Big drop in net income for publicly traded life/annuity firms in 2020

By Kerry Pechter *Thu, Apr 15, 2021*

A $4.7 billion realized investment loss on derivatives for Prudential Financial was the main driver of the drop in its net income, according to a new report from ratings company A.M. Best.

The emergence of COVID-19 added new problems for publicly traded life/annuity (L/A) insurers and led to a 31% drop in net income, to $14.3 billion in 2020, according to a new AM Best special report.

The analysis in the Best's Special Report, "US Life/Annuity Insurers' Revenue Weakened in 2020," covers a majority of the US L/A insurers that file US GAAP statements. According to the report, the segment's operating performance was affected negatively by higher mortality, spread compression and flat sales in 2020.

Mortality rates, which remain manageable for L/A companies, peaked during the fourth quarter and the beginning of the first quarter of 2021, but the impact was less severe than that experienced by the general population. Mortality and morbidity trends are normalizing as more of the population is vaccinated, with declines in case counts and deaths. However, spread compression and interest rate assumptions will still impact profitability.

Of the 16 publicly traded companies in the analysis, nine saw a decrease in revenue. Overall revenue decreased by 4.8%, attributable to declines in net investment income (8.9%), premium revenue (3.8%) and other income (6.5%), countering the marginal increase in fees and commission revenue (0.7%).

The unfavorable revenue decline led to a 27% drop in operating income and the 31% drop in net income, with 13 of the 16 companies reporting a net income decline. A $4.7 billion realized investment loss on derivatives for Prudential Financial was the main driver of the drop in its net income, resulting in a loss of $146 million in 2020, down $4.4 billion from 2019, the largest decline of all the publicly traded companies.

The publicly traded L/A companies remain well-capitalized; capitalization has grown further due to favorable, albeit lower, earnings in 2020. Most companies showed a net increase in GAAP equity, with other comprehensive income improving due to the recovery of the financial markets after the downturn in the first quarter.