Fed hike will have “no immediate impact” on insurers: A.M. Best

By Editorial Staff *Wed, Dec 23, 2015*

'Overall, a continued measured rise in rates is a net positive for the life/annuity industry as product spreads improve, investment portfolio yields increase, and other side benefits accrue to the industry,' said a new report from the ratings agency.

In a new briefing, entitled “Insurers Hope Fed Move a Sign of Things to Come,” the rating agency A.M. Best said, “The Federal Reserve’s first interest rate increase in nearly a decade does not symbolize a ‘lift off’ scenario for interest rates. Subsequent moves by the Fed will involve an uncertain and measured approach with multi-year rate increases following what had been an unprecedented monetary easing.”

The briefing said:

“A.M. Best sees no immediate impact to its view of the U.S. property/casualty, life or health insurance industries, or any individual rating units as a result of the 0.25% increase in the Federal Funds Rate. While the overall industry has been juggling falling portfolio yields and limited reinvestment opportunities, life/annuity companies in particular have also been facing spread compression. In the short-term, the Fed’s rate hike will primarily impact the shorter end of the interest rate term structure, which doesn’t impact insurers with predominantly longer-term bond holdings. This initial move also doesn’t ease the pain for older spread-based products with higher guaranteed crediting rates.

“Although investment portfolio yields would eventually benefit from any increasing interest rate scenario, A.M. Best is more watchful of the increased credit risk accumulating for the industry from its effort to attain higher investment returns.

“Overall, however, a continued measured rise in rates is a net positive for the life/annuity industry as product spreads improve, investment portfolio yields increase, and other side benefits accrue to the industry, such as having a positive impact for those carriers with underfunded pension plans.”

In a second briefing, entitled “Rating Outlook Remains Stable For U.S. Life/Annuity Industry But Challenges Persist,“ said A.M. Best “is maintaining its stable outlook on the U.S. life/annuity industry for 2016, supported by the benign credit and interest rate environments and in the face of various challenges, in particular, the overall economic climate and its potential impact on interest rates, and, to a lesser extent, credit risk.”

“The life/annuity industry has seen absolute and risk-based levels of capitalization improve. In addition, asset impairments remain low and operating performance is up modestly as compared with 2014,” the briefing said.

But the assessment was mixed. “Slow premium growth for life products, driven in part by the industry’s inability to effectively access the middle market, remains an industry-wide dilemma, and when coupled with low interest rates, leads to moderate revenue and operating earnings,” A.M Best said.

“A shift to a negative outlook could result from an overall negative transition in the U.S. economy, which, for example, could drive a sudden spike in interest rates. In addition, a material increase in credit risk resulting in investment impairments would also potentially drive an unfavorable change in outlook.”