
Brexit a “negative” for US life insurers: Fitch Ratings

By Editorial Staff Thu, Jul 14, 2016

The Brexit vote will negatively affect GDP growth in the UK and elsewhere, which will likely prompt central banks around the world to extend their monetary easing policies, Fitch said in a release.

The UK vote to withdraw from the European Union (EU), known as “Brexit,” will increase economic uncertainty and likely affect monetary policy in the US, making it a negative credit development for US life insurers, according to Fitch Ratings.

“The near-term impact on interest rates and financial market volatility exacerbates an already challenging operating environment for US life insurers,” Fitch said, adding however that there are no immediate implications for US life insurer ratings.

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“For US life insurers, expected delays in further Fed rate increases and flight-to-safety buying of US government bonds has pushed Treasury yields to near-record lows. The macroeconomic volatility likely will force the Fed to delay further rate hikes and increases the likelihood of a ‘lower for longer’ interest rate scenario,” Fitch analysts said.

“Over the near term, the impact of sustained low interest rates will limit US life insurers’ earnings growth but not have a meaningful impact on statutory capital.”

Life insurers with exposure to equity markets through general account equity investments and/or large variable annuity and asset management businesses, will be negatively affected by financial market volatility in the wake of Brexit, Fitch said. While existing ratings already consider these equity exposures, a significant unexpected decline in the equity markets could affect ratings.

Positively, most US life insurers aren’t directly exposed to the insurance markets in the UK and EU, or have only minor exposure. For those with direct exposure to those markets, those operations represent a relatively small proportion of the group’s overall business. The ratings on US life insurers that are wholly owned by European insurers, most of which have a Stable Rating Outlook, are more vulnerable to a downgrade.

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