



# The State of the L/H Insurance Industry

Alabama I-Day  
Tuscaloosa, AL  
September 30, 2010

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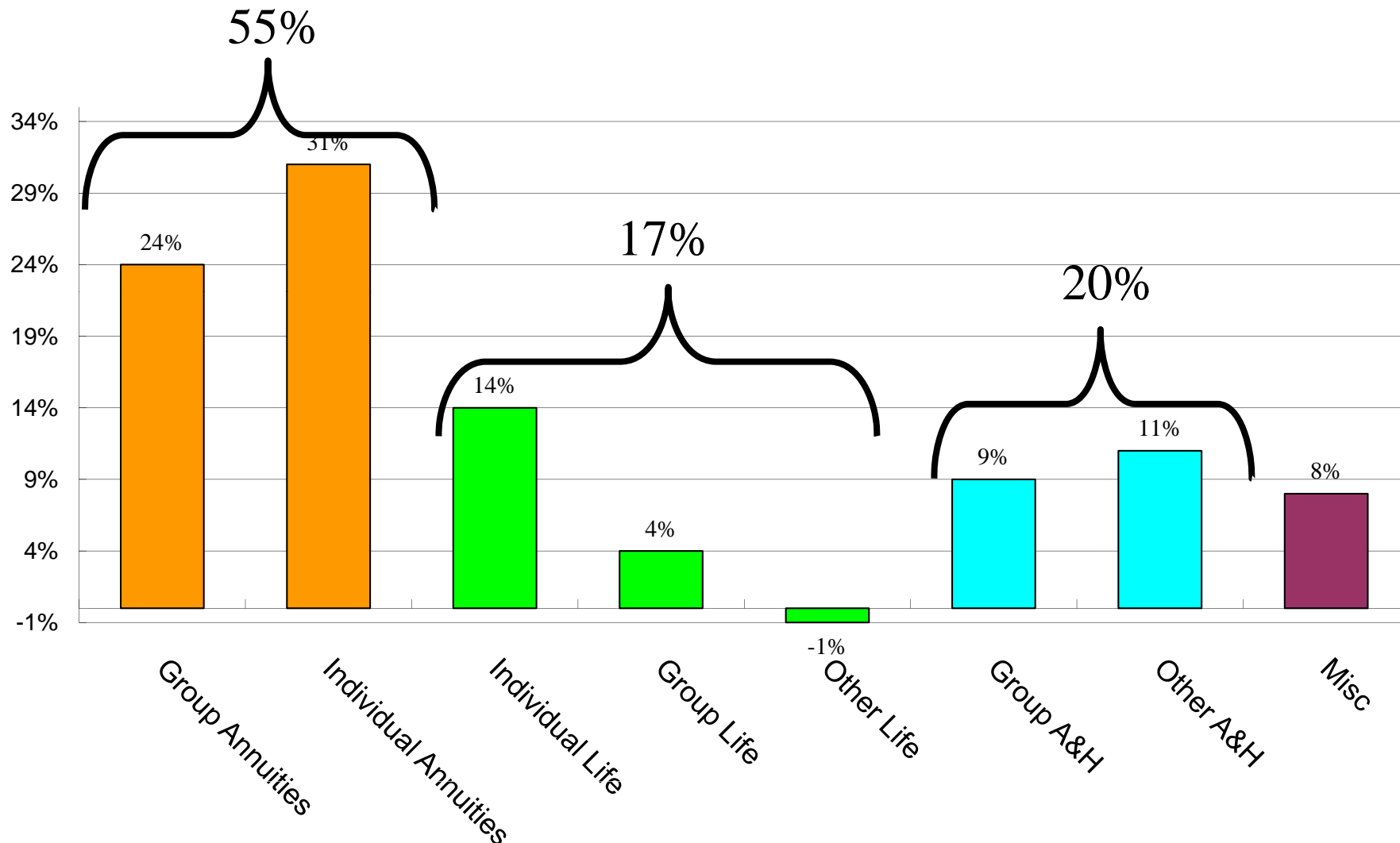
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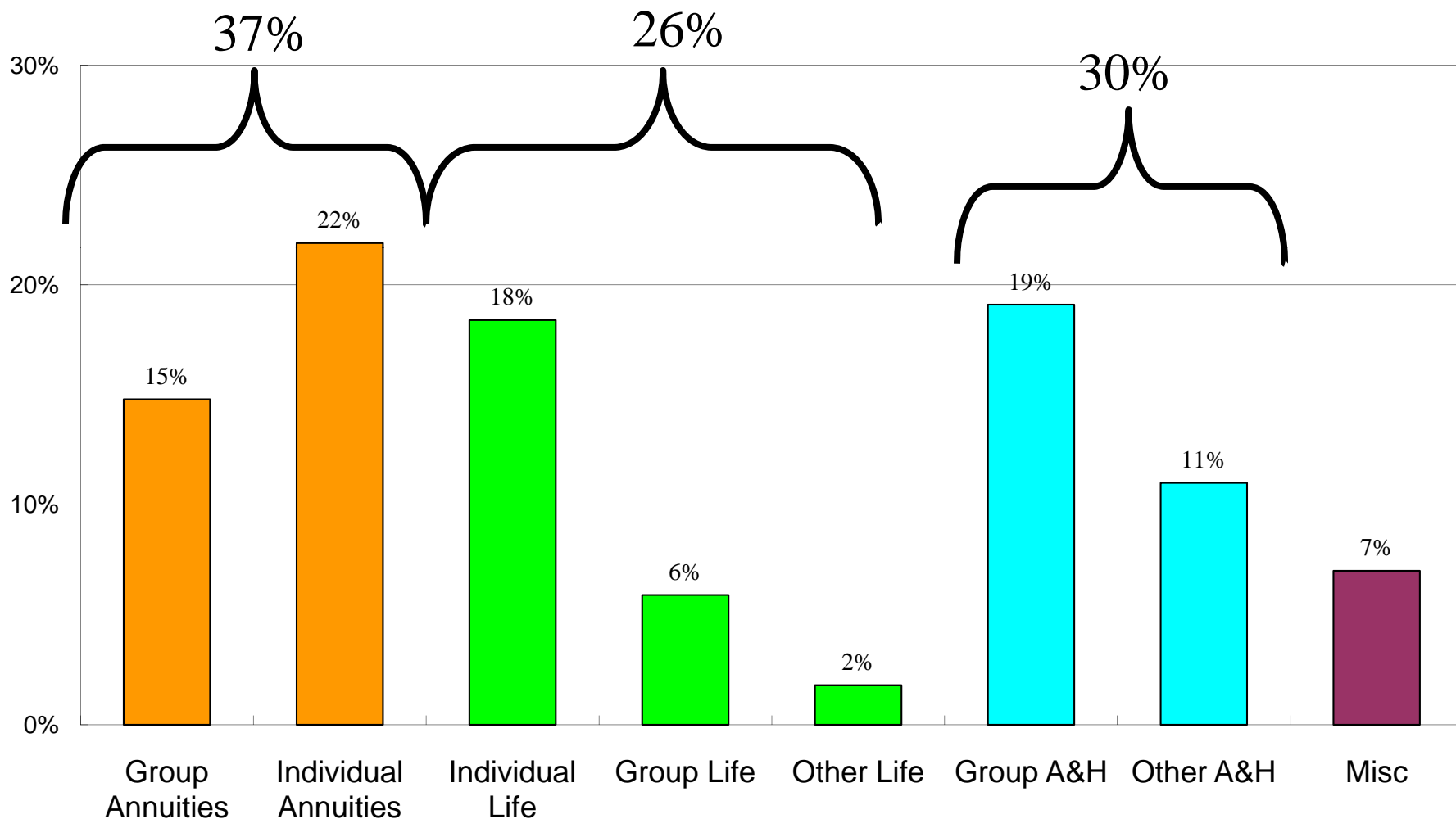
# **Profits: Don't Call It the “Life Insurance” Industry**

