In private, life insurers express ‘concern’

By Editorial Staff *Thu, May 28, 2020*

'About one-third of companies expect a negative 10-year treasury rate at the end of 2020 in their worst case scenario,' according to a high level life insurance industry report.

The COVID-19 pandemic infection has greatly affected the economy, resulting in volatile market conditions and impacting life insurers’ balance sheets, according to a new report from the Society of Actuaries, LIMRA, Oliver Wyman, and the American Council of Life Insurers.

The report was based on a survey of actuaries, investment managers, and risk managers directly involved in assessing the impact of recent events on asset/liability matching, or ALM. Thirty-two companies responded to the survey between April 22 and 28, 2020.

Top Concerns for ALM

Two-thirds of the companies are concerned or very concerned about the impact of low interest rates on ALM for their company. Twice as many respondents are very concerned about the impact of low rates for the life insurance industry (~47%) vs. the impact of low rates for their company (~22%).

When asked about the areas that low interest rates could impact, over half were either concerned or very concerned about new business margins (62%), Statutory earnings (59%), and new business sales (56%). When asked about ALM related challenges, most companies were concerned or very concerned about reinvestment yields (66%), new business yields (62%), credit migration (56%), and default risk (56%).

ALM Scenarios

About 85% of the companies use management scenarios to evaluate and set ALM strategies and over two-thirds use other deterministic and real-world stochastic scenarios. Management scenarios are defined as internal scenarios used for planning or other management decisions.

About two-thirds of the companies anticipate the 10-year and 30-year treasury rates to be in the range of 0.5-1% and 1-1.5%, respectively, by year-end for their base case scenario. About one-third of companies expect a negative 10-year treasury rate at the end of 2020 in their worst case scenario and 19% expect a negative 30-year treasury rate.

More than one-half of respondents take credit migration into account in their management scenarios. About 60% of respondents are considering running negative rate scenarios in sensitivity testing.

ALM Strategy

More than half of companies characterize their ALM in-force strategy as duration matched. For the 34% of companies that are not duration matched, inability to source long-duration assets and management position on interest rates were the most common contributing factors. Eighty-four percent of respondents use the same ALM strategy for new business as for in-force.

Investment Strategy

More than half of respondents have changed their investment strategy or are planning to change their investment strategy if recent conditions continue for the next several years. Of those who have changed or are planning to change, most cited higher-yielding assets classes and industry/sector allocations as areas to change.

Communication and Monitoring

Companies have not significantly changed their monitoring frequency for asset duration, liability duration and short-term cash balances. Companies have increased their monitoring frequency for policyholder behavior activities such as new premium deposits, policy loans, withdrawals and lapses. The majority of companies have received questions from senior management, the board of directors, rating agencies and regulators regarding their ALM position and strategy.