

REINSURANCE GROUP OF AMERICA INC

Form 10-Q

August 04, 2011

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

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

☐ **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
(State or other jurisdiction
of incorporation or organization)

43-1627032
(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 ☒ No ☐

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 ☒ No ☐

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller
reporting company)

Smaller reporting
company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 29, 2011, 74,093,504 shares of the registrant's common stock were outstanding.

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Table of Contents**REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2011 (Dollars in thousands, except share data)	December 31, 2010
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$14,041,347 and \$13,345,022 at June 30, 2011 and December 31, 2010, respectively)	\$ 15,153,807	\$ 14,304,597
Mortgage loans on real estate (net of allowances of \$7,692 and \$6,239 at June 30, 2011 and December 31, 2010, respectively)	908,048	885,811
Policy loans	1,229,663	1,228,418
Funds withheld at interest	5,671,844	5,421,952
Short-term investments	125,618	118,387
Other invested assets	799,341	707,403
 Total investments	 23,888,321	 22,666,568
Cash and cash equivalents	710,973	463,661
Accrued investment income	160,436	127,874
Premiums receivable and other reinsurance balances	1,045,131	1,037,679
Reinsurance ceded receivables	781,006	769,699
Deferred policy acquisition costs	3,733,686	3,726,443
Other assets	339,724	289,984
 Total assets	 \$ 30,659,277	 \$ 29,081,908
 Liabilities and Stockholders' Equity		
Future policy benefits	\$ 9,642,814	\$ 9,274,789
Interest-sensitive contract liabilities	8,100,608	7,774,481
Other policy claims and benefits	2,774,031	2,597,941
Other reinsurance balances	159,340	133,590
Deferred income taxes	1,421,480	1,396,747
Other liabilities	784,291	637,923
Short-term debt	199,993	199,985
Long-term debt	1,414,406	1,016,425
Collateral finance facility	837,789	850,039
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company		159,421
 Total liabilities	 25,334,752	 24,041,341
 Commitments and contingent liabilities (See Note 8)		

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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 June 30, 2011 and

December 31, 2010, respectively)	791	734
Warrants		66,912
Additional paid-in-capital	1,713,893	1,478,398
Retained earnings	2,856,009	2,587,403
Treasury stock, at cost; 5,062,014 and 328 shares at June 30, 2011 and		
December 31, 2010, respectively	(310,856)	(295)
Accumulated other comprehensive income	1,064,688	907,415
Total stockholders' equity	5,324,525	5,040,567
Total liabilities and stockholders' equity	\$ 30,659,277	\$ 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share data)			
Revenues:				
Net premiums	\$ 1,788,676	\$ 1,582,017	\$ 3,524,806	\$ 3,210,481
Investment income, net of related expenses	337,436	291,671	708,476	595,929
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(5,582)	(3,489)	(7,138)	(10,919)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	292	(139)	292	2,205
Other investment related gains (losses), net	32,678	26,620	157,854	162,891
Total investment related gains (losses), net	27,388	22,992	151,008	154,177
Other revenues	50,477	35,197	102,122	71,475
Total revenues	2,203,977	1,931,877	4,486,412	4,032,062
Benefits and Expenses:				
Claims and other policy benefits	1,520,013	1,307,239	2,989,462	2,682,419
Interest credited	96,196	79,169	202,259	136,103
Policy acquisition costs and other insurance expenses	261,282	237,149	592,435	603,451
Other operating expenses	97,161	83,147	203,311	174,346
Interest expense	25,818	25,141	50,387	40,590
Collateral finance facility expense	3,101	1,960	6,303	3,766
Total benefits and expenses	2,003,571	1,733,805	4,044,157	3,640,675
Income before income taxes	200,406	198,072	442,255	391,387
Provision for income taxes	67,518	71,053	148,551	141,929
Net income	\$ 132,888	\$ 127,019	\$ 293,704	\$ 249,458
Earnings per share:				
Basic earnings per share	\$ 1.80	\$ 1.74	\$ 3.99	\$ 3.41
Diluted earnings per share	\$ 1.78	\$ 1.70	\$ 3.96	\$ 3.34

Dividends declared per share	\$	0.12	\$	0.12	\$	0.24	\$	0.24
See accompanying notes to condensed consolidated financial statements (unaudited).								
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Table of Contents**REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six months ended June 30,	
	2011	2010
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 293,704	\$ 249,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(31,378)	(38,770)
Premiums receivable and other reinsurance balances	66,922	(118,265)
Deferred policy acquisition costs	33,008	37,995
Reinsurance ceded receivable balances	(11,307)	(5,351)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	332,611	1,176,366
Deferred income taxes	(34,698)	105,285
Other assets and other liabilities, net	41,262	(190,883)
Amortization of net investment premiums, discounts and other	(67,755)	(64,779)
Investment related gains, net	(151,008)	(154,177)
Excess tax benefits from share-based payment arrangement	(2,690)	(782)
Other, net	69,143	39,116
Net cash provided by operating activities	537,814	1,035,213
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	1,791,826	1,490,869
Maturities of fixed maturity securities available-for-sale	164,043	72,758
Purchases of fixed maturity securities available-for-sale	(2,341,291)	(2,372,035)
Cash invested in mortgage loans	(44,679)	(61,676)
Cash invested in policy loans	(8,928)	(38,864)
Cash invested in funds withheld at interest	(10,563)	(74,093)
Principal payments on mortgage loans on real estate	19,283	12,500
Principal payments on policy loans	7,683	2,412
Change in short-term investments and other invested assets	(74,600)	91,175
Net cash used in investing activities	(497,226)	(876,954)
Cash Flows from Financing Activities:		
Dividends to stockholders	(17,703)	(17,561)
Repurchase of collateral finance facility securities	(7,586)	
Net proceeds from long-term debt issuance	394,410	
Proceeds from redemption and remarketing of trust preferred securities	154,588	
Maturity of trust preferred securities	(159,455)	
Purchases of treasury stock	(340,220)	(718)
Excess tax benefits from share-based payment arrangement	2,690	782

