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RGA - Q3 2016 Reinsurance Group of America Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Reinsurance Group of America third-quarter 2016 results conference call. Today's call is being recorded. At this time, I would like to introduce Mr. Greig Woodring, Chief Executive Officer; Mr. Todd Larson, Senior Executive Vice President and Chief Financial Officer; and Ms. Anna Manning, President.

Please go ahead, Mr. Larson.

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

Thank you. Good morning, everyone, and welcome to RGA's third-quarter 2016 conference call. Joining me in St. Louis this morning is Greig Woodring, RGA's Chief Executive Officer, and Anna Manning, our President. Greig, Anna, and I will discuss the third-quarter results, after a quick reminder about forward-looking information and non-GAAP financial measures. Following our prepared remarks, we will be happy to take your questions.

To help you better understand RGA's business, we will take certain -- we will make certain statements and discuss certain subjects during this call that will contain forward-looking information, including, among other things, investment performance, statements relating to projections of revenue or earnings, and future financial performance and growth potential of RGA and its subsidiaries. Keep in mind that actual results could differ materially from expected results. A list of important factors that could cause actual results to differ materially from expected results is included in the earnings release we issued yesterday.

In addition, during the course of this call we will make comments on pretax and after-tax operating income, which is considered a non-GAAP financial measure under SEC regulations. We believe this measure better reflects the ongoing profitability and underlying trends of our business. Please refer to the tables in the press release and the quarterly financial supplement for more information on this measure and reconciliations of operating income to net income for our various business segments. These documents and additional information may be found on our investor relations website at rgare.com.

With that, I will turn it over to Greig for his comments.

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Thanks, Todd.

As indicated in the earnings release last night, we reported operating EPS of $2.46, compared to $1.90 a year ago, a strong and fairly straightforward result. We continue to benefit from diversified sources of earnings, enabling us to achieve positive overall results even as various lines and various geographies exhibit normal volatility from quarter to quarter.

Our premium growth moderated from Q2's rate, as expected, but we still achieved a rate of 8% on a reported basis, 9% on a constant-currency basis. Further, we achieved these results in a challenging overall environment, highlighting the resilience of our operating model and ability to capitalize on opportunities and strong market positions.

This quarter's results included an $0.08 per share benefit from a tax provision adjustment related to the effective settlement of tax provisions, while the negative effect of foreign currency translation totaled $0.03 in the quarter.

Highlights of the quarter include particularly strong results in our traditional business in Asia, nontraditional in EMEA, and US asset intensive. These areas more than offset seasonal weakness in Australia and somewhat elevated individual mortality claims in the US. The higher US claims were equal to about one standard deviation, due to large claims spread across all of our various different eras, and with that we consider it pretty much statistical noise.

While we did not execute on any major transactions in the quarter, we are happy to have closed a number of small transactions and the pipeline remains active, keeping our teams busy.

As I turn it back over to Todd and then to Anna, I note that this is the last earnings conference call in which I will be participating, and I want to express my appreciation for the support from RGA shareholders over time. RGA is in great hands with a very experienced management team led by Anna, Todd, and others, and the Company's overall positioning is excellent. The outlook is bright.

And with that, let me turn it back over to Todd.

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

Thanks, Greig.

I will now provide information on our investment results, capital management, and additional details on segment-level results.

Turning to investments, the average investment yield of 4.43%, excluding spread business, was down 23 basis points from the third quarter of last year. This reflects the ongoing negative effect of lower yield on new money investments. The average investment yield was 28 basis points lower than the second-quarter yield, due primarily to lower variable investment income related to gains on certain alternative investments.

I will also mention that investment impairments were minimal this quarter, similar to last quarter, and we realized gains on the sale of some previously impaired energy securities, which had recovered much of the value that they had previously lost.

Regarding capital management, we repurchased a modest number of shares in the quarter, roughly 4,700 shares, leaving us with roughly $280 million remaining on our authorized share repurchase.

Our excess capital position remained at approximately $1 billion at the end of the quarter. As demonstrated over the past several years, we have been effective in taking a balanced approach in managing our capital. We expect to be able to deploy this capital effectively going forward, although the timing will be somewhat uncertain, given the timing and size of opportunities.

Now turning to our business segments, the US and Latin America traditional business reported pretax operating income of $80.5 million versus $54.7 million a year ago. This quarter's earnings benefited from favorable experience in the group and individual health business, which somewhat offset the higher claims we saw in individual mortality. The high individual mortality claims reflect the higher number of large claims spread across a few different eras, with no particular areas of concentration or patterns of concern, noting that the era of 1999 to 2004 had favorable experience.

