Low rates drive life insurance industry restructuring: Fitch

By Editor Test *Thu, Apr 25, 2013*

Low interest rates "lower the relative profitability of some traditional products while also lowering the cost of borrowing if debt is used to finance the acquisition of these businesses," Fitch Ratings believes.

Recent transactions in the life insurance space show that industry restructuring is accelerating, Fitch Ratings said in a release this week. "Increased opportunities for both traditional and nontraditional players in the insurance arena are seemingly on the rise," the release said.

"We expect merger and acquisition (M&A) activity, which has lagged company-specific restructuring initiatives to date, to accelerate in 2013," according to Fitch. "We note increased M&A activity could lead to negative rating actions based on integration and financing concerns."

Fitch pointed to AXA's planned sale of its MONY Life Ins. Co. unit to Protective Life Corp. (PLC). In announcing the agreement, AXA highlighted its "desire to release resources it had tied up in closed, noncore portfolios and reinvest those resources in higher growth markets and businesses."

Like AXA, "many insurers are taking steps to refocus operations and discontinue or divest businesses that have underperformed and/or no longer provide a strategic fit," according to Fitch.

Persistently low market interest rates are helping drive the product rationalization, Fitch said. Low rates "lower the relative profitability of some traditional products while also lowering the cost of borrowing if debt is used to finance the acquisition of these businesses."

Other examples of rationalization noted by Fitch:

- Hartford Financial Services' sale of its individual life business to Prudential Financial, Inc. and its retirement plans business to Massachusetts Mutual Life Insurance.

- Aviva PLC's sale of its U.S. annuity and life operations to Athene Holding Ltd.

- Genworth Financial's sale of its wealth management business to a partnership of Aquiline Capital Partners and Genstar Capital.

- Sun Life Financial's sale of Sun Life Assurance Company of Canada (U.S.) and Sun Life Insurance & Annuity Co. of New York to Delaware Life Holdings, which is owned by Guggenheim Partners.

According to the Fitch release:

> Insurers most affected include those that were active in the annuity and long-term care businesses, where unfavorable results have led a number of major players to exit the market.
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> Canadian and European insurers are expected to further rationalize their participation in the U.S. life insurance market in part due to ongoing underperformance and concerns over pending capital regime changes in their local markets (e.g. Solvency II), which could lead to an increase in required capital associated with having U.S. life insurance operations.
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> We expect this rationalization process will continue to create opportunities for both traditional players looking to strengthen existing core business, reinsurers with an expertise in block acquisitions, and nontraditional players (e.g. private equity), which are expected to play an increasing role in the life industry and have completed a number of transactions to date largely involving fixed annuity business.