

# Insurance Insights

August 2020

INSURANCE RESEARCH | WHITE PAPER

## Conning's Segment Reports Highlight Important Trends

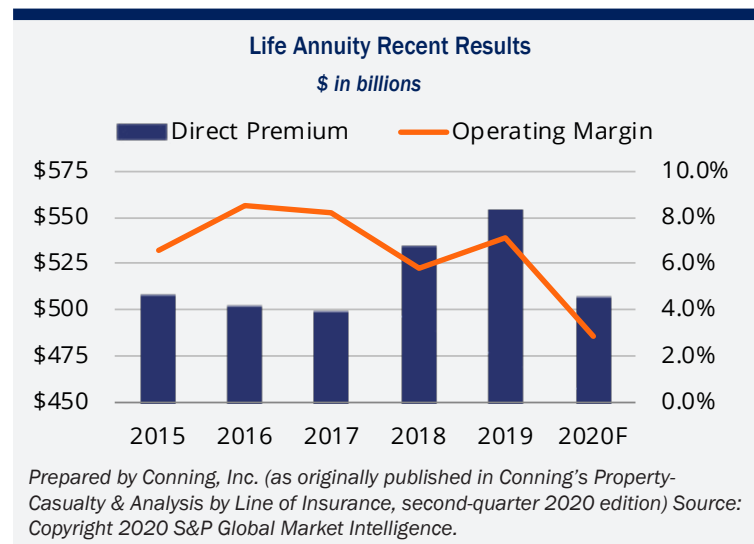
*Effects of the pandemic are widespread and vary by product, but are not the only important recent developments.*

By Terence Martin, FSA, MAAA, Director, Insurance Research, and Alan Dobbins, Director, Insurance Research

### Life-Annuity Trending Topics

**2020 POSES A CHALLENGING OPERATING ENVIRONMENT.** Conning's outlook for the life-annuity industry is for the operating margin decreasing from 7.1% in 2019 to 3.0% in 2020, largely from the COVID-19 pandemic and the associated economic disruption. Life insurers have experienced some excess mortality, but the greater effect has been the slowdown in life insurance sales caused by the elimination of face-to-face meetings with agents and the economic downturn. Our individual life direct premium forecast for 2020 is for a decline of 3.8%, compared to our pre-pandemic estimate of a 1.9% increase. Companies that had previously invested in automated underwriting and electronic sales procedures were better positioned than others.

Figure 1



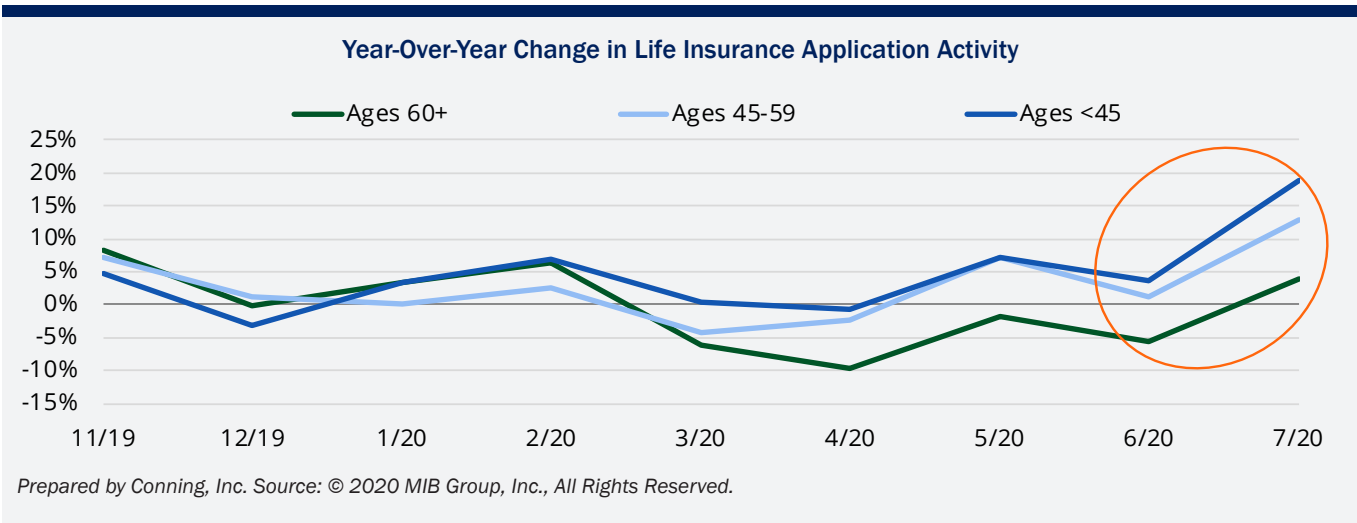
**INCREASED APPLICATIONS--SILVER LINING?** As lockdowns took hold in March 2020, life insurance applications were down due to the inability to complete applications and insurer restrictions. Applications rebounded starting in May 2020, with July's increase the largest in MIB history. History showed a similar pattern of policy growth in 2009-2010, enhanced by the heightened awareness of mortality brought by the pandemic.