**Annuities Provide  
the Majority of Industry Profits**

# U.S. Life Insurance Industry Profit Sources, by Percent, 2009

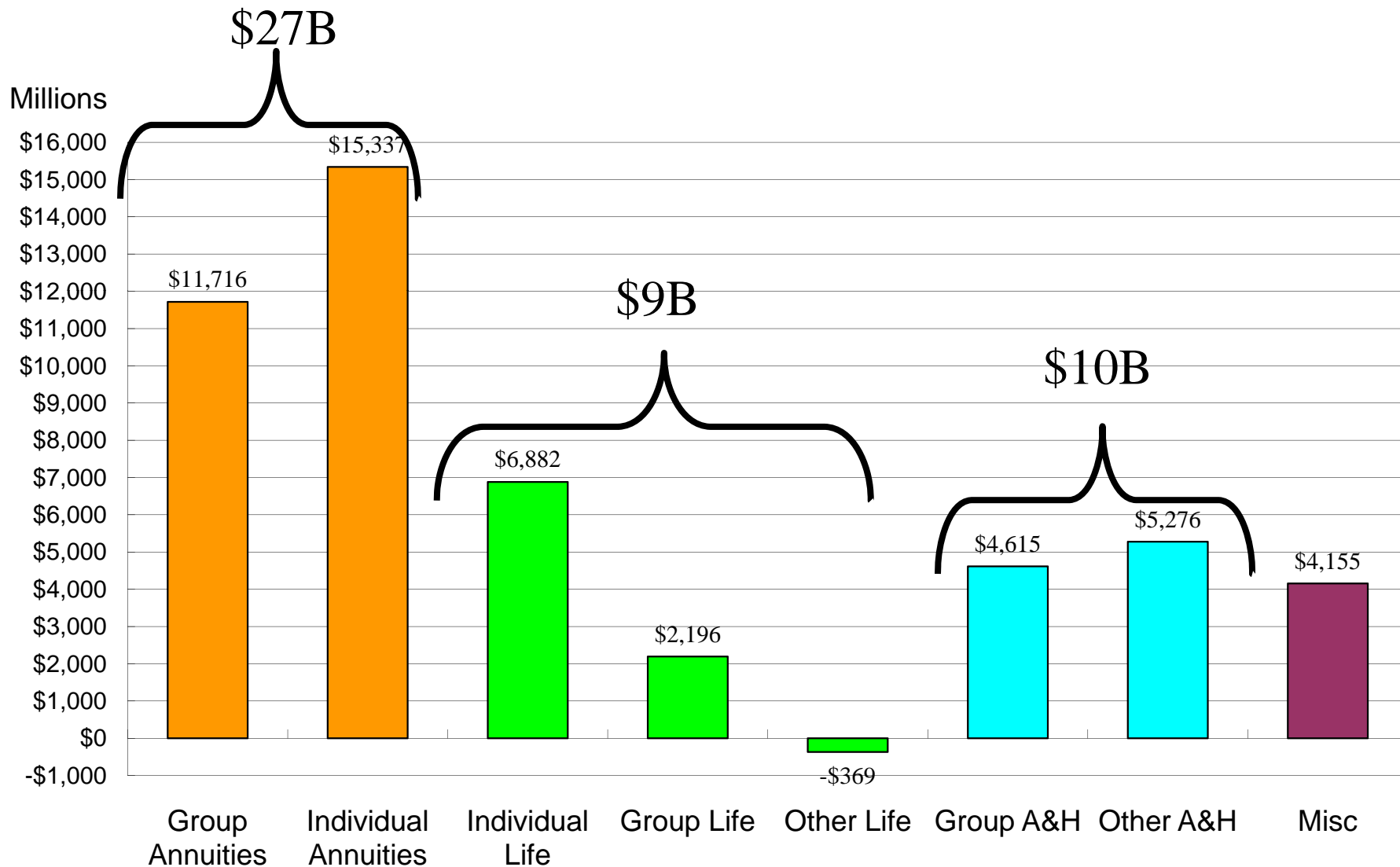