Results in the prior year reflected unusually poor mortality, as you may recall.

Premium growth was strong, up 11% quarter over quarter, totaling $1.3 billion. This reflects the consistent level of ongoing organic growth, the effect of recent in-force transactions, and some lumpy effects from client reporting and new treaties.

Our asset-intensive business reported pretax operating income of $58.7 million this quarter. The asset-intensive business performed ahead of expectations, due to the results of a new smaller in-force block added in the second quarter and positive investment spreads.

Our financial reinsurance line pretax operating income of $14 million this period, up from $12.1 million last year. Our Canadian traditional segment reported pretax operating income of $30.6 million, down from $37.8 million in the prior-year period. Results were in line with expectations, while last year's quarter was particularly strong.

Premiums totaled $231.2 million, up 16% in translated US dollars, benefiting by $0.7 million in foreign currency fluctuations. The premium growth is reflective of solid individual mortality business and strong creditor business volume.

Nontraditional business in Canada, which includes longevity and fee-based transactions, reported pretax operating income of $1.2 million this period versus $3.3 million a year ago, with last year's quarter being fairly strong.

Switching to Europe, Middle East, and Africa, our traditional business reported pretax operating income of $8.5 million, down from $15.6 million last year. The UK experienced adverse claims results, compared with a favorable overall claims experience in the prior year's quarter.

Nontraditional EMEA business, which includes asset-intensive longevity and fee-based transactions, performed well this quarter. Reported pretax operating income was $33.9 million, compared to last year's $28.8 million. Asset intensive and longevity had favorable experience in the quarter, somewhat above our expected run rate.

Turning to our Asia-Pacific traditional business, premium pretax operating income totaled $19.8 million, compared to $13 million in the prior-year period. We saw very strong results in Asia and seasonably weak results in Australia. In Asia, it was another good quarter, with particularly strong Hong Kong results, plus additional strength across the region, including Japan, Korea, and Taiwan.

In Australia, seasonal claims were on the high side, concentrated in the individual lines. The Australian business remains profitable on a year-to-date basis. Australia premiums were down 20%, or 24% on a constant-currency basis, due to the nonrenewal of certain treaties and various premium refunds.

Asia premiums were up 17%, or 11% in constant currency, reflecting healthy growth across the region.

Our nontraditional Asia-Pacific business reported pretax operating income of $2.3 million versus $6.3 million a year ago. The decrease is primarily due to the unfavorable experience on a particular treaty that is in runoff.

The corporate segment reported pretax operating loss of $19 million, compared to a pretax operating loss of $19.7 million a year ago, falling in line with expected levels.

In summary, this was another good quarter for us as it further demonstrated our diverse source of earnings across geographies and product lines. Our topline growth continues to be favorable in a competitive environment. We continue to be well positioned to take advantage of the considerable opportunities that exist in the market.

And now, I will turn it over to Anna.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Thank you, Todd.

It is gratifying to report another strong quarter and I think it's important to recognize the benefit of our geographic and product diversification in (technical difficulty). All of our geographies and business lines are strong and core to our strategy, and we're optimistic about their respective long-term outlooks.

However, in any given quarter (technical difficulty) based upon either seasonality or random volatility. With our (technical difficulty) some may outperform, while others may have a period of (technical difficulty) weak performance, but combined they provide greater stability to our overall results, and this quarter provides a good example of our global operating model at work.

A second point of emphasis is that we continue to see a lot of opportunities coming about from the macroeconomic and regulatory challenges affecting our clients. RGA's unique capabilities and our distinct client focus allow us to create solutions that provide long-term value to our clients and to RGA. We are well positioned in the right markets and we're intently focused on executing against those opportunities today and going into the future.

We have had a very good first nine months and we remain confident that we can continue to execute on our strategy to deliver an attractive combination of organic growth and (technical difficulty) achieve our financial goals and objectives. We thank you and appreciate your support and interest in RGA, and we will open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan - Analyst*

First, Greig, I would like to wish you good luck in the future.

In terms of questions, I had a couple of them. On just the asset-intensive business, you have been earning above your -- I think you have talked about $50 million as an expectation. You have been earning more than that. So, what really drove the upside this quarter and what's -- has your expectation for future results changed, given the deal activity that you have done in that business?

