Retirement Income
JOURNAL

Insurance companies impacted by equity slide: AM Best

By Editorial Staff *Thu, Apr 16, 2020*

'These losses contributed to capital and surplus declines of 11.9% for property/casualty insurers, 5.6% for life/annuity writers and 7.8% for health insurers,' the ratings agency said.

The negative impact to insurance companies' capital and surplus as a result of sharp equity market declines could top the surplus losses experienced in the 2008-2009 financial crisis, according to a new AM Best special report, "Hit to Surplus from Equity Exposures Expected."

"The 20% decline in the Dow Jones since the end of 2019 is hurting U.S. insurers' balance sheets," the report said. "At the height of the financial crisis last decade, the stock market dropped 50%, which led to the property/casualty industry reporting $55 billion in unrealized losses on unaffiliated stock investments in 2008, while the life/annuity segment reported more than $23 billion and the health segment nearly $4 billion.

"These losses contributed to capital and surplus declines of 11.9% for property/casualty insurers, 5.6% for life/annuity writers and 7.8% for health insurers. Significant unrealized losses and their adverse effects on capital because of the COVID-19-led downturn and economic fallout may well be on the horizon for U.S. insurers."

According to the report, the property/casualty segment currently has the highest exposure to unaffiliated common stock, at almost 18% of invested assets in 2018, versus 12% in 2009. The health segment's exposure now is approximately 9%, while the life/annuity segment has maintained an exposure of approximately 1%.

Any ultimate impact on the insurance industry remains to be seen; however, the impact will be uneven. Just under 50% of property/casualty companies have unaffiliated equity holdings, while 45% of life/annuity entities and more than 75% of health companies have no exposures.

The property/casualty segment also has the greatest share of companies with an unaffiliated common stock exposure equal to more than half their capital, but that share is relatively small, at less than just 10%. These companies would see the greatest hit to capital given their larger relative exposures. Additionally, the report lists AM Best-rated entities that have unaffiliated common stock exposures greater than their capital and surplus levels, the vast majority of which are in the property/casualty segment.