# U.S. Life Insurance Industry Profit Sources, 2007

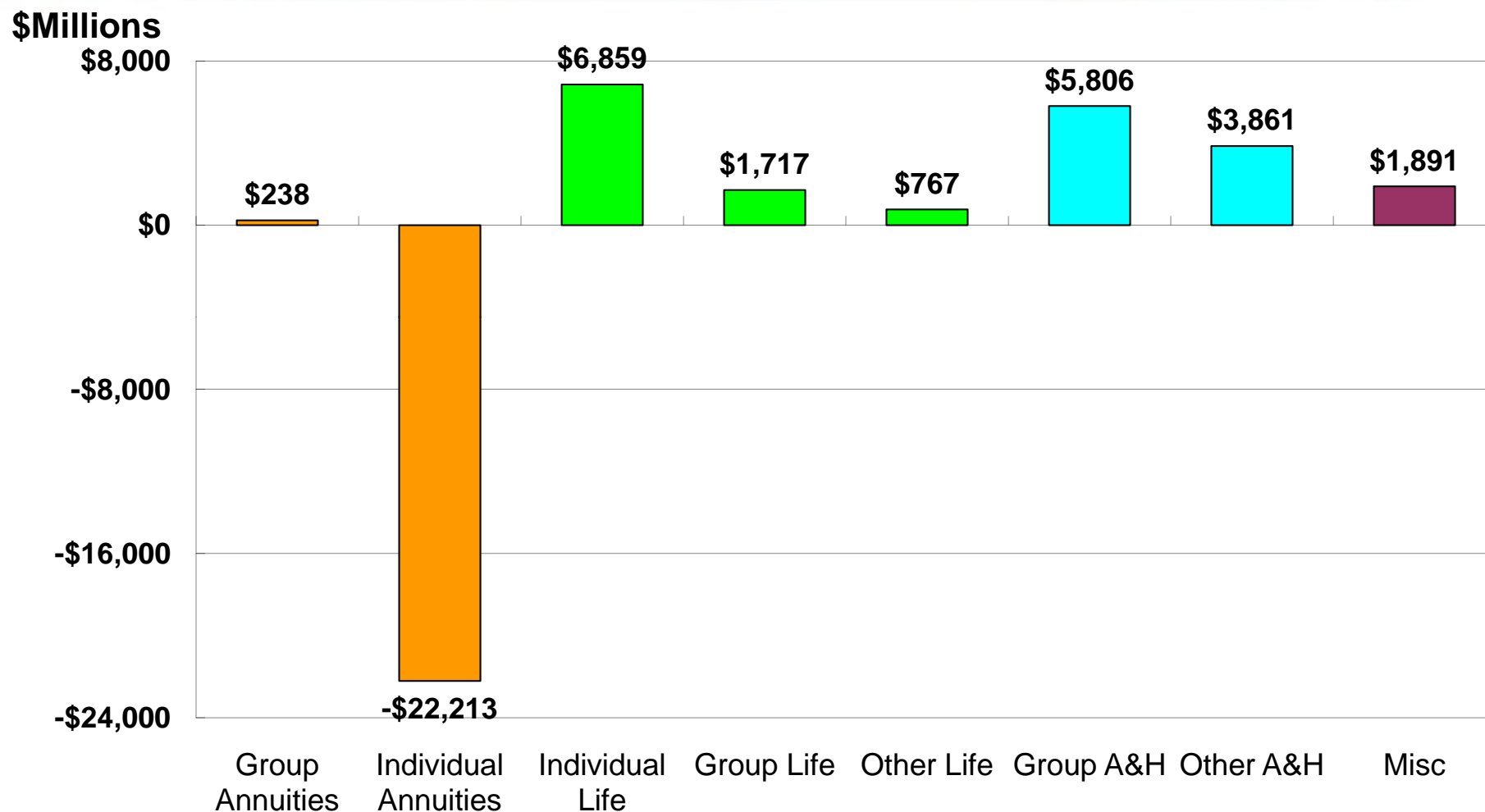


Source: NAIC Annual Statements, p. 6, from National Underwriter HighlineData; I.I.I. calculations.