And then, secondly, on share buybacks, you spent a marginal amount on buybacks this quarter. I realize you had done a decent amount earlier in the year, so -- and I think you hinted that part of the reason you didn't do buybacks is just because of the deal pipeline. So should we assume that you would not do buybacks for the next few quarters or would you reevaluate capital deployment at the beginning of next year?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Jimmy, first of all, thank you. I think I will let Todd answer these questions here.

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

Yes, Jimmy, on the asset-intensive block, we really haven't changed our current outlook on the run rate for the asset intensive, although we did add a block, I think it was in the second quarter, that added nicely to income, and also, there's just -- overall spread performance was good on that block of business this quarter.

And then on the buybacks, yes, on that one we continue to weigh opportunities as they develop over time. I think, as you have seen over the last few years, we have been very effective at balancing our overall capital management between deployment into the business and share repurchases. And I would expect that continue, and it is difficult for us to finely tune the capital on a quarter-to-quarter basis, just given the longer-term nature of our business and the time it takes for some of these transactions to develop. So I think you'll see us continue to manage the capital effectively on that balanced approach.

Jimmy Bhullar - *JPMorgan - Analyst*

And then, lastly, just have you seen any changes just around your comfort on reserves in Australia in the disability block? Have you seen any changes in trends as it relates to lawsuit activity in the disability business, and whether you are seeing an uptick or not and how that affects your confidence level in the reserves that you have for the disability block in Australia?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Jimmy, the reserve charge we took in 2013 related to the group business, and that business has been relatively on track, just pretty much on plan. A lot of the volatility has occurred on the individual side, both in the life and the individual DI business, and that's the case this quarter as well.

So our reserves that we set up in 2013 appear to be adequate at this point. We are not changing our outlook on that in terms of individual.

We continue to take management actions where appropriate and continue to watch this situation, but it has been a very volatile operation in terms of individual business, with the first quarter and the fourth quarter in the northern hemisphere being very strong and the second and third quarter being weak over the last couple years. And so, that is unfortunately the pattern this quarter as well.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay, thank you.

Operator

Erik Bass, Autonomous Research.

Erik Bass - *Autonomous Research LLP - Analyst*

So you have noted the strong level of activity in the block acquisition market. Can you also comment on competition? And are you seeing greater interest from new competitors, such as foreign buyers, and what does this mean for pricing?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

In regards to the block acquisition competitors, we see some migration of appetites of our competitors, but not material movements. Keep in mind that on these acquisitions we don't always have complete information on the competitors, nor complete information on the winning offer. There is generally less transparency on what the competitors are doing on these blocks. It takes a while to find out all of the considerations that went into the winning bid, which are in many cases complex, so I would answer that we are not seeing a material movement, but it will develop over time.

Erik Bass - *Autonomous Research LLP - Analyst*

Okay. And as we get closer to the implementation of principles-based reserving, what impact do you expect on both the traditional mortality business and the financial reinsurance business?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

So with respect to the traditional mortality business, keep in mind that principle-based reserving is applied to new business, as opposed to the existing in-force. So we would not expect a material change on that traditional mortality business.

With respect to the financial solutions business, our solutions, I expect that demand would be somewhat reduced as companies move to this more -- move to principle base and reserve levels -- excess reserve levels, noneconomic reserve levels, decrease or are expected to decrease.

Erik Bass - *Autonomous Research LLP - Analyst*

Got it. But you don't think there will be any material change on retention rates for primary companies on new business?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

No, I don't foresee any material changes from that perspective.

Erik Bass - *Autonomous Research LLP - Analyst*

Okay, thank you very much and Greig good luck for the future.

Operator

Kenneth Lee, RBC Capital Markets.

Kenneth Lee - *RBC Capital Markets - Analyst*

Thanks for taking my question. Just had a question in terms of the US individual and the LATAM traditional. It sounds as if for the last few quarters there has been some favorable experience within the old issue age block. Wondering if there is any thought about revisiting the previous guidance of about $60 million earnings drag going forward per year.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Yes. We don't look at our business on a short-term basis on a quarterly basis, as we expect random volatility and seasonality. We analyze our business over longer periods than a quarter, as it is really difficult to infer anything based on just a quarter.

When you do look at the performance of that mortality business over the, say, last four quarters, yes, it has generally been either in line or slightly better, but that's not a long enough period for us to reassess our expectations. I think we need to see developments over a longer period before we would reconsider that guidance.

