
The Mid-Point of a Trying Year

By Editor Test Wed, Aug 8, 2012

A slowing economy, falling interest rates and de-risking strategies made for mixed second quarter results at the major publicly-held annuity issuers (current and former), excepting perhaps Lincoln Financial.

Second quarter earnings reports came out last week, and, in their annuity businesses, the major publicly-held U.S. life insurers appear to be in scrape-the-rust and repair mode rather than a go-go marketing mode. Although their share prices picked up a bit in the last 10 days, they are way off their highs for the year, posted last March.

MetLife's variable annuity sales were down 34% in the second quarter, year-over year, but lower sales and less risk exposure were exactly what MetLife, the 2011 market leader, wanted this year. Prudential has spent \$1.5 billion over the past year repurchasing its own shares.

The ever-steady Lincoln Financial, with the unusual i4Life variable income annuity option on its deferred variable annuity, has seen increases in variable annuity sales versus 2012, but it and Allianz Life of North America have both taken big hits on fixed and fixed indexed annuity sales, respectively. The Hartford, still in recovery mode and no longer manufacturing individual annuities, is unwinding its massive 2008 loan from Allianz SE.

All of these companies, at the least the ones that are U.S.-domiciled, experienced a run-up in share prices early last spring. But those prices, like the overall economy, lost steam over the summer and are now back where they were late last fall. at bargain levels, assuming that interest rates will eventually rise. MetLife has a P/E ratio of 6.53, Hartford of 7.57, Prudential of 8.78, and Lincoln Financial of 6.9.

Here's a summary of earnings reports from the companies mentioned above:

MetLife variable annuity sales down 34%

MetLife, Inc., today reported second quarter 2012 operating earnings of \$1.4 billion on net income of \$2.3 billion. Operating earnings were up 18% from 1.19 billion in the second quarter of 2011. The net income included \$1.4 billion in after-tax derivative gains that do not have an economic effect on the company, a MetLife release said.

Variable annuity sales were \$4.6 billion in the quarter, down 34% from the second quarter of 2011, and reflected MetLife's decision to rein in its variable annuity exposure after setting records in 2011.

Operating earnings for MetLife's retail businesses, which includes U.S. retail life insurance and annuities, were \$380 million, up 14%, on premiums, fees and other revenues of \$2.4 billion, up 3% from a year ago. The increase was attributed to favorable investment margins, higher fees and lower expenses. Higher annuity fees were partially offset by lower income annuity and life sales.

MetLife's stock closed at \$33.20 last week, down from a 52-week peak of about \$39.50 set in mid-March 2012.

Prudential buys back shares

Prudential Financial saw higher gross and net individual annuity sales in the first quarter of 2012 compared with the prior quarter, but operating income for the individual annuities segment fell by almost half.

Net income for the firm's Financial Services Businesses was \$2.203 billion for the second quarter of 2012. That figure included \$1.9 billion in pre-tax gains from changes in the value of currency derivatives. Those gains were "largely offset by adjustments to comprehensive income which are not reflected in net income or loss," the company said in a release.

In the second quarter of 2011, net income was \$779 million. In the first quarter, the company reported a net loss of \$988 million, thanks to a \$1.5 billion charge for currency derivatives losses.

After-tax adjusted operating income for the Financial Services Businesses was \$627 million for the second quarter of 2012, down from \$773 million for the year-ago quarter and down from \$741 million in the first quarter of 2012.

The Individual Annuities segment reported adjusted operating income of \$107 million in the current quarter, down from \$207 million in the year-ago quarter. Individual annuity account values were \$124.1 billion at June 30, 2012, up 7% from a year earlier. Gross sales for the quarter were \$5.4 billion and net sales were \$3.7 billion, up from \$5.0 billion and \$3.2 billion, respectively, in the first quarter of 2012.

Retirement account values were \$244.8 billion at June 30, up 11% from a year earlier. Total Retirement gross deposits and sales were \$12.8 billion and net additions were \$6.3 billion for the quarter. Asset Management segment assets under management were \$650.2 billion at mid-year, up 11% from mid-2011.

The Retirement segment reported adjusted operating income of \$147 million for the current quarter, compared to \$171 million in the year-ago quarter. Overall, operating income for the entire U.S. Retirement Solutions and Investment Management division was \$302 million for the second quarter of 2012, compared with \$605 million in the year-ago quarter.

