Weak growth expected for life/annuity industry: A.M. Best

By Editorial Staff *Thu, May 31, 2018*

Net realized capital losses of $5.7 bn, partially offset by a $1.9 bn reduction in federal and foreign taxes, helped cause the decline in net income, according to A.M. Best.

The life industry overall can expect mid-single digit growth in 2018, on a mix of premiums and policy count growth, according to a new report from A.M. Best. Ongoing innovation should also bolster growth, as companies learn to make effective use of digital capabilities for future sales. Tax expenses are likely to decline further in 2018 as well, due to the recent tax reform.

Although interest rates should rise through 2018, continued pressures on spread-based businesses are anticipated. Nevertheless, potential rate hikes could make fixed annuities more attractive for consumers, driving modest premium growth in that category.

Low interest rates and equity volatility remain the largest macroeconomic hurdles for the industry; these factors not only lead to spread compression due to lower investment income, but can also make it more difficult for direct writers and agents to sell products with less attractive features.

Net income down 54.6%

The U.S. life/annuity (L/A) industry's net income in the first quarter of 2018 declined 54.6% from the same period a year ago, to $3.5 billion from $7.6 billion, mainly due to a drop in pretax net operating income coupled with higher net realized capital losses.

These results are detailed in another new Best's Special Report, titled, "First Look—First Quarter 2018 Life/Annuity Financial Results." It was based on companies' three months 2018 interim period statutory statements (as of May 22, 2018), representing an estimated 85% of total industry premiums and annuity considerations.

According to the report, Premiums and annuity considerations declined 11.7% from the prior-year period, driven by a $23.1 billion reduction in premiums at American General Life Insurance Company in connection with the execution of modified coinsurance agreements with a wholly owned Bermudan reinsurer, according to the report.

The L/A industry's capital and surplus increased slightly from year-end 2017 to $376.3

billion as $4.7 billion in net income and contributed capital was negated by $1.6 billion in unrealized losses and a $3.3 billion in stockholder dividends. Pretax net operating gain for the industry declined to $10.6 billion in first-quarter 2018, down 26.1% from the prior-year period. Net realized capital losses of $5.7 billion, partially offset by a $1.9 billion reduction in federal and foreign taxes, helped to bring about the decline in net income.

For 2017, the U.S. life/annuity industry recorded full-year statutory pre-tax net operating gains of $62.0 billion in 2017, a 7.4% decrease from $67.2 billion in the previous year, according to a new A.M. Best's "Year-End 2017 U.S. Life/Annuity Statutory Results Review."

Overall underwriting performance remained favorable in 2017, although lower net investment yields dampened margins. Diminishing investment portfolio yields, lower annuity sales and a mature ordinary life and accident and health market continue to thwart earnings growth.

Post-tax earnings decreased just 2.4% to $49.9 billion in 2017, owing primarily to elevated tax expenses in 2016 related to variable annuity (VA) business recaptures. Net income results were favorable, however, up 7.5%, to $41.5 billion. Individual annuity direct written premiums declined again in 2017, down 22%, a steeper decline than in 2016.

Despite strong equity markets, variable annuity sales declined by 2% in 2017, as issuers continued to de-risk products and as companies modified their business models to comply with the Department of Labor's fiduciary rule.