
Net income of life/annuity industry down 73% in 1Q2016: A.M. Best

By Editorial Staff Thu, Jul 28, 2016

A.M. Best views the industry as having adequate risk-adjusted capitalization, which is supported by the continued overall profitability.

Despite higher overall revenue, the U.S. life/annuity insurance industry reported sharply lower statutory earnings in the first quarter of 2016 versus the same period in 2015, according to an A.M. Best report.

Net income dropped to \$3.7 billion in first-quarter 2016 compared with \$13.7 billion in the prior-year period, on modest realized capital losses.

The new Best Special Report, titled, "Life/Annuity Industry First Quarter 2016 Statutory Earnings Impacted by Market Volatility," also said:

"Industry capitalization remains favorable and continues to show modest increases in total capital. Although the combination of several general market conditions negatively impacted the industry as a whole, five insurance companies accounted for roughly \$4 billion of pre-tax operating losses, related to one-time reinsurance transactions, reserve adjustments and derivative movements."

Of the industry's total assets, \$2.4 trillion is held in separate accounts. That exposes sales volumes, earnings and the value of guaranteed benefits of variable products to equity market volatility. At the same time, the profitability of life insurance products has suffered from heightened mortality.

"It is still too early to determine if recent mortality results are a sign of a longer-term trend or just short-term incidence," A.M. Best noted. In other comments from the report:

- Industry premiums declined in 1Q2016 to \$144.7 billion from \$167.5 billion in the preceding quarter, but are generally in line with first-quarter results of previous years due to seasonality trends.
- Individual annuities account for the majority of premiums. They represent one-third of total direct premiums for the first-quarter of 2016 up more than 10% from the same period in 2015.
- First-quarter variable annuity sales declined 18% and a net \$5.6 billion was transferred out of VA separate accounts. A.M. Best attributed the declines in part to anticipation of the Department of Labor's fiduciary rule, whose final version was

issued last April.

- Ordinary and group life contributed 27.1% of direct premiums written, as of first-quarter 2016.

The industry's total capital remained positive in the first quarter, but was constrained. The lack of capital growth is tied to capital deployment, acquisition activity, and share repurchases and dividends. A.M. Best views the industry as having adequate risk-adjusted capitalization, which is supported by the continued overall profitability.

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