During the second quarter of 2012, Prudential repurchased 4.8 million shares of its common stock for \$250 million, at an average price of about \$52 per share. From July 2011 through June 30, 2012, Prudential bought back 28.6 million shares of its common stock for \$1.5 billion.

Prudential's share price, which peaked last March at over \$68, faded to about \$45 in late July before catching the latest rally and rising to \$52 last week. Prudential is also still digesting its circa-\$30 billion acquisition of General Motors pension obligations.

The Hartford pays down debt to Allianz SE and takes loss

Hartford Financial Group incurred a second quarter 2012 net loss of \$678 million compared with a net loss of \$151 million in the second quarter of 2011. The net loss in the second quarter of 2012 included a \$587 million after-tax loss from reducing its debt to Allianz SE by \$1.75 billion. Hartford borrowed the money during the October 2008 market meltdown.

“We are making progress executing on our strategy to focus The Hartford on its historical strength in insurance underwriting. We announced the definitive agreement to sell Woodbury Financial Services yesterday and the sales process for Individual Life and Retirement Plans is proceeding as expected,” said CEO Liam E. McGee in a release.

Hartford, which has withdrawn from writing new annuities, saw a 15% decline in the account values of its U.S. annuity book, to \$77.8 billion from \$91.3 billion, largely as a result of surrenders and withdrawals.

Hartford Financial Group’s share price has fallen from almost \$22 last March to \$16.16 on August 2, before bouncing to just over \$17 two days ago.

Lincoln Financial’s net income rises by 7% in 2Q 2012, year-over-year

Lincoln Financial Group, which prides itself on sales consistency, saw net growth in variable annuity deposits in the second quarter of 2012. But, thanks to the ongoing impact of low interest rates, its fixed annuities department suffered net outflows.

Variable annuity deposits of \$2.4 billion were up 3% from the second quarter of 2011 and up 11% from the first quarter of 2012. Variable annuity net flows were \$0.7 billion compared to \$0.6 billion in the prior-year quarter. In 2Q 2012, the company “introduced a family of risk-managed Protected Funds that provide an attractive value proposition to clients and lower the risk profile to the company,” according to a release.

Fixed annuity deposits of \$445 million were down 22% from the second quarter of last year, as low interest rates continued to discourage sales. Fixed annuity net outflows were \$32 million compared to net inflows of \$134 million in the prior-year quarter.

Overall, the annuities segment reported a combined income from operations of \$158 million in the second quarter of 2012, including a positive DAC adjustment of \$5 million, compared to \$145 million in the prior-year quarter.

As a company, Lincoln Financial reported net income for the second quarter of 2012 of \$324 million, up about 7% from \$304 million in the second quarter of 2011. Income from operations was \$322 million for the period, down slightly from \$326 million in the second quarter of 2011.

Share prices of Lincoln National Corp., the parent of Lincoln Financial, hit a 2012 peak of \$27.10 last March but recently closed at about \$22.43, surging 15% from \$19.29 on July 26. It has benefited from an overall equities rally over the past two weeks, which saw the Dow Jones Industrial Average rise about 500 points and the S&P 500 rise about 60 points.

Allianz Life operating profits up 21% in first half of 2012

Allianz Life of North America, which dominates the fixed indexed annuity market in the U.S., saw a 15% drop in FIA premium in the first half of 2012, to \$2.9 billion, compared with the first half of 2011. Variable annuity premium of \$2.0 billion was virtually unchanged over the same period.

The release did not include Allianz Life's quarterly results.

Overall, Allianz Life saw a 21% increase in operating profit in the half of this year, as profits rose to \$381 million from \$315 million in the same period in 2011. Total assets under management grew 9% in the first half of 2012, to \$99.6 billion, compared with the first half of 2011. The Minneapolis-based firm is a unit of Allianz SE, the German financial conglomerate.

"Sustained customer balances coupled with positive investment returns generated this growth," the company said in a release. New product offerings helped cement the company's position as the top fixed index annuity provider in the U.S., according to AnnuitySpecs.com.

The low interest environment kept a lid on new annuity sales, and total annuity premiums fell to \$5.2 billion in the first half of 2012 compared with \$5.6 billion the first half of 2011. Fixed annuity premium of \$2.9 billion was down 15% year-to-date compared to 2011 and variable annuity premium of \$2.0 billion was flat. Sales of life insurance more than doubled, to \$31 million, for the first half, year-over-year.

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