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Exercise of stock options, net	15,605	8,008
Change in cash collateral for derivative positions	8,010	72,894
Deposits on universal life and other investment type policies and contracts	288,424	81,214
Withdrawals on universal life and other investment type policies and contracts	(147,774)	(251,990)
Net cash provided by (used in) financing activities	190,989	(107,371)
Effect of exchange rate changes on cash	15,735	(5,159)
Change in cash and cash equivalents	247,312	45,729
Cash and cash equivalents, beginning of period	463,661	512,027
Cash and cash equivalents, end of period	\$ 710,973	\$ 557,756

Supplementary information:

Cash paid for interest	\$ 47,054	\$ 48,353
Cash paid for income taxes, net of refunds	\$ 105,107	\$ 32,981

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

Table of Contents**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. Results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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 include the accounts of RGA and its subsidiaries and 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 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Earnings:				
Net income (numerator for basic and diluted calculations)	\$ 132,888	\$ 127,019	\$ 293,704	\$ 249,458
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	73,971	73,141	73,593	73,094
Equivalent shares from outstanding stock options ⁽¹⁾	559	1,580	591	1,556
Denominator for diluted calculation	74,530	74,721	74,184	74,650
Earnings per share:				
Basic	\$ 1.80	\$ 1.74	\$ 3.99	\$ 3.41
Diluted	\$ 1.78	\$ 1.70	\$ 3.96	\$ 3.34

(1) Year-to-date amounts are weighted average of the individual quarterly amounts.

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 June 30, 2011, no stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. For the three months ended June 30, 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		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income	\$ 132,888	\$ 127,019	\$ 293,704	\$ 249,458
Other comprehensive income (loss), net of income tax:				
Unrealized investment gains, net of reclassification adjustment for gains included in net income	151,582	217,369	115,764	367,341
Reclassification adjustment for other-than-temporary impairments	(190)	91	(190)	(1,433)
Currency translation adjustments	14,140	(63,564)	41,127	(36,893)
Unrealized pension and postretirement benefit adjustment	358	58	572	118
Comprehensive income	\$ 298,778	\$ 280,973	\$ 450,977	\$ 578,591

The balance of and changes in each component of accumulated other comprehensive income (loss) for the six months ended June 30, 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	41,127	115,574	572	157,273
Balance, June 30, 2011	\$ 311,653	\$ 767,023	\$ (13,988)	\$ 1,064,688

4. Investments

The Company had total cash and invested assets of \$24.6 billion and \$23.1 billion at June 30, 2011 and December 31, 2010, respectively, as illustrated below (dollars in thousands):

	June 30, 2011	December 31, 2010
Fixed maturity securities, available-for-sale	\$ 15,153,807	\$ 14,304,597
Mortgage loans on real estate	908,048	885,811
Policy loans	1,229,663	1,228,418
Funds withheld at interest	5,671,844	5,421,952
Short-term investments	125,618	118,387
Other invested assets	799,341	707,403
Cash and cash equivalents	710,973	463,661
Total cash and invested assets	\$ 24,599,294	\$ 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 securities, which are not reflected on the Company's condensed consolidated balance sheets, 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 \$150.7 million as of June 30, 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Fixed maturity securities available-for-sale	\$ 191,030	\$ 175,638	\$ 375,591	\$ 353,130
Mortgage loans on real estate	13,593	11,954	27,328	24,160
Policy loans	16,724	18,037	33,095	37,879
Funds withheld at interest	111,700	84,392	264,760	175,573
Short-term investments	883	1,130	1,808	2,378
Other invested assets	10,512	6,256	20,210	14,767
Investment revenue	344,442	297,407	722,792	607,887
Investment expense	(7,006)	(5,736)	(14,316)	(11,958)
Investment income, net of related expenses	\$ 337,436	\$ 291,671	\$ 708,476	\$ 595,929

Investment Related Gains (Losses), Net

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Fixed maturity and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturities	\$ (5,582)	\$ (3,489)	\$ (7,138)	\$ (10,919)
Portion of loss recognized in accumulated other comprehensive income (before taxes)	292	(139)	292	2,205
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(5,290)	(3,628)	(6,846)	(8,714)
Impairment losses on equity securities	(3,680)	(10)	(3,680)	(32)
Gain on investment activity	28,208	19,363	57,584	35,462
Loss on investment activity	(6,653)	(5,662)	(13,567)	(14,194)
Other impairment losses and change in mortgage loan provision	(3,186)	(1,165)	(2,610)	(2,395)