A.M. Best takes pulse of insurance industry

By Editorial Staff *Thu, Oct 9, 2014*

The ratings agency's recent survey asked companies to identify how they planned to invest new money in 2015, and alternative assets also were viewed in terms of investment perspective and ownership impact.

What worries insurance companies most today? The persistent low interest rate environment, according to the A.M. Best Summer 2014 Insurance Industry Survey, a *Best's Special Report*. Single copies of the report are available online for $55 each.

According to the report, companies employ a wide array of asset allocation strategies to protect portfolio yields in the event of a rate increase. Most of those strategies involve some trade-off of liquidity and credit quality. The survey also asked companies to identify how they planned to invest new money in 2015, and alternative assets also were viewed in terms of investment perspective and ownership impact.

Other survey results include:

- **Interest Rate Outlook**: Using the 10-year Treasury bond as a proxy, nearly half of the respondents predicted interest rate yields would rise to 2.50% or higher in the final quarter of 2014; however, for 2015, there is a fall-off in insurers that think the 10-year yield will remain below 2.50% and a significant increase in those expecting it to exceed 2.75%.
- **Asset Allocations**: For investing in 2015, overall, 17.2% said they favor securities rated investment grade (NAIC 2), with common stock the preference for property/casualty companies and commercial mortgage loans the preference for life/annuity companies. Interest in alternatives continues to grow for all segments as well.
- **Liquidity Positions:** On companies' liquidity positions today compared with the financial crisis of 2007-2008, 48.6% of all respondents believe that they have more liquidity today while 45.2% believe they have the same amount.
- **Enterprise Risk Management (ERM)**: With just 28.2% of respondents subject to Own Risk Solvency Assessment filing requirements, the survey asked the remaining respondents what other form of ERM processes they were implementing. Just less than 7% acknowledged that they perform no formal ERM at all.