

REINSURANCE GROUP OF AMERICA INC
Form 10-Q
November 02, 2018
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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 September 30, 2018
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)

16600 Swingley Ridge Road

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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2018, 62,774,675 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2018	December 31, 2017
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities available-for-sale, at fair value (amortized cost \$37,751,132 and \$35,281,412)	\$ 39,005,212	\$ 38,150,820
Equity securities, at fair value (cost \$111,248 and \$102,841)	101,069	100,152
Mortgage loans on real estate (net of allowances of \$10,366 and \$9,384)	4,779,074	4,400,533
Policy loans	1,320,050	1,357,624
Funds withheld at interest	5,976,301	6,083,388
Short-term investments	229,928	93,304
Other invested assets	1,706,979	1,505,332
Total investments	53,118,613	51,691,153
Cash and cash equivalents	1,730,489	1,303,524
Accrued investment income	455,296	392,721
Premiums receivable and other reinsurance balances	2,779,556	2,338,481
Reinsurance ceded receivables	769,324	782,027
Deferred policy acquisition costs	3,211,145	3,239,824
Other assets	908,219	767,088
Total assets	\$ 62,972,642	\$ 60,514,818
Liabilities and Stockholders' Equity		
Future policy benefits	\$ 25,139,148	\$ 22,363,241
Interest-sensitive contract liabilities	16,751,379	16,227,642
Other policy claims and benefits	5,424,347	4,992,074
Other reinsurance balances	482,235	488,739
Deferred income taxes	1,883,848	2,198,309
Other liabilities	1,213,595	1,102,975
Long-term debt	2,787,975	2,788,365
Collateral finance and securitization notes	710,792	783,938
Total liabilities	54,393,319	50,945,283
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, 79,137,758 shares issued at September 30, 2018 and December 31, 2017	791	791
Additional paid-in capital	1,899,144	1,870,906
Retained earnings	7,215,526	6,736,265
Treasury stock, at cost - 16,186,890 and 14,685,663 shares	(1,348,943)	(1,102,058)
Accumulated other comprehensive income	812,805	2,063,631
Total stockholders' equity	8,579,323	9,569,535

Total liabilities and stockholders' equity	\$ 62,972,642	\$ 60,514,818
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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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Revenues:				
Net premiums	\$2,562,042	\$2,489,797	\$7,739,053	\$7,335,944
Investment income, net of related expenses	572,742	556,918	1,617,132	1,589,820
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(10,705)	(390)	(14,055)	(20,980)
Other investment related gains (losses), net	(9,312)	23,043	(17,004)	160,451
Total investment related gains (losses), net	(20,017)	22,653	(31,059)	139,471
Other revenues	112,764	75,942	272,020	218,091
Total revenues	3,227,531	3,145,310	9,597,146	9,283,326
Benefits and Expenses:				
Claims and other policy benefits	2,209,920	2,100,680	6,851,614	6,371,188
Interest credited	143,292	126,099	333,068	349,068
Policy acquisition costs and other insurance expenses	310,639	365,424	987,817	1,064,645
Other operating expenses	200,262	168,417	586,495	481,279
Interest expense	33,290	36,836	107,769	108,590
Collateral finance and securitization expense	7,467	7,692	22,509	21,235
Total benefits and expenses	2,904,870	2,805,148	8,889,272	8,396,005
Income before income taxes	322,661	340,162	707,874	887,321
Provision for income taxes	21,462	112,571	102,071	282,028
Net income	\$301,199	\$227,591	\$605,803	\$605,293
Earnings per share:				
Basic earnings per share	\$4.76	\$3.53	\$9.47	\$9.39
Diluted earnings per share	\$4.68	\$3.47	\$9.30	\$9.23
Dividends declared per share	\$0.60	\$0.50	\$1.60	\$1.32
See accompanying notes to condensed consolidated financial statements (unaudited).				

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

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	2017		2017	
Comprehensive income (loss)				
Net income	\$301,199	\$227,591	\$605,803	\$605,293
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	25,462	46,733	(30,375)	68,085
Net unrealized investment gains (losses)	(215,986)	(93,574)	(1,218,309)	415,870
Defined benefit pension and postretirement plan adjustments	931	700	431	2,473
Total other comprehensive income (loss), net of tax	(189,593)	(46,141)	(1,248,253)	486,428
Total comprehensive income (loss)	\$111,606	\$181,450	\$(642,450)	\$1,091,721
See accompanying notes to condensed consolidated financial statements (unaudited).				

