Large US life/annuity insurers continue to de-leverage: AM Best

By Editorial Staff *Thu, Aug 19, 2021*

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The prolonged low interest rate environment has allowed publicly traded life/annuity (L/A) insurers to replace higher-cost debt with often much less expensive alternatives and thereby strengthen their balance sheets, according to a new AM Best special report.

Aggregate unadjusted total debt-to-capital ratio for the 16 publicly traded L/A insurers followed for the report has declined since 2011, to 24.1% at year-end 2020, according to the *Best's Special Report*, titled, "Publicly Traded L/A Insurers Reduced Leverage, Improved Liquidity in 2020."

Given the current interest rate environment and some uncertain views of the US economy, many of the larger companies continue to de-leverage (the primary reason for the decline in debt).

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In 2020, the financial leverage of a significant portion of the publicly traded companies declined to its lowest unadjusted level of the last 10 years. The overall decline in debt-to-capital ratios can be attributed to the industry's record-high capitalization, which enhances the ability to use earnings for debt servicing as well as regular dividend payments.

Amid the COVID-19 pandemic, many insurers turned to the Federal Home Loan Bank (FHLB) to tap into funds to bolster liquidity to prepare for a worst-case scenario, the report said. Aggregate borrowing for the L/A insurers grew year over year by approximately 18% in 2020, to $97.3 billion. Aggregate borrowing has increased steadily since 2014, but it has been outpaced by collateral pledged. As a result, the borrow-to-collateral percentage declined over the period.

Management's track record of share repurchases and shareholder dividends is also considered in AM Best's evaluation of operating leverage and expected coverage ratios. Given the uncertainty caused by COVID-19 in 2020, many companies paused their share repurchase programs and cut back on dividends to prepare financially for the worst. For the publicly traded companies, the aggregate capital returned to shareholders declined by 41% to $11.7 billion.