Kenneth Lee - *RBC Capital Markets - Analyst*

Okay, great. And just one more question, in terms of the Solvency II pipeline, any thoughts about how Brexit would either accelerate or otherwise impact the potential for Solvency II reinsurance transactions? Thanks.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Yes, I think it is much too early to tell what the potential impacts would be. We are not seeing any material changes in client activity or client decisions. I think we're watching it carefully, but too early to tell.

Kenneth Lee - *RBC Capital Markets - Analyst*

Okay, thanks again, and good luck, Greig.

Operator

Humphrey Lee, Dowling & Partners.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Good morning and thank you for taking my questions. First off, congratulations, Greig, and wish you best of luck in your next endeavor.

In terms of questions, I have a question just to follow up on Australia. So there has been some discussion by regulators looking to some of those TPD claims activities, especially given the high rejection rates there. Can you talk about what you're seeing there?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Yes, Humphrey, it is something we have been watching and paying attention to. First of all, we don't believe we are -- can be construed in any way as denying claims that should be paid, nor do we think our clients are doing so, nor have we seen a reluctance on the part of our clients at this point, particularly on the group side where most of the claims occur, to deny claims that should be denied.

So, we are -- and, as I said, our group business has been performing pretty much on track. So, yes, it is something we're watching, but we are not overly concerned about it at the moment.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

But in terms of thinking about the performance of that particular business, how much of the improvement that we have seen since 2013 has come from improvement in claims management? And to the extent that if the regulators force the industry to dial back in some of the efficacy of those claims management, do you see a potential risk in terms of deterioration in claims experience?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

First of all, I think the claims management that was in place in the early part of this decade was inadequate, was pretty weak. There was a shortage of skilled and talented claims personnel to deal with the onslaught of claims coming through.

So RGA has actually taken the lead in helping the industry train and bring the level of capability of the claims personnel up to a different plane.

Now having said that, there have been comments about the fact that in some instances claims denial has been too aggressive that this has become a cause for newspaper articles and media stories. But, again, we think that the situation is much improved over where it was four or five years ago and that we still continue to hammer away at good claims practices and instilling and training our clients in those practices when we get the chance to.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Okay, got it. And then just one follow-up on the capital management, so you talked about try to continue to exhibit discipline in terms of your capital management to achieve a balanced approach. But given where you are right now with $1 billion of excess capital and continued capital generation from your in-force business, how should we think about in terms of any kind of maximum threshold that you are willing to hold before being a drag on ROE?

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

This is Todd. So, we have built up some excess capital, and we are not overly concerned with the build-up in the near term. As I mentioned, it is hard for us, the management, to very fine-tune the capital management on a quarter-to-quarter basis. So, as I mentioned earlier, we will continue to -- management to what we feel is an overall right level of excess capital over time.

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

And Humphrey, I don't think we really feel transactional pressure because we have built up this capital to a little bit higher level. We remain disciplined in our approach.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Okay (multiple speakers)

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

And expect to.

Operator

(Operator Instructions). Michael Kovac, Goldman Sachs.

Michael Kovac - *Goldman Sachs - Analyst*

Thanks for taking the question. Just first, a numbers one. In the US traditional business, you mentioned that mortality was a drag this quarter relative to expectations, and then there is maybe a one standard deviation type event. Can you give us a scale in terms of notional dollars that you think that impacted the business and what you see as the run rate for that business in a normalized mortality quarter?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Michael, we -- one standard deviation we estimate to be somewhere between $25 million and $30 million in the quarter. In terms of a run rate, I think if you take a look at the performance over the prior number of quarters, I think that would be a reasonable estimate for you going forward.

Michael Kovac - *Goldman Sachs - Analyst*

Great, that's helpful. And then as we think about the deal opportunities, maybe this one is for Anna as well, I guess asking it a different way. What has been some of the reason that we haven't seen as much of the deals over the last couple of quarters? When you say that there are potentially less deals coming to market than you might have expected, are you getting further along in the process and then for whatever reason someone else got the deal from pricing or for whatever other reason? Just maybe a little more color on that.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Yes. I think it is more of the second. We have been active throughout this year and well into the prior years. We see various different types of opportunities and, as mentioned earlier, we have been successful in some of the small or mid-sized opportunities.

We haven't yet done a big deal this year, and we have all the capabilities and all the raw materials to be successful with these large deals. We are going to continue to target deals that fit with those capabilities and our risk appetites, and we are going to remain disciplined on what we need from a deal. We believe over time we will get our fair share, but, as Todd mentioned and as Greig mentioned, timing is always difficult to predict. We see continuation of these opportunities out over the next several years and beyond. We have established a track record of success and I'm confident that we will continue to do so going forward.

