Conning Research: Individual Annuities Rebound in 2009

By Editor Test *Wed, Dec 2, 2009*

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A new Conning Research study, "Life-Annuity Forecast & Analysis 2009-2011," predicts that the individual annuity business will rebound from a disastrous 2008 to post record gains in 2009, but that the life industry overall is not out of the woods.

"After the largest net operating loss in the line's history, we forecast that 2009 will be the year when individual annuities post their largest net operating gain. Our forecast reflects a stabilizing economic environment for 2009 through 2011, which positively affects sales, income, assets under management, and capital," the study's executive summary said.

"These conditions enable insurers to release some of the $76 billion in General Account reserves added in 2008, which produced the record loss. Decreased contributions to General Account reserves, combined with fewer surrenders, and increased net premiums, are the major drivers of the 2009's record net gain of $11 billion.

"This record net gain does not mean a return to normal for individual annuity insurers; even after the record gain, the line still experienced an $11 billion net loss over 2008 and 2009. Changes in consumer product preference combine with increased costs, reduced investment options, and less robust guarantees as insurers de-risk variable annuities to change the line's value proposition.

"It is a wildcard whether this new value proposition will attract new customers and their assets. The weakened financial condition of some insurers could lead them to exit the individual annuity line, seek additional capital, or merge with other insurers."

The report also reflects back on the unique disaster of 2008. "In prior recessions, the effect on the financial markets has largely been limited to decreased stock prices. With over 80% of its assets in bonds and 10% in mortgages, prior recessions had a relatively smaller impact on the life insurance industry compared to other financial sectors. In contrast, this recession is having a significant effect on credit markets, and this has hit insurance companies hard," the report says.

In 2007, companies added only $17 billion of General Account reserves. In contrast, companies added $129 billion during 2008. Much of the increase went toward covering minimum guarantee riders that went 'into the money' because of the equity market decline.

For the life insurance industry as a whole, "We project net after-tax statutory income of $16 billion for 2009—less than half the pre-crisis figure of 2007—despite capital losses of $20 billion in the year," said Terence Martin, analyst at Conning Research & Consulting, in a release.

“Even with a $16 billion capital infusion in 2009, the industry is still well below pre-crisis 2007 levels, and capital leverage ratios have risen dramatically. The industry will continue to face capital constraints in the short term, even as capital losses abate.”

“Underpinning our 2009 forecast is a substantial partial release of the large reserves the industry set up in 2008 for individual annuity minimum guarantees,” said Stephan Christiansen, director of research at Conning.

“Annuities have been the volatile segment for the industry, generating a $4 billion loss for the combined 2008-2009 period, compared to a $12 billion gain in 2007 alone. Life insurance products, on the other hand, have been remarkably stable during the crisis, and this year will generate over $8 billion of net operating gain-in line with prior years,” he added.