Life insurers grasp for yield, with mixed success: Conning

By Editorial Staff *Thu, Nov 6, 2014*

A new Conning study, "Life Insurance Industry Investments: Added Risk in 2013," analyzes life industry investments for the period 2009-2013.

Although life insurers have tried to survive the Fed-induced low yield environment by taking on more credit risk, gross total returns for the industry turned negative in 2013 because of interest rate movements, according to a new study by Conning.

The Conning study, "Life Insurance Industry Investments: Added Risk in 2013," analyzes life industry investments for the period 2009-2013, providing data for the industry as a whole, by insurer size, and for five peer groups. The study also discusses problems facing the life insurance industry.

"Insurers have responded to the continued low interest rate environment by adding credit risk to their portfolios," said Conning analyst Mary Pat Campbell, in a release. "The spread between industry book yields and reference rates has been widening since 2009, which we believe reflects the increasing risk within the industry portfolio.

"The industry's quest for yield began in 2010 and has only increased in 2013," agreed Steve Webersen, director of research at Conning.

"The largest shifts have included greater allocation to NAIC-2 rated securities and to private placement bonds, and insurers are not dissuaded by the risk-reward tradeoff so far," he added. "That said, investment strategies differ greatly for different sized firms, and our analysis shows that the larger insurers are more focused on higher-risk assets generally."