

REINSURANCE GROUP OF AMERICA INC

Form 10-Q

August 04, 2010

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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, 2010

**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** **43-1627032**  
(State or other jurisdiction (IRS employer  
of incorporation or organization) 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  Smaller reporting company

(Do not check if a  
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 30, 2010, 73,156,938 shares of the registrant's common stock were outstanding.**

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

	June 30, 2010	December 31, 2009
	(Dollars in thousands, except per share data)	
<b>Assets</b>		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$12,381,638 and \$11,616,957 at June 30, 2010 and December 31, 2009, respectively)	\$ 13,077,607	\$ 11,763,358
Mortgage loans on real estate (net of allowances of \$8,179 and \$5,784 at June 30, 2010 and December 31, 2009, respectively)	838,827	791,668
Policy loans	1,173,016	1,136,564
Funds withheld at interest	5,257,929	4,895,356
Short-term investments	63,962	121,060
Other invested assets	637,827	516,086
Total investments	21,049,168	19,224,092
Cash and cash equivalents	557,756	512,027
Accrued investment income	144,658	107,447
Premiums receivable and other reinsurance balances	898,522	850,096
Reinsurance ceded receivables	721,830	716,480
Deferred policy acquisition costs	3,597,865	3,698,972
Other assets	250,807	140,387
Total assets	\$ 27,220,606	\$ 25,249,501
<b>Liabilities and Stockholders Equity</b>		
Future policy benefits	\$ 8,518,817	\$ 7,748,480
Interest-sensitive contract liabilities	7,781,407	7,666,002
Other policy claims and benefits	2,387,579	2,229,083
Other reinsurance balances	143,723	106,706
Deferred income taxes	977,873	613,222
Other liabilities	742,940	792,775
Long-term debt	1,216,230	1,216,052
Collateral finance facility	850,030	850,037
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company	159,316	159,217
Total liabilities	22,777,915	21,381,574
Commitments and contingent liabilities (See Note 8)		
Stockholders Equity:		

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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: 73,363,523 at June 30, 2010 and December 31, 2009)	734	734
Warrants	66,912	66,912
Additional paid-in-capital	1,473,305	1,463,101
Retained earnings	2,282,968	2,055,549
Treasury stock, at cost; 209,962 and 373,861 shares at June 30, 2010 and December 31, 2009, respectively	(9,570)	(17,578)
Accumulated other comprehensive income (loss):		
Accumulated currency translation adjustment, net of income taxes	173,985	210,878
Unrealized appreciation of securities, net of income taxes	470,365	104,457
Pension and postretirement benefits, net of income taxes	(16,008)	(16,126)
Total stockholders' equity	4,442,691	3,867,927
Total liabilities and stockholders' equity	\$ 27,220,606	\$ 25,249,501

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands, except per share data)			
<b>Revenues:</b>				
Net premiums	\$ 1,582,017	\$ 1,375,181	\$ 3,210,481	\$ 2,721,228
Investment income, net of related expenses	291,671	284,636	595,929	507,832
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(3,489)	(36,942)	(10,919)	(71,337)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	(139)	16,135	2,205	16,135
Other investment related gains (losses), net	26,620	98,995	162,891	61,128
Total investment related gains (losses), net	22,992	78,188	154,177	5,926
Other revenues	35,197	75,161	71,475	109,020
Total revenues	1,931,877	1,813,166	4,032,062	3,344,006
<b>Benefits and Expenses:</b>				
Claims and other policy benefits	1,307,239	1,123,696	2,682,419	2,293,440
Interest credited	79,169	72,897	136,103	109,806
Policy acquisition costs and other insurance expenses	237,149	308,403	603,451	507,204
Other operating expenses	83,147	71,095	174,346	137,844
Interest expense	25,141	19,595	40,590	41,712
Collateral finance facility expense	1,960	2,057	3,766	4,371
Total benefits and expenses	1,733,805	1,597,743	3,640,675	3,094,377
<b>Income before income taxes</b>	198,072	215,423	391,387	249,629
Provision for income taxes	71,053	62,244	141,929	73,160
<b>Net income</b>	\$ 127,019	\$ 153,179	\$ 249,458	\$ 176,469
<b>Earnings per share:</b>				
Basic earnings per share	\$ 1.74	\$ 2.11	\$ 3.41	\$ 2.43
Diluted earnings per share	\$ 1.70	\$ 2.10	\$ 3.34	\$ 2.42
<b>Dividends declared per share</b>	\$ 0.12	\$ 0.09	\$ 0.24	\$ 0.18