**LOW INTEREST RATES DRAGGING INSURER YIELDS LOWER.** In response to the COVID-19 pandemic, the Federal Funds rate was decreased back to the 0.00%-0.25% rate range seen from 2008 to 2015. With the 10-year Treasury yield below 1%, we forecast the life-annuity industry's portfolio rate to continue to decrease, down to 3.81% in 2022.

**M&A ENVIRONMENT SHOWING SIGN OF LIFE.** Two significant transactions were recently announced. KKR intends to acquire Global Atlantic in a transaction valued at \$4.4 billion. Global Atlantic offers primarily fixed and indexed annuities. This will establish a permanent capital vehicle for KKR and will be its first venture into the life-annuity insurance space as anything other than an asset manager. The second significant transaction was Athene acquiring a stake in Jackson National. Athene Holdings invested \$500 million into Jackson in return for an 11.1% economic interest, ahead of Prudential's planned IPO of Jackson. Athene's sidecar, ACRA (Athene Co-Invest Reinsurance Affiliate), will supply 63% of the total capital deployment, with the remaining 37% funded by Athene.

**INDEXED ANNUITIES ARE HOT.** Variable annuities and fixed annuities continue to lose product share against indexed annuities. Customers see indexed annuities as providing higher returns than what is currently available from fixed annuities with less risk than variable annuities.

Figure 2



**REGULATIONS TO FURTHER THREATEN SALES.** The Department of Labor reintroduced its fiduciary rule for ERISA plans in June 2020. The SEC’s regulation “Best Interest” is now effective, requiring broker-dealers to act in the best interest of their retail customers when making a recommendation of any securities-related transaction or investment strategy. These regulations could slow sales as broker-dealers make adjustments and perhaps narrow their product offerings, potentially reducing distribution for some insurers. New York State’s “Reg 187” expands these enhanced suitability rules to life insurance.

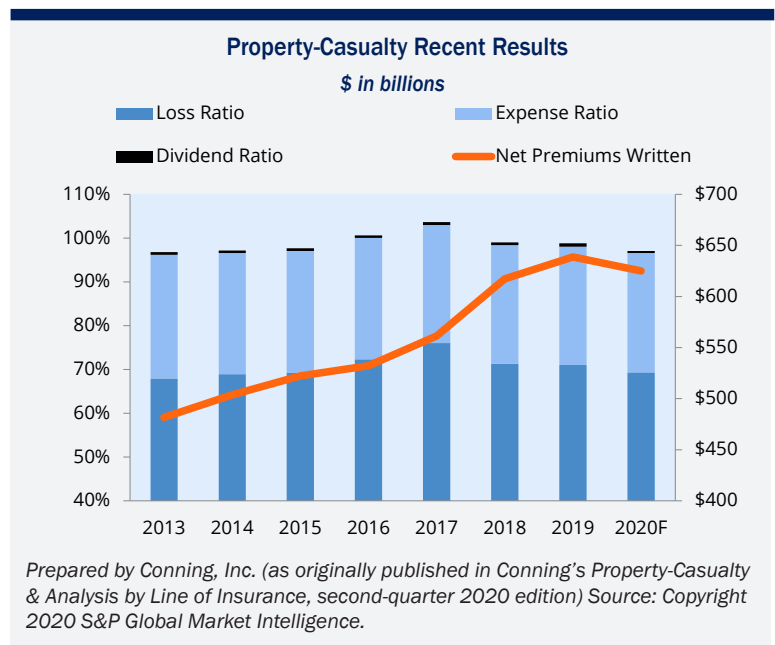
*Life insurance applications saw the largest increase in MIB history in July 2020, driven by a heightened awareness of mortality.*

### Property-Casualty Trending Topics

**OUTLOOK FOR PROPERTY-CASUALTY.** The overall outlook for the property-casualty insurance industry is for a 2% contraction in premium volume during 2020 as the pullback in the economy contributes to slower exposure growth in most lines. A similar 2% reduction in losses is also anticipated, with reduced vehicle travel, reduced opportunity for workplace injuries, and reduced premises and operations exposures from the large swaths of the economy that are slow to emerge from the lockdown.

