
AM Best's outlook for the annuity industry: Negative

By Editorial Staff Thu, Jun 17, 2021

'The negative market segment outlook is due to the persistent low interest rate environment, operating margin pressure and organic growth challenges,' a new AM Best report said.

Despite COVID-19's operational and sales impacts on the US individual annuity industry, the bigger issue for writers remains the low interest rate environment, according to a new AM Best report.

"The low interest rate environment continues to limit the levers insurers can pull without worsening their company risk profiles," said AM Best in a release of the latest edition of *Best's Market Segment Report*.

"Spread compression and declining investment yields have been a long-time concern as guaranteed rates on many older blocks of business remain a burden for many insurers. Increases in options, hedging costs and the net amount of assets at risk for companies writing guarantees with living benefits will further pressure operating performance."

Net premiums written (NPW) increased just twice in the last 10 years, the ratings agency's said. The challenging 2020 sales environment amid the COVID-19 pandemic brought additional obstacles and individual annuity NPW declined by almost \$54 billion, or 27%.

Direct premiums written (DPW) did not decline as much in 2020—almost \$13 billion, or 5.8%—as some companies ceded a greater portion to diminish their exposure to interest rate risk.

Variable annuities constitute the largest component of the individual annuity market, with \$82.4 billion, or 56%, in NPW in 2020, despite declining by 3.6% from 2019. Indexed annuities declined by more than 54%, to \$30.8 billion, the lowest premium total in the last five years after a significant increase in 2019. While NPW for fixed annuities dropped by 28% in 2020.

Some annuity markets are more competitive than others. The top 10 fixed annuity (FA) writers account for just 54% of the market, while the top 10 VA writers combine for over three quarters, and nearly two-thirds of the indexed annuity market. Sales varied in 2020 among the top writers, depending on the extent and emphasis of product de-risking.

As interest rates reached historic lows, many insurers started to deemphasize fixed annuity sales, reinsure FA blocks of business, and reprice products. In some cases, companies have withdrawn interest-sensitive products from the market altogether, and in other cases, companies have increased pricing to the point of reducing new business volume to a trickle.

While most US annuity companies have maintained solid balance sheets, owing largely to healthy risk-adjusted capitalization, adequate liquidity and prudent investment policies, AM Best's market segment outlook for the industry remains negative. The negative market segment outlook is due to the persistent low interest rate environment, operating margin pressure and organic growth challenges.

To obtain a full copy of this AM Best market segment report, click [here](#).

© 2021 RIJ Publishing LLC.