099
Loss on investment activity	(6,914)	(8,532)
Other impairment losses and change in mortgage loan provision	576	(1,230)
Derivatives and other, net	102,138	129,956
Net gains	$ 123,620	$ 131,185

The net other-than-temporary impairment losses on fixed maturity securities recognized in earnings of $1.6 million and $5.1 million in 2011 and 2010, respectively, are primarily due to a decline in value of structured securities with exposure to mortgages and corporate bankruptcies. The decrease in derivative gains is primarily due to a decrease in the fair value of free-standing derivatives.

During the three months ended March 31, 2011 and 2010, the Company sold fixed maturity securities and equity securities with fair values of $196.6 million and $240.1 million at losses of $6.9 million and $8.5 million, respectively, or at 96.6% and 96.6% of amortized cost, respectively. The Company generally does not engage in short-term buying and selling of securities.

Other-Than-Temporary Impairments

The Company has a process in place to identify fixed maturity and equity securities that could potentially have credit impairments that are other-than-temporary. This process involves monitoring market events that could affect issuers credit ratings, business climates, management changes, litigation, government actions and other similar factors. This process also involves monitoring late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

The Company reviews all securities to determine whether other-than-temporary declines in value exist and whether losses should be recognized. The Company considers relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer s financial position and access to capital and (4) for fixed maturity securities, the Company s intent to sell a security or whether it is more likely than not it will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, its ability and intent to hold the security for a period of time that allows for

Table of Contents

the recovery in value. To the extent the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

Impairment losses on equity securities are recognized in net income. Recognition of impairment losses on fixed maturity securities is dependent on the facts and circumstances related to a specific security. If the Company intends to sell a security or it is more likely than not that it would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, it recognizes an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If the Company does not expect to recover the amortized cost basis, it does not plan to sell the security and if it is not more likely than not that it would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. The Company recognizes the credit loss portion in net income and the non-credit loss portion in accumulated other comprehensive income (AOCI).

For the three months ended March 31, 2011 and 2010, the Company recognized $1.6 million and $5.1 million respectively, of credit related losses in various mortgage-backed securities and to a lesser extent, corporate securities. The Company estimates the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate fixed maturity security cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security specific facts and circumstances including timing, security interests and loss severity.

In periods after an other-than-temporary impairment loss is recognized on a fixed maturity security, the Company will report the impaired security as if it had been purchased on the date it was impaired and will continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

The following table sets forth the amount of credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the other-than-temporary impairment (OTTI) loss was recognized in AOCI, and the corresponding changes in such amounts (dollars in thousands):

	Three months ended	
	2011	2010
Balance, beginning of period	$ 47,291	$ 47,905
Initial impairments credit loss OTTI recognized on securities not previously impaired		1,572
Additional impairments credit loss OTTI recognized on securities previously impaired	658	2,101
Balance, end of period	$ 47,949	$ 51,578

Fixed Maturity and Equity Securities Available-for-Sale

The Company recognizes an other-than-temporary impairment for a fixed maturity security by separating the other-than-temporary impairment loss between the amount representing the credit loss and the amount relating to other factors, such as an increase in interest rates, if the Company does not have the intent to sell or it more likely than not will not be required to sell prior to recovery of the amortized cost less any current period credit loss. Credit losses are recognized in net income and losses relating to other non-credit factors are recognized in AOCI and included in unrealized losses in the tables below. The following tables provide information relating to investments in fixed maturity securities and equity securities by sector as of March 31, 2011 and December 31, 2010 (dollars in thousands):

9

Table of Contents

March 31, 2011:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than-temporary impairments in AOCI