Conning assesses life and annuity businesses

By Editorial Staff *Thu, Jan 10, 2019*

The new study focuses on 'the inorganic strategies that insurers have used over the last decade' and on how insurers 'are creating value by strategically repositioning their companies.'

Conning, the pension and investment research and consulting firm, has released a proprietary new **report**, "2019: Life-Annuity Value Creation Strategies: Reorganization and New Players." According to the executive summary of the report:

Since the financial crisis of 2008, life and annuity insurers have enjoyed almost a decade of positive statutory net income. Over that time, insurers have pursued both organic and inorganic growth strategies to increase net income. This study focuses on the inorganic strategies that insurers have used over the last decade. We focus on how insurers are creating value by strategically repositioning their companies.

Organizational Repositioning to Create Value

We identified 22 case studies of insurers pursuing value creation through organizational repositioning over the period from 2010 into 2018. These case studies represented approximately 25% to 30% of statutory assets and premium at the end of 2017.

Analyzing these case studies based on ownership structure and product features provided insight into potential reasons certain types of insurers may be more likely to pursue organization repositioning than other types. Further analysis explored the types of strategies used and the drivers behind its usage. Our analysis found that stock companies may be more likely to adopt organizational repositioning as a strategy than would fraternal or mutual insurers.

Capital Redeployment

Regulatory pressure, shareholder pressure, and annuity volatility pressure lead some insurers to increase value creation through organizational repositioning. Of these three, regulatory pressure applies to all insurers. Shareholder pressure and annuity volatility are limited to stock companies and annuity providers, respectively.

Our analysis of these pressures suggests that they are likely to remain in place. These continued pressures are likely to create more closed blocks of business. Insurers with those closed blocks will seek to divest them. For those companies, the emergence of new entrants, specialist insurers that want to assume closed blocks of long-tail liabilities, is a favorable development.

The First Wave of New Entrants

The first wave of New Entrants, which entered the market between 2004 and 2010, identified an opportunity for certain types of owners to build a business around managing closed blocks of annuities. For these companies, the attraction to the life-annuity industry was the ability to acquire assets for their asset management businesses at a lower cost.

In terms of value creation, early results suggest this model has been successful, even after accounting for capital infusions from the New Entrants. The business model and opportunity appear to hold the potential for future value creation.

For the broader life insurance industry, the emergence of these New Entrants provided the capacity to absorb closed blocks of annuities. Looking ahead, these companies may provide a similar function for other blocks of business. That further development can be seen in the continued emergence of the second wave of New Entrants and the evolution of their business model.

The Second Wave of New Entrants Emerge

The emergence of a second wave of New Entrants is a strong indication of the attraction of closed blocks and runoff companies to investors. This attraction is driven by the continued flow of capital to asset managers and their need to generate competitive returns for their clients. That need has led asset managers to pursue alternative assets, of which life and annuity blocks are one example.

The second wave of New Entrants benefits from a business model proven by the first wave of New Entrants. Our analysis of the second wave of New Entrants shows there has been a clear evolution to that business model. This evolution appears to be positioned to assume more complex risks and liabilities.

Looking ahead, as more New Entrants form, competition for liabilities could increase and impact pricing if the supply of liabilities is limited. Our analysis indicates that as New Entrants continue to emerge, competition could lead them to expand beyond a focus on annuities. Looking for liabilities beyond annuities may be one solution to reducing the impact on pricing.