U.S. life insurers saw stocks decline in first quarter: A.M. Best

By Editorial Staff *Thu, Jun 16, 2016*

Prudential Financial reported the largest revenue decline in terms of dollars, decreasing $1.2 billion, or 7.9%, due to a combination of fewer premiums, mainly from its retirement business, and lower realized investment gains, the ratings agency said in a new report.

After a moderate increase of 2.0% in the fourth quarter of 2015, the stock prices of publicly traded U.S. life/annuity (L/A) insurers saw their stock prices decline 6.4% in the first quarter of 2016, according to a new A.M. Best report.

According to the Best Special Report, “Pressures Remain for Publicly Traded Life/Annuity Insurers,” the quarterly decline was far below the 0.8% gain posted by the broader market. The report notes the reasons for the underperformance, which are likely to persist in future quarters, includes the following:

- Continued regulatory uncertainty, including the eventual requirements of the Systemically Important Financial Institution designation and the Department of Labor fiduciary ruling;
- Continued low rates and equity volatility impacting the marketability of traditional L/A products; however, the Federal Reserve has insinuated potential rate hikes later this year;
- Declining returns-on-equity that will likely continue to decline amid a modest increase in rates and the reinvestment of portfolios into lower-yielding investments;
- Continued drag and subpar performance from legacy lines of business, particularly in long-term care and variable annuity segments (with living benefits); and
- High valuations relative to premium growth and returns on equity.

However, for the 21 publicly traded companies included in this report, revenue increased 6.5% in the first quarter of 2016 compared to the same period in 2015. More than half of the companies reported an increase in revenues in 2016, largely driven by the two larger Canadian companies, Manulife Financial and Sun Life, which reported revenue increases of 38.2% and 19.8%, respectively.

Conversely, Prudential Financial reported the largest decline in terms of dollars, decreasing $1.2 billion, or 7.9%, due to a combination of fewer premiums, mainly from its retirement business, and lower realized investment gains.

The average operating return-on-equity for the first quarter of 2016 was 14.4%, relatively even to the 14.5% experienced for the same period in 2015.

Given the continued low interest rate environment, A.M. Best notes the increasing pressures on spread-based businesses. Interest-sensitive liabilities such as fixed annuities are pretty much at guaranteed minimum crediting rates, so there is less flexibility in adjusting crediting rates downward as had been in the past. In addition, some interest rate guarantees, or floors, remain in the 3% to 4% range, creating additional pressure on this business.