# Dollars of Profit by Line of Business, 2009

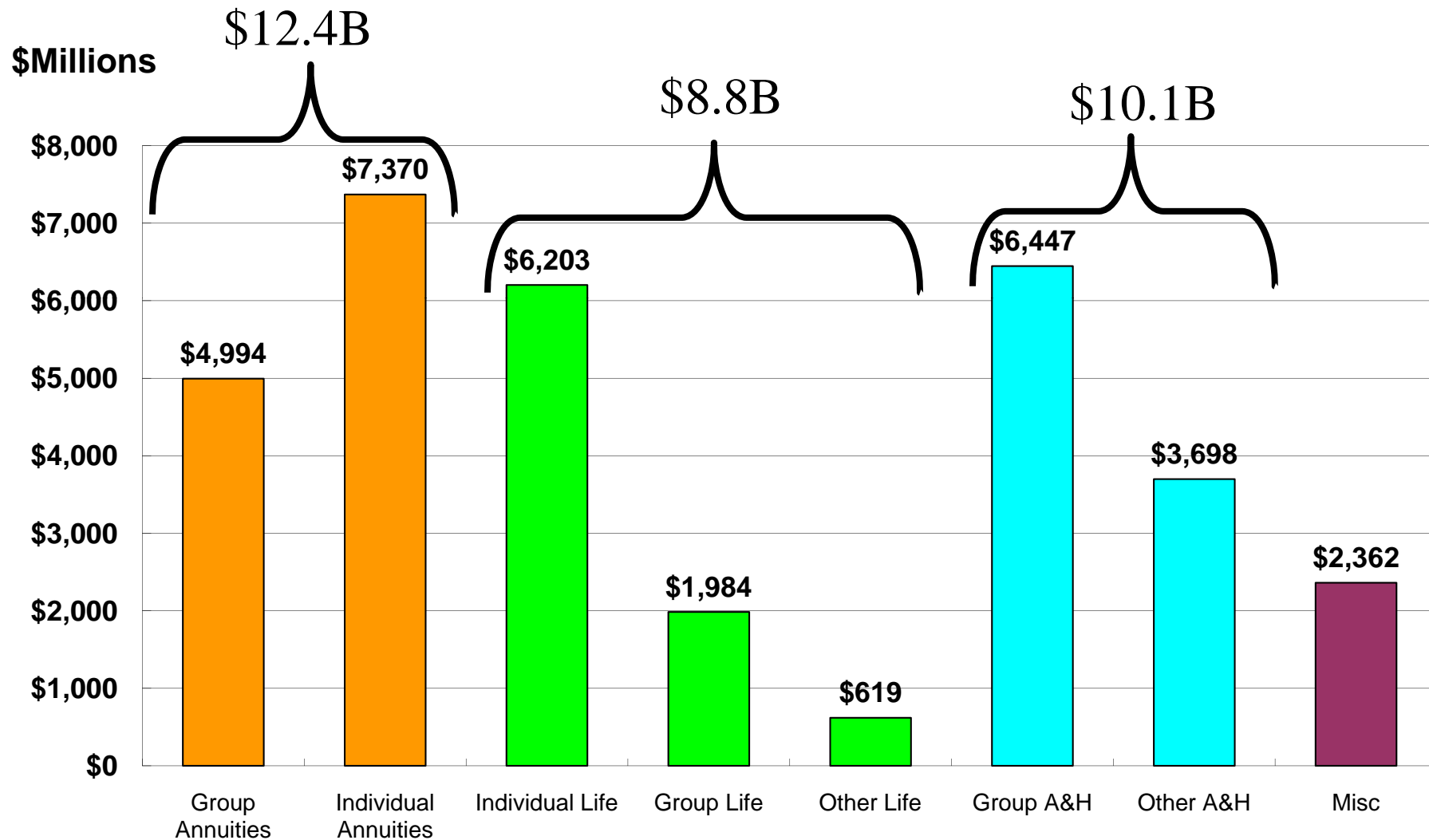


# Dollars of Profit by Line of Business, 2008



