'Creeping inflation' could hurt life insurers: AM Best

By Kerry Pechter *Thu, Feb 17, 2022*

'Inflation could increase skepticism of a potential customer's ability to afford life and annuity products, especially in the middle market," said an AM Best analyst.

Life/annuity insurance companies are actively implementing improvements in distribution techniques given changing customer expectations and an evolving distribution landscape exacerbated by the COVID-19 pandemic, an AM Best survey shows.

Highlights of the survey of 78 U.S life/annuity companies rated by AM Best are detailed in the Best's Special Report, titled, *Life/Annuity Insurers Adjust Distribution Strategies to Reach Consumers.*

Life insurers are focusing on the "elusive middle market," the report says. More than 80% of survey respondents said they believe the middle market is extremely or very important to future growth. In a similar 2018 AM Best survey, 70% agreed with that statement.

But questions remain about the potential for sales in that segment. "Creeping inflation could increase skepticism of a potential customer's ability to afford life and annuity products, especially in the middle market," said Jason Hopper, associate director, industry research and analytics, AM Best, in this week's release.

Other survey highlights include:

- Nearly 60% of life/annuity companies surveyed believe that reducing the time it takes to apply for a life insurance policy, underwrite the application and issue a contract is the key to penetrating the middle market.
- As the pandemic reduced in-person interaction and created internal process and communication hurdles, managing general agents (MGA) have attained more authority.
- A majority of surveyed companies are moderately satisfied with innovation efforts related to distribution, while 10% are very satisfied and 4% are not satisfied.
- Top-line growth has challenged the life/annuity segment for a number of years, the report states, particularly amid the pandemic, as punctuated by declines in 2020 direct premiums written across all lines except group annuities.
- Digitalization and technological investments required to improve the customer experience are among the biggest challenges to modernizing distribution and growing sales, according to the survey results; however, new customer approaches are being tested for growth opportunities.

Despite the pandemic’s drain on life/annuity insurers’ budgets, “many still found ways to invest in their distribution capabilities to keep up with the changing environment,” said Michael Adams, associate director, AM Best.

“A significant majority of respondents said that they are at least midway to reaching their goals and are moderately or very satisfied with innovation efforts related to distribution,” Adams added, suggesting that carriers are reassessing and refining their overall distribution strategies.

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