

## **Life insurers face opportunities, constraints in retirement market: Conning**

By Editor Test      Thu, Jul 19, 2012

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"In aggregate, the life insurance industry has the capital capacity to support a significant expansion of new retirement income sales." So says a new Conning Research & Consulting report entitled, *The Big Payout: Growing Individual Retirement Income Opportunities 2012*.

An executive summary of the report, provided to the press, points out the opportunities and the challenges for life insurance companies in the face of the Boomer retirement wave. While it was not clear from the summary how much news life insurance executives and industry watchers might find here, Conning analyst Scott Hawkins, an author of the report, has proven highly knowledgeable in the past.

The latter part of the study, according to the table of contents, provides a probing discussion of the capital capacity issues that life insurance companies, and raises questions about competition between within a life insurer for the corporation's free capital capacity, the impact of greater regulation of capital, and about the need to acquire new capital to respond to the income opportunity.

"Conning's analysis suggests that individual annuity insurers currently have some capacity for growth. Conning estimates that at the end of 2011, the individual annuity line held approximately \$1.2 trillion in assets and the additional free capital could support an additional \$600 billion in new assets. However, the aggregate amount of estimated free capital is not distributed evenly across all companies or insurance groups. As a result, some companies may have a better capacity to absorb new growth than others may," the report said.

"Growth opportunities in other areas may place demands on some of that capital capacity," the report continued. "In addition, regulatory clouds may inhibit insurers from deploying their capital in the short-term. However, given the potential market and its development over a long horizon, well-capitalized insurers can be expected to identify and pursue their opportunities in a growing retirement market."

In a release, Conning said:

"At the end of 2011, for example, individual and group annuities held 46% of all defined contribution plan assets. Beyond annuities, however, we estimate there was an additional \$7.3 trillion in combined IRA and defined contribution plan assets. Now, insurers have a growing opportunity to help individuals turn those assets into retirement income," said Scott Hawkins, analyst at Conning Research & Consulting.

"Of course, these assets are attracting other competitors, primarily mutual funds who've also helped investors accumulate retirement assets, and insurers need to respond to that competition. However,

turning those assets into a secure income stream for retirees requires managing investment volatility and longevity risk. Managing those risks plays to the natural competitive advantage insurers have over their competition.”

Stephan Christiansen, director of research at Conning, added, “Our analysis highlights the need for insurers to meet the competitive challenge represented by the mutual fund industry, and refine their messaging to the retiree and pre-retiree segments. Adding to the competitive marketing complexity, insurers also face substantial investment issues related to these products, and statutory capital constraints. Yet those insurers that succeed in meeting these challenges may be positioned to enjoy their largest growth opportunity over the coming decade.”

*The Big Payout: Growing Individual Retirement Income Opportunities* is available for purchase from Conning Research & Consulting by calling 888-707-1177 or by visiting the company’s [website](#).