
'No time for complacency,' A.M. Best warns annuity issuers

By Editorial Staff Thu, Feb 18, 2016

In 2016, life and annuity companies will face increasing life expectancy trends, the rise of cyber risk as a life "catastrophic" event and increasing investment risk from traditional and non-traditional asset classes, according to A.M. Best.

Although most U.S. life and annuity insurance companies will face challenges in 2016 like the ones they faced in 2015, there's a "heightened sense of urgency" for owners, shareholders and policyholders to ensure companies are not "continually increasing risks," according to the *2016 Review & Preview Best's Special Report*.

The report, titled "Challenges Look Similar for U.S. Life & Annuity Industry But No Time for Complacency," cites such familiar problems as historically low interest rates, marginal to declining premium growth and regulatory uncertainty.

The report notes that, in addition, life and annuity companies will face the aggregation of longevity exposure from increasing life expectancy trends, the rise of cyber risk as a life "catastrophic" event and increasing investment risk from traditional and non-traditional asset classes.

A.M. Best's 2016 outlook for the life and annuity industry for 2016 remains stable. Most insurers have "ample levels" of risk-based capital, improved underlying financial results, improved asset/liability management capabilities and modest product features with few signs of a renewed "arms race" among competitors.

"The economy continues to pressure not only investment portfolio returns, but the profitability of many products, both spread-based and those with underlying long-term interest rate assumptions," said an A.M. Best release.

"In addition, although the industry maintains minimal investment exposure to equities, such products with equity components are either less popular or are increasingly costly to hedge, especially in light of increased market volatility. For many legacy blocks to improve, most need either a significant return to higher rates and/or continued improvement in equity performance to support past underwriting mispricing."

A.M. Best expects the U.S. economy to grow modestly in 2016, driven largely by domestic demand in contrast with many emerging and mature economies.

Non-traditional, or alternative capital, “patiently stands by waiting for a possible entry into the space,” the release said. “On the merger and acquisition front, the pace in 2016 should remain similar to that seen in 2015; however, while 2015 saw increased activity from foreign insurers entering the market, primarily Japanese life insurers, 2016 may be more represented by nontraditional players entering the space.”

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