**UNCERTAINTY REMAINS OVER BUSINESS INTERRUPTION LOSSES.** Most insurers are not projecting significant losses from COVID-19, due to contract wording and specific policy exclusions. While insurers continue to stand behind their policy language, insureds and plaintiff lawyers have begun to investigate the merits of disputing coverage (or lack thereof). As of August, the University of Pennsylvania estimates more than 700 coverage lawsuits filed for business interruption, with many more expected over the next one to two years.

Figure 3



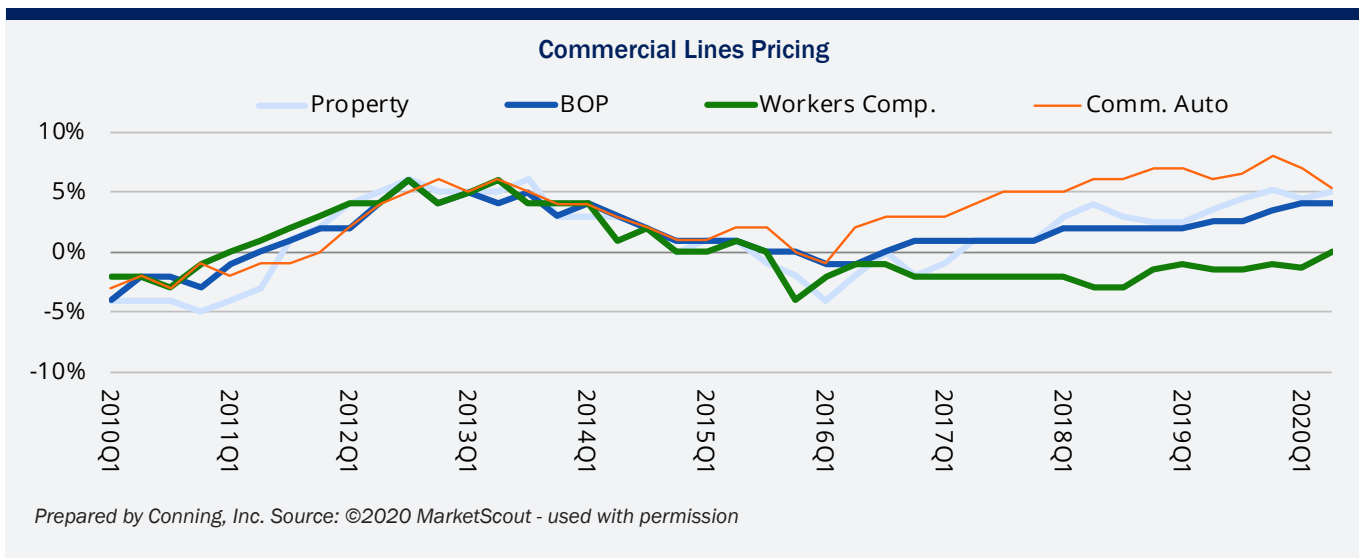
**HARDENING MARKET FOR COMMERCIAL.** Prior to the pandemic, there were already multiple upward pressures on insurance rates, including interest rates at historic lows, tightening reinsurance terms, and troubling loss trends in the liability lines. Rate increases are accelerating into 2020 in most commercial lines, while competitive conditions persist in personal lines. The largest increases are in commercial property, specialty accounts, and professional liability, especially large account D&O, though hardening is extending to almost all lines other than workers' compensation.

*The overall outlook for the property-casualty insurance industry is for a 2% contraction in premium volume during 2020*

**CAPITAL MARKETS ACTIVE.** In spite of volatility in the financial markets, there is insurer-driven activity in the capital markets, with both private and public capital being raised to take advantage of opportunities presented by the hardening market. The Lemonade IPO in July demonstrated strong demand for innovative insurance solutions among investors. While merger and acquisition counts are down in the current environment, insurance transactions are still taking place, as evidenced by Allstate's acquisition of National General and the recently announced merger of Third Point Re and Sirius Group.

**DECREASING PORTFOLIO YIELDS.** Although insurer portfolios have largely recovered from first-quarter lows, interest rates have dropped to much lower levels. The longer-term concern is reduced portfolio income, which places more emphasis on underwriting discipline.

**Figure 4**





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