A.M. Best comments on insurer stock buybacks and dividend payments

By Editorial Staff *Thu, May 14, 2015*

'In an environment of low interest rates and low industry premium growth, those with substantial cashflow may find they have little other choice of deploying that capital besides returning it to shareholders,' an A.M. Best analyst wrote.

In a report issued this week, the ratings agency A.M. Best noted the trend among publicly held insurance companies of returning cash to shareholders through stock repurchases and dividends. The report is titled, “Insurance Industry Buybacks: Stocks Undervalued or Opportunities Scarce?”

“Insurance companies are holding onto a much smaller portion of their net income as they returned 76% of total net income to shareholders in the form of dividends and buybacks, with buybacks representing 70% of money returned to shareholders,” the report said.

AIG completed the largest repurchase of shares in 2014, buying back over USD 4.9 billion. In terms of a total return of cash to shareholders, AIG was also the largest, with USD 5.6 billion being returned to shareholders from both dividends and repurchases.

Life insurers listed in the A.M. Best report, along with their 2014 buybacks and dividends (in millions of dollars), included (in descending order of market capitalization):

- AIG: $4,903 in value of buybacks; $712 in dividends paid.
- MetLife: $1,001; $1,621.
- Prudential: $1,000; $1,027.
- Ameriprise Financial: $1,372; $426.
- Sun Life Financial: $0; $886.
- Lincoln National: $650; $170.
- Principal Financial: $205; $410.

“Insurance companies have not been particularly good at timing share repurchases. Management has been increasing repurchase activity just [when] price-to-book multiples have made this capital management activity more expensive.

“Had the companies in this review used the same amount of money spent in 2014 to buy back stock during the lows of 2008, they would have repurchased 27% more stock then they could have been purchased in 2014,” the report said.

“It would seem difficult to rationalize that in the current environment management would believe their stock prices are trading at a substantial fundamental discount, and would warrant almost 50% of net income to be spent on repurchases as it was in 2014.

“However, in an environment in which companies are faced with a combination of low interest rates and low industry premium growth, those with substantial cashflow may find they have little other choice of deploying that capital besides returning it to shareholders,” A.M. Best noted.