Lower VA reserves on guarantees boosted life insurer income in 2012: Fitch

By Editor Test *Thu, May 23, 2013*

The majority of the 2012 net income change for life insurers--to $34 bn from $9 bn in 2011--came from large variable annuity companies who reported lower reserves on guaranteed benefits, which more than offset the negative impact of low interest rates, Fitch Ratings said.

Statutory capital growth among life insurers in 2013 will be moderate given the expectation of modest operating earnings growth due to the ongoing effects of low interest rates, according to a new report from Fitch Ratings that reviews statutory trends for U.S. life insurers for 2012 and implications for 2013.

U.S. life insurers reported strong growth in statutory capital and net income in 2012, which will lead to improved statutory dividend capacity in 2013 for parent company debt service and other funding needs, a Fitch release said.

Statutory net income for the Fitch universe of life insurers increased to $34 billion in 2012 compared to $9 billion in 2011, the highest level in five years. The majority of the 2012 net income change came from large variable annuity companies who reported lower reserves on guarantee benefits, which more than offset the negative impact associated with low interest rates. Fitch notes that reporting of hedge-related derivatives performance as a non-operating item can significantly affect the reported levels of net income.

Statutory capital improved 10% in 2012 for the Fitch universe of life insurers, largely driven by retained statutory earnings. As a result, Fitch estimates that the aggregate NAIC risk-based capital improved to 486% at year-end 2012 compared to 465% for 2011. Fitch believes that many insurers will be careful to maintain their RBC levels through 2013 to mitigate perceived risks in the capital markets and low interest rate environment.

Results in 2012 continued to benefit from modest realized investment gains. Overall investment losses are expected to remain low and within Fitch’s expectation of losses over the next 18 months. The source of realized capital losses/impairments appears to be returning to the more traditional sectors of corporate bonds, although structured bonds continue to contribute more than their long-term historic norm largely driven by commercial mortgage-backed securities.

Fitch does not expect a significant improvement in portfolio credit quality or liquidity in 2013 due to the pressure for investment income. Insurers will continue to move more of their portfolios to bonds rated ‘BBB’, discounted structured securities, commercial mortgages loans or limited partnership investments.