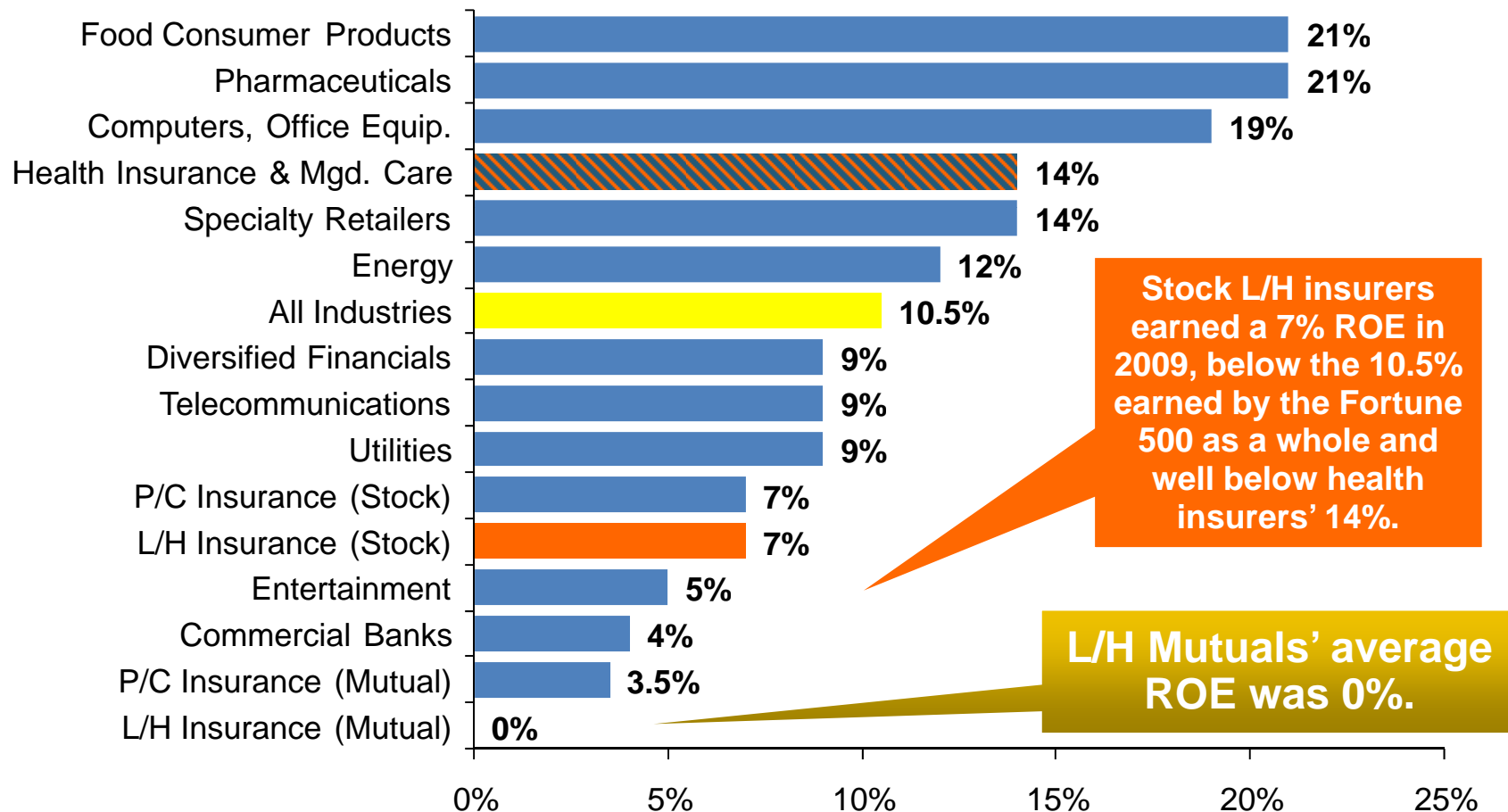
**From a Profit Perspective, Annuities is a Volatile Line of Business.  
After a \$22+B Loss in 2008, it Gained \$27B in 2009**

