Double-digit revenue declines at Sun Life and Manulife: A.M. Best

By Editorial Staff *Fri, Apr 15, 2016*

Nine of 23 life/annuity companies reported higher revenues in 2015, but two Canadian companies, Manulife Financial and Sun Life Financial, saw revenue declines of 38.2% and 25.2%, respectively.

Stock prices for publicly traded U.S. life and annuity (L/A) insurers rebounded slightly in fourth-quarter 2015 with a 2% increase following a marginal decline in the previous quarter, according to a new A.M. Best special report focused on the stock price performance of nearly two dozen L/A companies.

The **Best Special Report**, titled, "Macroeconomic Factors Continue to Pressure Publicly Traded Life/Annuity Insurers," states that despite the favorable aggregate stock price performance in fourth-quarter 2015, the 23 L/A insurers followed in this report still posted an overall 3% decline for the year.

With just nine of the companies reporting higher revenues in 2015, the decline largely stemmed from two Canadian companies, Manulife Financial and Sun Life Financial, which saw revenue declines of 38.2% and 25.2%, respectively. National Western Life (-16.8%) and Fidelity Guaranty Life (-13.9%) also reported double-digit percentage declines.

Macro-economic factors are driving the weakness in the L/A segment, although the effects have been partially offset by company-specific moves, including mergers and acquisitions. The Federal Reserve (Fed), as reported in December 2015, expects economic activity to expand moderately, labor market indicators to strengthen and inflation to remain below its 2% target in 2016.

The Fed increased the Federal Funds Target Rate by 25 basis points in December 2015 for the first time in almost 10 years and indicated that any future rate increases would be gradual and data-dependent.

Revenue for the L/A population in this report declined year over year by 8.5% in 2015.

Although most L/A companies in early 2016 have faced many of the same challenges they faced in early 2015, owners, shareholders and policyholders must ensure that companies are not adding new risks. The economy pressures not only investment portfolio returns, but also the profitability of many products, both spread-based and those with underlying long-term interest rate assumptions.

Capital markets are likely in the early stages of a reversal of the long benign credit environment and the L/A industry is poised to absorb what could be a sudden drop in credit quality and liquidity of even its stronger investment grade holdings, A.M. Best believes.

Although the industry has a buy-and-hold philosophy, the financial crisis of 2007-2008 showed the importance of liquidity for insurers. Pressure is already being felt in the corporate bond market through the exposure to energy-related business, which has hurt Manulife and Sun Life.

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