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30,	
	2018	2017
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$605,803	\$605,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	23,473	(63,321)
Premiums receivable and other reinsurance balances	(519,107)	(421,027)
Deferred policy acquisition costs	23,682	67,471
Reinsurance ceded receivable balances	37,468	(120,013)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	920,492	982,164
Deferred income taxes	(8,136)	236,185
Other assets and other liabilities, net	(47,978)	78,848
Amortization of net investment premiums, discounts and other	(55,154)	(95,227)
Depreciation and amortization expense	32,153	21,384
Investment related (gains) losses, net	31,059	(139,471)
Other, net	56,408	(47,787)
Net cash provided by operating activities	1,100,163	1,104,499
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	6,314,968	6,364,236
Maturities of fixed maturity securities available-for-sale	461,764	385,993
Sales of equity securities	44,952	192,821
Principal payments and sales of mortgage loans on real estate	290,450	208,052
Principal payments on policy loans	43,995	93,286
Purchases of fixed maturity securities available-for-sale	(6,041,665)	(7,450,749)
Purchases of equity securities	(12,578)	(60,790)
Cash invested in mortgage loans on real estate	(671,956)	(751,702)
Cash invested in policy loans	(6,422)	(5,830)
Cash invested in funds withheld at interest	(61,969)	(12,597)
Purchase of businesses, net of cash acquired of \$4,988	(31,441)	—
Purchases of property and equipment	(20,478)	(33,242)
Change in short-term investments	34,856	65,664
Change in other invested assets	(313,464)	(51,476)
Net cash provided by (used in) investing activities	31,012	(1,056,334)
Cash Flows from Financing Activities:		
Dividends to stockholders	(102,441)	(85,086)
Repayment of collateral finance and securitization notes	(75,146)	(56,637)
Principal payments of long-term debt	(2,007)	(301,927)
Purchases of treasury stock	(273,873)	(41,360)
Exercise of stock options, net	2,336	4,450
Change in cash collateral for derivative positions and other arrangements	(21,288)	(46,206)
Deposits on universal life and other investment type policies and contracts	320,871	1,007,563
Withdrawals on universal life and other investment type policies and contracts	(520,649)	(568,789)

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Net cash used in financing activities	(672,197)	(87,992)
Effect of exchange rate changes on cash	(32,013)	43,699
Change in cash and cash equivalents	426,965	3,872
Cash and cash equivalents, beginning of period	1,303,524	1,200,718
Cash and cash equivalents, end of period	\$1,730,489	\$1,204,590
Supplemental disclosures of cash flow information:		
Interest paid	\$124,575	\$129,136
Income taxes paid, net of refunds	\$99,554	\$27,385
Non-cash transactions:		
Transfer of invested assets	\$3,763,195	\$2,247,136
Purchase of businesses:		
Assets acquired, excluding cash acquired	\$69,853	\$—
Liabilities assumed	(38,412)	—
Net cash paid on purchase	\$31,441	\$—
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. Business 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 (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments necessary for a fair presentation have been included. Results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, and all intercompany accounts and transactions have been eliminated. These condensed consolidated statements should be read in conjunction with the Company’s 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 27, 2018 (the “2017 Annual Report”).

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		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Earnings:				
Net income (numerator for basic and diluted calculations)	\$301,199	\$227,591	\$605,803	\$605,293
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	63,279	64,488	63,941	64,430
Equivalent shares from outstanding stock options	1,017	1,165	1,189	1,174
Denominator for diluted calculation	64,296	65,653	65,130	65,604
Earnings per share:				
Basic	\$4.76	\$3.53	\$9.47	\$9.39
Diluted	\$4.68	\$3.47	\$9.30	\$9.23

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. The following table presents approximate amounts of stock options and performance contingent shares excluded from the calculation of common equivalent shares (in thousands):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Excluded from common equivalent shares:				
Stock options	227	87	349	296
Performance contingent shares	276	307	256	293

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3. Equity

Common Stock

The changes in number of common stock shares, issued, held in treasury and outstanding are as follows for the periods indicated:

	Issued	Held In Treasury	Outstanding
Balance, December 31, 2017	79,137,758	14,685,663	64,452,095
Common stock acquired	—	1,750,295	(1,750,295)
Stock-based compensation ⁽¹⁾	—	(249,068)	249,068
Balance, September 30, 2018	79,137,758	16,186,890	62,950,868
	Issued	Held In Treasury	Outstanding
Balance, December 31, 2016	79,137,758	14,835,256	64,302,502