Michael Kovac - *Goldman Sachs - Analyst*

Great. Just maybe following up on that, when you said larger size, what would you consider the sweet spot for deals? And then, along with that, in terms of what types of businesses are you seeing potentially more today versus maybe last year or earlier in this year, are you seeing any sort of change in that dynamic as a result of continued low interest rates? Thanks.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

So with respect to the sweet spot in size, we think of it from a perspective of capital deployment, and couple hundred million of capital deployment we consider large deals.

In terms of changes, look, the opportunity, the pipeline is active. We see all types of risks in the pipeline. Obviously, our preference is mortality risk. We have tremendous expertise on mortality, but we're also seeing asset-intensive business, longevity business, and there is always the opportunity for some of these legacy blocks around LTC. But as we have communicated in the past, we have attempted over many years to see if we could make one of those deals work for us. We have determined that we can't and so we no longer pursue that type of business.

Michael Kovac - *Goldman Sachs - Analyst*

Great, thanks.

Operator

John Nadel, Credit Suisse.

John Nadel - *Credit Suisse - Analyst*

The $1 billion of excess capital that you guys talk about, can you help us understand, I guess, structurally, where does that reside? How much of that, as an example, resides at the holding company versus maybe within a couple or more of the US entities versus the offshore entities?

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

John, this is Todd. Some of it is at the holding-company level and some of it is spread across some of the larger operating companies that we have.

And what we are able to do is when we look at some of these larger reinsurance transactions, we are able to develop the business flows of the newer transaction so that we can utilize that capital, for the most part, wherever it may reside. So it doesn't necessarily have to be at the holding company for us to effectively deploy that excess capital.

John Nadel - *Credit Suisse - Analyst*

Yes, that's what I am getting at. I guess if I think about the holding company, I think about readily available and easily to use for just about anything, including buybacks. But at the insurance entity is probably a little bit tougher to do -- to deploy it into anything really other than organic or inorganic growth. Is that reasonable or how easy is it to get flows to the holding company?

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

As I mentioned, we do have some excess capital sitting at the holding company, and then at the operating-company level, I would say we are fairly efficient and very good at getting the reinsurance transactions into the entities that may have the excess capital at the operating-company level.

And then, as well, we're pretty effective at, again, moving the business to the jurisdictions that allow us to more readily pay dividends up to the holding company over time. That's one of our methodologies that we have employed.

John Nadel - *Credit Suisse - Analyst*

And if we look at that $1 billion, approximately how much of that, Todd, is at the holding company versus inside the insurance entities?

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

Probably about half.

John Nadel - *Credit Suisse - Analyst*

Okay, that's helpful. And then, Greig, just to echo a few other people's comments, I have known you for a long time and I just wanted to say congratulations. You have taught me a lot, and I wish you all the best as you head into what I hope is a really long and happy retirement.

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Thank you, John.

Operator

Sean Dargan, Wells Fargo.

Sean Dargan - *Wells Fargo Securities - Analyst*

I just want to follow up on how you're thinking about deploying the $1 billion of excess capital again. So, Anna, the question is directed to you. Under Greig, as you noted, the Company has had, I think, a preference for mortality versus longevity and also versus asset-intensive block transactions. Is anything going to change in the philosophy around deployment of capital when you are running the show?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

No, Sean, it is not. Our preference still remains mortality. It is, as I said, our sweet spot.

We have risk appetites and risk limits for all of our various risks, and those will continue into the future. I don't expect that there will be material changes in the balance of those risks. I would love to do big mortality transactions quarter over quarter over quarter. That is the goal. They are not always there and then sometimes we are not always the winner, but we certainly are focused on working very hard to win our fair share.

Sean Dargan - *Wells Fargo Securities - Analyst*

Okay, and thanks. And then, if I can ask a question about your asset-intensive business. We do know about some of the large blocks that you have added to that over the years, but I'm just wondering about your flow activity in asset intensive and whether you think that the DOL fiduciary rules will dislocate the fixed index annuity market and whether that could add to more demand for reinsurance, if some carriers can't compete in the new environment?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

First of all, Sean, most of our activity is not in the flow business; it is in the in-force block business, but we do have some flow business. And I don't think we're expecting really much of an impact from the DOL rules on our business as it stands.

Sean Dargan - *Wells Fargo Securities - Analyst*

Okay. Thanks, Greig, and congrats again.

