How Are Life Insurers Coping? A.M. Best Counts the Ways

By Kerry Pechter *Wed, Mar 4, 2015*

Headwinds like "marginal to declining premium growth," an "aging agent and adviser channel," and "regulatory uncertainty" continue to frustrate life insurers, the ratings agency says.

As long as the stock market doesn't melt down and interest rates don't spike, the economic outlook for life and health insurance companies for 2015 is generally benign, according to a special report from the ratings agency A.M. Best released February 24.

The Fed's quantitative easing policy has been bad and good for life insurers. While it reduces income from bonds and raises the prices of income annuities, it has allowed companies to refinance their debt at lower rates.

By funding a bull market, it has also boosted asset-based fee income from variable annuities, mutual funds and wealth management services for insurers with stakes in those businesses, according to the report, "U.S. Life/Annuity Writers Manage Through a Lower for Longer Reality."

Life insurers still face headwinds like "marginal to declining premium growth," an "aging agent and adviser channel," and "regulatory uncertainty." But they are also enjoying the benefits of an improving economy, a "benign credit environment," and smarter risk management.

The report suggests that life insurers are generally weak in the area of technology. While other sectors of the financial service industry are investing in the "digital advisory channel"—aka, robo-advice—insurers "have [relatively] finite resources to harness technology to improve the customer experience," the report said.

Additional highlights from the 24-page report include:

Share repurchases. Insurers [are managing] capital efficiently through refinancing of their debt, utilization of captives and reinsurance, share repurchases and cash dividends, which continue to contribute meaningfully to improving returns on equity (ROE). Stock companies continue to use share repurchases as an alternative to deploying capital for M&A and organic growth.

Stable companies. Company watch lists, "which sometimes rivaled the Manhattan phone book in size” after the financial crisis, have dwindled to levels not seen for many years.

FIA sales. Indexed annuities with living benefit features now comprise roughly three-quarters of indexed annuity sales. A.M. Best expects more companies to begin introducing gender-based pricing on indexed annuities.

VA evolution. The risk profile of VA sales is changing, with some companies recording as much as 30% to 40% of their new sales in investment-only VA products. Market concentration remains roughly in line with prior years, with the top 20 companies holding more than 90% of the VA market. VA sales have been moderating somewhat as a result of companies exiting the market or dialing down their sales targets to better balance their risk profiles.

Growth opportunities. Overall growth within the United States remains “challenged,” the report said. But niche opportunities exist in Asia and Latin America, the pension risk transfer business, and sales of both retail and institutional deferred income annuities.