# Dollar of Profit by Line of Business, 2007

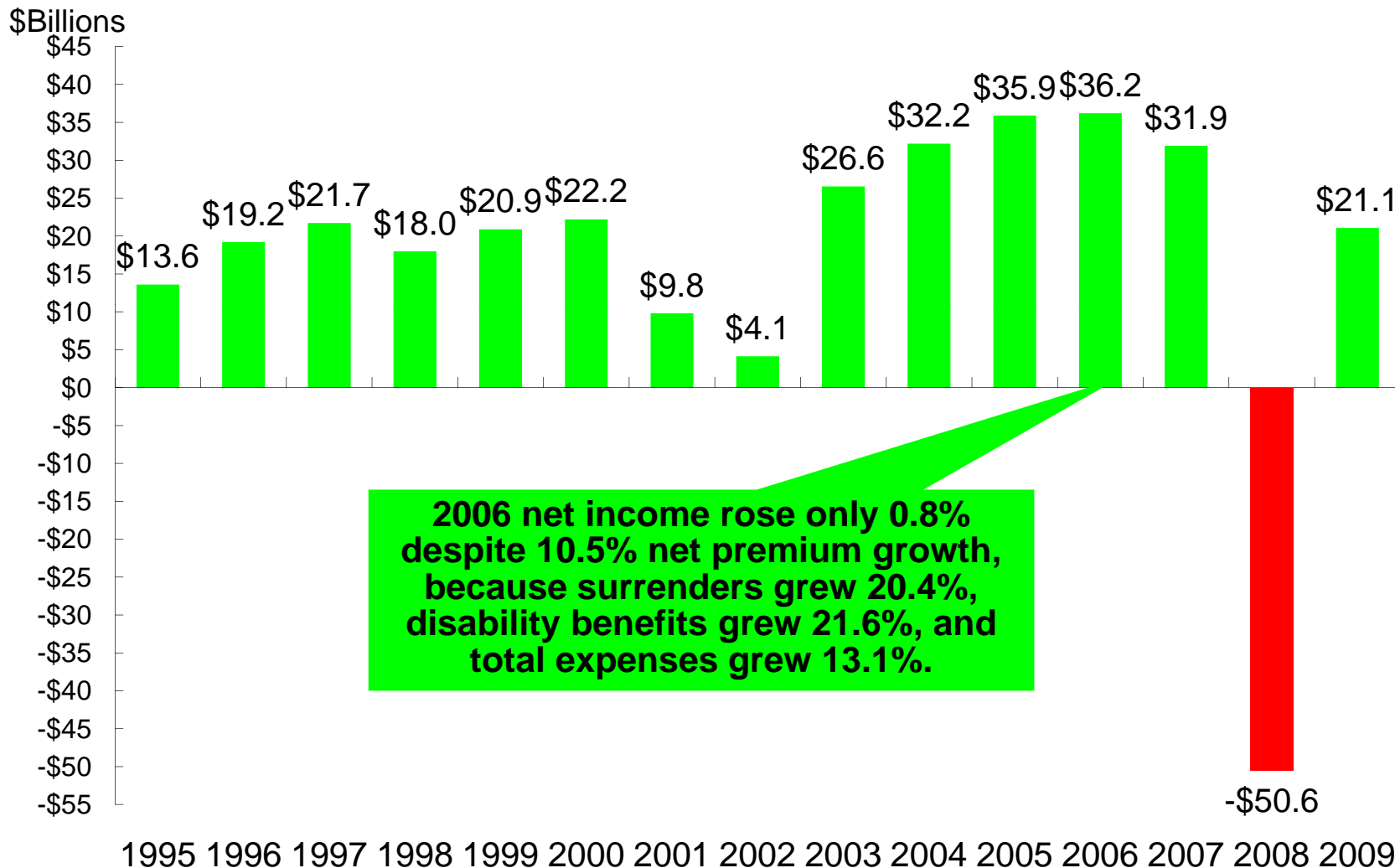


# Median ROE for Insurers vs. Financial Firms and Other Key Industries 2009

(Profits as a % of Stockholders' Equity)