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





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

	Six months ended June 30,	
	2010	2009
	(Dollars in thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 249,458	\$ 176,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(38,770)	(29,934)
Premiums receivable and other reinsurance balances	(118,265)	(55,706)
Deferred policy acquisition costs	37,995	50,801
Reinsurance ceded balances	(5,351)	(3,771)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	1,176,366	437,355
Deferred income taxes	105,285	46,667
Other assets and other liabilities, net	(190,883)	32,908
Amortization of net investment premiums, discounts and other	(64,779)	(59,792)
Investment related gains, net	(154,177)	(5,926)
Gain on repurchase of long-term debt		(38,875)
Excess tax benefits from share-based payment arrangement	(782)	(1,452)
Other, net	39,116	(9,527)
Net cash provided by operating activities	1,035,213	539,217
<b>Cash Flows from Investing Activities:</b>		
Sales of fixed maturity securities available-for-sale	1,490,869	1,268,318
Maturities of fixed maturity securities available-for-sale	72,758	26,117
Purchases of fixed maturity securities available-for-sale	(2,372,035)	(1,994,477)
Cash invested in mortgage loans	(61,676)	
Cash invested in policy loans	(38,864)	(9,508)
Cash invested in funds withheld at interest	(74,093)	(37,140)
Principal payments on mortgage loans on real estate	12,500	14,367
Principal payments on policy loans	2,412	20,470
Change in short-term investments and other invested assets	91,175	4,771
Net cash used in investing activities	(876,954)	(707,082)
<b>Cash Flows from Financing Activities:</b>		
Dividends to stockholders	(17,561)	(13,085)
Repurchase of long-term debt		(39,960)
Net repayments under credit agreements		(22,539)
Purchases of treasury stock	(718)	(1,607)
Excess tax benefits from share-based payment arrangement	782	1,452
Exercise of stock options, net	8,008	532
Change in cash collateral for derivative positions	72,894	(143,353)

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Net withdrawals on universal life and other investment type policies and contracts	(170,776)	(82,242)
Net cash used in financing activities	(107,371)	(300,802)
Effect of exchange rate changes on cash	(5,159)	10,211
Change in cash and cash equivalents	45,729	(458,456)
Cash and cash equivalents, beginning of period	512,027	875,403
Cash and cash equivalents, end of period	\$ 557,756	\$ 416,947
Supplementary information:		
Cash paid for interest	\$ 48,353	\$ 37,871
Cash paid for income taxes, net of refunds	\$ 32,981	\$ 13,009

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

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**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 and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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 2009 Annual Report on Form 10-K ( 2009 Annual Report ) filed with the Securities and Exchange Commission on March 2, 2010.

The accompanying unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries. All intercompany accounts and transactions have been eliminated. The Company has reclassified the presentation of certain prior-period information to conform to the current presentation.

**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,	
	2010	2009	2010	2009
Earnings:				
Net income (numerator for basic and diluted calculations)	\$ 127,019	\$ 153,179	\$ 249,458	\$ 176,469
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	73,141	72,770	73,094	72,740
Equivalent shares from outstanding stock options <sup>(1)</sup>	1,580	169	1,556	172
Denominator for diluted calculation	74,721	72,939	74,650	72,912
Earnings per share:				
Basic	\$ 1.74	\$ 2.11	\$ 3.41	\$ 2.43
Diluted	\$ 1.70	\$ 2.10	\$ 3.34	\$ 2.42

(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 or warrants 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, 2010, approximately 0.7 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended June 30, 2009, approximately 1.5 million stock options and approximately 0.6 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 other comprehensive income (loss) (dollars in thousands):

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net income	\$ 127,019	\$ 153,179	\$ 249,458	\$ 176,469
Other comprehensive income (loss), net of income tax:				
Unrealized investment gains, net of reclassification adjustment for gains included in net income	217,369	377,336	367,341	235,673
Reclassification adjustment for other-than-temporary impairments	91	(10,488)	(1,433)	(10,488)
Currency translation adjustments	(63,564)	108,681	(36,893)	85,837
Unrealized pension and postretirement benefit adjustment	58	83	118	285
Comprehensive income	\$ 280,973	\$ 628,791	\$ 578,591	\$ 487,776

The balance of and changes in each component of accumulated other comprehensive income (loss) for the six months ended June 30, 2010 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, 2009	\$ 210,878	\$ 104,457	\$ (16,126)	\$ 299,209
Change in component during the period	(36,893)	365,908	118	329,133
Balance, June 30, 2010	\$ 173,985	\$ 470,365	\$ (16,008)	\$ 628,342

**4. Investments**

The Company had total cash and invested assets of \$21.6 billion and \$19.7 billion at June 30, 2010 and December 31, 2009, respectively, as illustrated below (dollars in thousands):

	June 30, 2010	December 31, 2009
Fixed maturity securities, available-for-sale	\$ 13,077,607	\$ 11,763,358
Mortgage loans on real estate	838,827	791,668
Policy loans	1,173,016	1,136,564
Funds withheld at interest	5,257,929	4,895,356
Short-term investments	63,962	121,060
Other invested assets	637,827	516,086
Cash and cash equivalents	557,756	512,027

Total cash and invested assets	\$ 21,606,924	\$ 19,736,119
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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 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 the Company's portfolios, when consolidated, ranges between eight and ten years.

**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		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Fixed maturity securities available-for-sale	\$ 175,638	\$ 150,916	\$ 353,130	\$ 290,097
Mortgage loans on real estate	11,954	11,379	24,160	22,956
Policy loans	18,037	16,938	37,879	33,349
Funds withheld at interest	84,392	102,524	175,573	152,986
Short-term investments	1,130	1,283	2,378	2,001
Other invested assets	6,256	5,967	14,767	15,165
Investment revenue	297,407	289,007	607,887	516,554
Investment expense	(5,736)	(4,371)	(11,958)	(8,722)
Investment income, net of related expenses	\$ 291,671	\$ 284,636	\$ 595,929	\$ 507,832

*Investment Related Gains (Losses), Net*

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Fixed maturity and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturities	\$ (3,489)	\$ (36,942)	\$ (10,919)	\$ (71,337)
Portion of loss recognized in accumulated other comprehensive income (before taxes)	(139)	16,135	2,205	16,135
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(3,628)	(20,807)	(8,714)	(55,202)
Impairment losses on equity securities	(10)			