
Life Insurers Face Lean Years: Ernst & Young

By Editor Test Tue, Jan 12, 2010

Instead of relying on a “back-to-basics” strategy in 2010, insurers should focus on innovating in five key areas, said the leader of E&Y’s Financial Services and Insurance & Actuarial Advisory Services practice.

The US life insurance industry may face an extended period of weak earnings, slow growth and greater regulatory oversight, according to Ernst & Young’s Global Insurance Center 2010 U.S. Outlook for the life insurance industry.

Instead of relying on a “back-to-basics” strategy in 2010, insurers should focus on innovating in five key areas, said Doug French, principal, Financial Services and Insurance & Actuarial Advisory Services Leader at Ernst & Young LLP. Those areas are:

1. *Optimize capital in response to ongoing pressures.* Non-traditional capital markets will take years to recover, forcing companies to alter or eliminate products dependent on these sources. With low investment yields, insurers should strengthen prices for in-force business, such as increasing non-guaranteed fees. Companies should plan for liquidity crises, forced liquidation of assets into frozen secondary markets and limitations on transfers of capital within the enterprise.
2. *Build more robust risk management capacity with stronger governance and transparency.* Risk monitoring should start in business units and be coordinated from the corporate center. Top executives need to confirm the organization’s risk appetite and risk-taking limits. Establish procedures for communicating risk-adjusted performance results. The chief risk officer will also face increasing demands from regulators and rating agencies on risks assumed and capacity.
3. *Focus on core businesses and readdress product and distribution strategies.* Insurers will continue withdrawing from non-core businesses, as they conserve capital and reallocate it among the most viable businesses. As a result, the industry will consolidate. Insurers will reduce risks by re-designing and re-pricing products.
4. *Operate successfully in a continually changing regulatory environment.* Companies will see initiatives like Solvency II, which applies new reserve and capital adequacy requirements, and US GAAP, which may change insurance accounting rules. There will be a continuing dialogue of Federal vs. State regulatory oversight. Efforts at improving consumer protection will continue.
5. *Improve the effectiveness of company infrastructure.* Insurers need to reduce costs through process re-engineering and headcount reduction and prepare for a lengthy low-growth environment.