Operator

Ryan Krueger, KBW.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

You guys have mentioned that you have done a number of smaller transactions this year. I was just wondering if you could give just a rough sense of how much capital you have cumulatively deployed into those.

Anna Manning - *Reinsurance Group of America, Incorporated - President*

Yes, Ryan, I think at last count we have completed eight such transactions that we classify as small to mid-sized, and in terms of the total capital deployed, I want to say it is somewhere in the $75 million, plus or minus, range.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, thanks. And then on the larger deals that haven't transpired yet, I guess I haven't really seen many announced, so I am just curious. Is it your view that you have lost the deals, some of these deals that you have been working on, or just that they just haven't been -- they just haven't occurred yet?

Anna Manning - *Reinsurance Group of America, Incorporated - President*

I think it has been a combination of both those, plus there are deals, at least one in particular that was actually taken off the market after a lot of activity and a lot of work had been done on it. So it is deals that we know have been won by a competitor that is probably not yet announced, deals that we are still working on, and then deals that we did work on, but that were subsequently withdrawn.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, helpful, thanks. And then, Greig, I also want to wish you the very best of luck in retirement.

Operator

[Mike Kaminski], [BAM Fund].

Mike Kaminski - *BAM Fund - Analyst*

My question has to do with RGA's reinsurance treaty structures. So obviously, as we are all aware, many of your primary life insurance counterparties undergo annual policyholder assumption and experience reviews, and those reviews have, for the most part, resulted in charges, primarily low interest rate related. RGA clearly has demonstrated relative resilience to low interest rate headwinds over the years.

So I guess my question just seeks to better appreciate why RGA's counterparty profitability reviews don't appear to have a material impact on your benefit ratios and profitability.

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Yes, first of all, I am not sure it is a treaty issue as much as it is a straight-up accounting issue. We are locked into GAAP rules, and they apply to us, just as well as to customers. A lot of the business we take is FAS 60, so basically it is not unlocked.

The business that we have that is unlocked, such as variable annuities and so forth, we tend to look at that every quarter and make a determination of what we should do. So maybe we're making a lot more minor adjustments, but most of the time we are not making any adjustments at all, because we see no need to.

Mike Kaminski - *BAM Fund - Analyst*

Okay, so I should probably study the accounting more. So requiring an unlock would mean that the business becomes unprofitable or just less profitable than you had originally expected?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

No, no, no, I mean that for the vast majority of our US business, for example, the mortality business, the premiums are locked in -- I'm sorry, the reserves are locked in at issue so that we don't change that outlook from that point on. Everything is locked down. So you don't revisit your assumptions. Say if mortality improves or deteriorates, you don't change your mortality assumption.

Mike Kaminski - *BAM Fund - Analyst*

Got it. That's helpful. Thank you. That's all I have.

Operator

John Nadel, Credit Suisse.

John Nadel - *Credit Suisse - Analyst*

So I wanted to ask a hypothetical. If you had reinsured a block of business to a counterparty and that counterparty had a bunch of direct written business and maybe a little bit of business that it reinsured as well, and that counterparty ran into some issues and ended up in receivership with a state insurance department, would you rank pari passu with the obligations that it had directly underwritten as well? Or would there be some kind of trigger that you might have to recapture the business?

Greig Woodring - *Reinsurance Group of America, Incorporated - CEO*

Well, I think that is a treaty issue that in many cases if we had a counterparty exposure to -- of significant dollars to a retrocessionaire, and we don't have a lot -- we don't actually do a lot of that, John, where we have counterparty exposure in terms of assets.

But if we did and to the extent that we do, we would insist on a trust account, just as our clients very often insist on a trust account with us. In which case if there was a problem that was triggering a clause in the treaty, we would be able to recapture or take control of that trust and we would have the security of the assets in hand.

But it is on a treaty-by-treaty basis. For the most part, I can't answer your hypothetical question without knowing the details, but it is something we are very careful of is to the counterparty exposure we might have with outside interests, and we frankly don't do a lot of that where we have exposure to other people with -- certainly with assets completely unprotected.

John Nadel - *Credit Suisse - Analyst*

Okay, that's really helpful. See, you are educating me still, all the way to the end.

Operator

It appears there are no further questions at this time. Mr. Larson, I would like to turn the conference back to you for any additional or closing remarks.

Todd Larson - *Reinsurance Group of America, Incorporated - SEVP, CFO*

Okay, thank you. We want to thank everyone for joining us on our third-quarter earnings call, and if you have any questions, please feel free to give us a call. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.