‘Focus on issues in your direct control,’ A.M. Best urges annuity issuers

By Editorial Staff *Thu, Feb 2, 2017*

The '2017 Review & Preview Best’s Special Report' notes that the ratings agency has revised its outlook for 2017 on the L/A industry from stable to negative.

Rising rates, increased potential for lower taxes and reduced regulatory hurdles: These post-presidential signs bode well for U.S. life/annuity insurers in 2017, according to a new A.M. Best special report. But insurers “still need to remain focused on the issues that… remain more directly in the industry’s control,” said an A.M. Best release this week.

The 2017 Review & Preview Best’s Special Report, “Many Headwinds, But Life/Annuity Insurers Remain Focused on What They Can Control,” notes that A.M. Best revised its outlook for 2017 on the L/A industry from stable to negative. “The industry… does not look vulnerable to any single shock, but is susceptible to a multitude of pressures that raise operational risk and is placing increasing time constraints on senior management,” the release said.

“The biggest unknown for the L/A industry is which of these regulatory changes”—principles-based reserving or the DOL fiduciary rule—“will remain intact under the new Republican administration, or whether some or all will be either materially delayed, overhauled or repealed altogether,” A.M. Best added.

The prospect of disruption from financial technology/insurance technology companies likely will drive highly strategic-focused merger and acquisition activity, A.M. Best said. The ratings firm advised insurers to focus on:

- Modernization of the business model through improved systems and data analytics to improve underwriting and profitable top line growth
- Managing through an uncertain and potentially volatile global economic and regulatory environment
- Strategic decision-making for asset allocation and business profile

According to the remaining text of the statement:

“In 2016, economic headwinds, evidenced through low interest rates, continued to impact both sides of the balance sheet through increased credit and liquidity risks, lower investment portfolio returns and increased reserving.

"Robust equity markets and benign credit markets partially have offset some of this pressure, and many companies have taken advantage of lower financing costs to prepay near-term debt maturities, resulting in modest short-term increases to financial leverage."