More up ratings than down among U.S. insurers: AM Best

By Editorial Staff *Thu, Sep 19, 2019*

AM Best cited an improvement in risk-adjusted capitalization stemming from the Tax Cut and Jobs Act, a modest increase in interest rates in 2018, and expense reductions.

In the first half of 2019, there were seven ratings upgrades and three downgrades in the life/annuity/health segments of the U.S. insurance industry, compared with eight upgrades and five downgrades in the first half of 2018, according to a new Best's Special Report, "L/H Upgrades Outpace Downgrades in First-Half 2019."

In the health segment, there were eight rating upgrades and one downgrade, compared with nine upgrades and three downgrades in first-half 2018. No upgrades or downgrades were made in the life reinsurance segment in first-half 2019, compared to one upgrade in the same prior-year period.

Despite AM Best's revised L/A market segment outlook to stable from negative in December 2018, AM Best sees potential for a global economic slowdown, with a recession likely in 2020. That view is based on the prolonged trade/tariff war and the reduction in interest rates by the Federal Reserve this year.

The positive rating development in the L/A segment was based on factors that include improved risk-adjusted capitalization from an increase in profitability, owing to the Tax Cut and Jobs Act, as well as a modest increase in interest rates in 2018 and expense reductions.

The health segment continues to see strong operating results and positive earnings, along with favorable medical cost and growth trends, which have fostered positive rating development.

In first-half 2019, seven life/health rating units were placed under review, compared with 25 in the first-half of 2018. The high number in 2018 mainly reflected elevated merger and acquisition activity. Affirmations remained the most common rating action for the life/health industry at 79.9%, consistent with most years.

The industry has benefited from an easing in regulatory oversight, but changing fiscal and political dynamics could slow down or even reverse some of these gains. However, carriers have strengthened their risk-adjusted capitalization and enterprise-wide liquidity, which likely will mitigate the impact of investment credit and liquidity risk, which continue to rise for many carriers.

AM Best maintains a stable outlook on the U.S. health industry segment, based on positive earnings, strong results in all major lines of business, growth in capital and surplus, and a decline in near-term regulatory uncertainty. However, health insurers must remain watchful of rising cost trends and utilization.