
Life insurers 'out of levers' to fight low rates: Conning

By Editorial Staff Thu, Nov 3, 2016

'The shift to BBB-rated bonds has performed well over 2011 to 2015; yet the question remains as to how long that performance can continue,' said Conning insurance research chief Steve Webersen.

The life-annuity industry is running out of levers to boost returns in the extended low interest rate environment, according to a new study by Conning. Besides raising allocations to lower quality bonds, remedies to the yield-drought are hard to find.

"Life-annuity insurers have lived with the decreasing interest rate environment for more than a decade, and for the past five years have been under increasing pressure as interest rates dipped to historically low levels," said Mary Pat Campbell, vice president, Insurance Research at Conning.

"Insurers have been shifting allocations to reach for yield. This shift was pronounced from 2011 to 2015, as the impact of the financial crisis faded and the bite of low interest rates intensified. The dominant industry response has been in shifting bond credit quality, as insurers increased allocations to BBB-rated bonds for extra yield, while at the same time keeping below investment grade allocations at historic lows."

The Conning study, "Life Insurance Industry Investments: *Where are the Return Levers?*" analyzes life industry investments for the period 2011-2015 for the industry as a whole, by insurer size, and for five peer groups. The study discusses strategic issues facing life insurers and examines the industry's investment profile in detail.

"As insurers take on additional risk to boost returns, there can be consequences of potential losses," said Steve Webersen, head of Insurance Research at Conning. "The shift to greater reliance on BBB-rated bonds is widespread over the industry, and represents a further credit risk concentration. This shift to BBB-rated bonds has performed well over 2011 to 2015; yet the question remains as to how long that performance can continue. Just as important, what investment return levers remain for the industry in the future?"

"Life Insurance Industry Investments: *Where are the Return Levers?*" is available for purchase from Conning by calling (888) 707-1177 or at www.conningresearch.com.

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