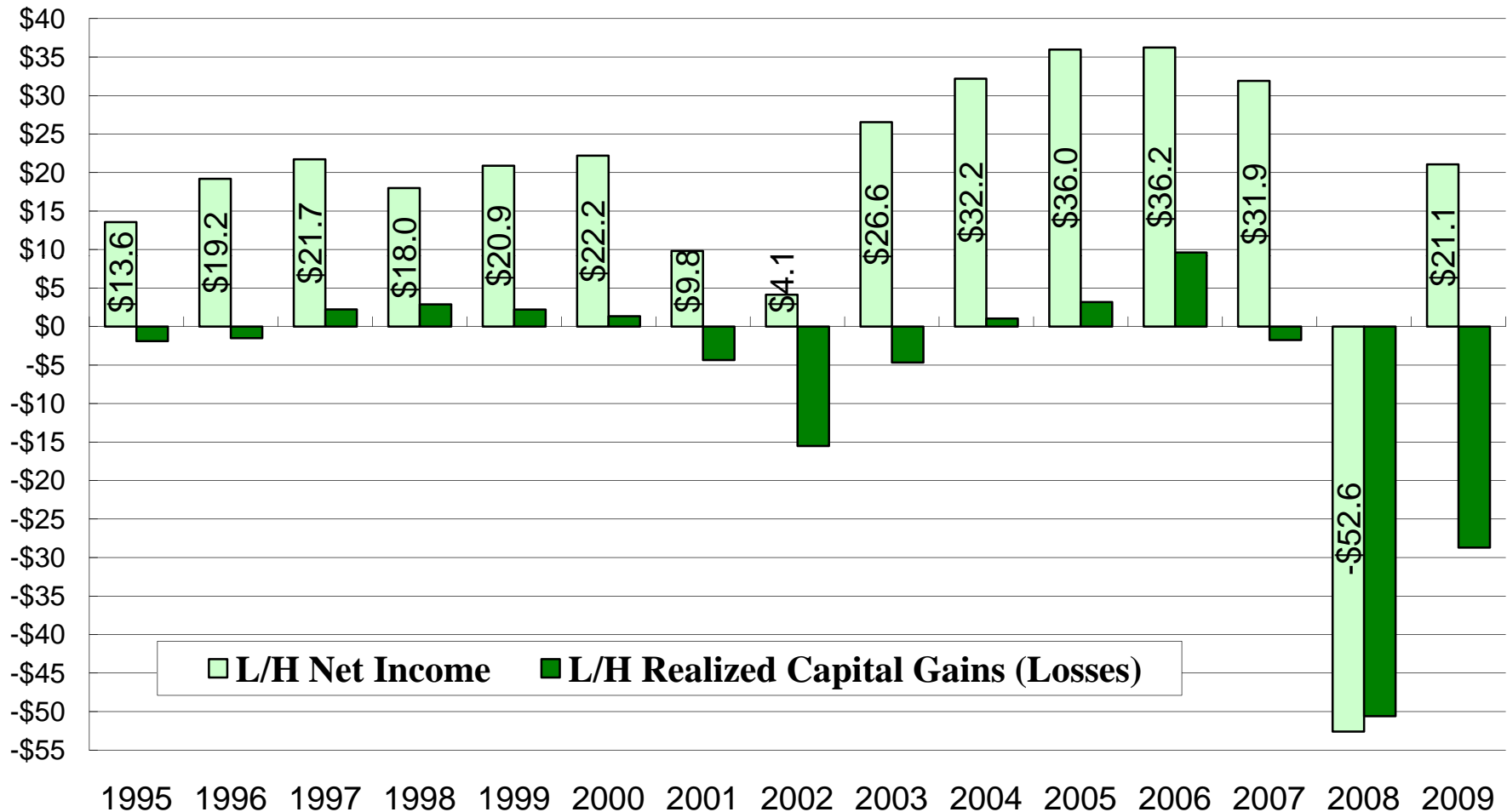


# L/H Industry Net Income, 1995-2009



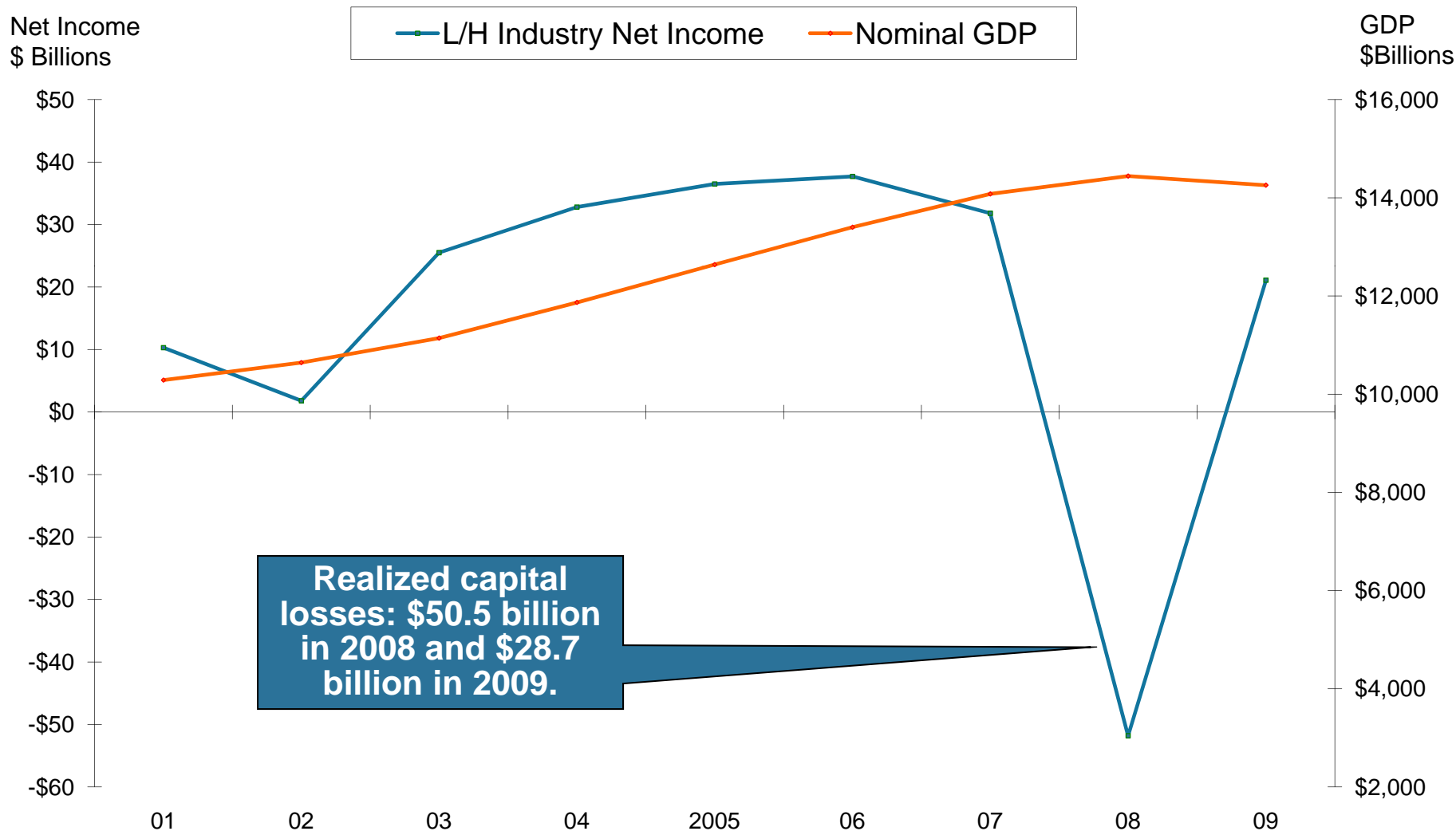
Source: NAIC Annual Statements, p.4, line 35, from National Underwriter HighlineData.

# Recently, Realized Capital Losses Have Depressed Net Income



Source: NAIC Annual Statement data, Summary of Operations and Exhibit of Capital Gains (Losses) from Highline National Underwriter

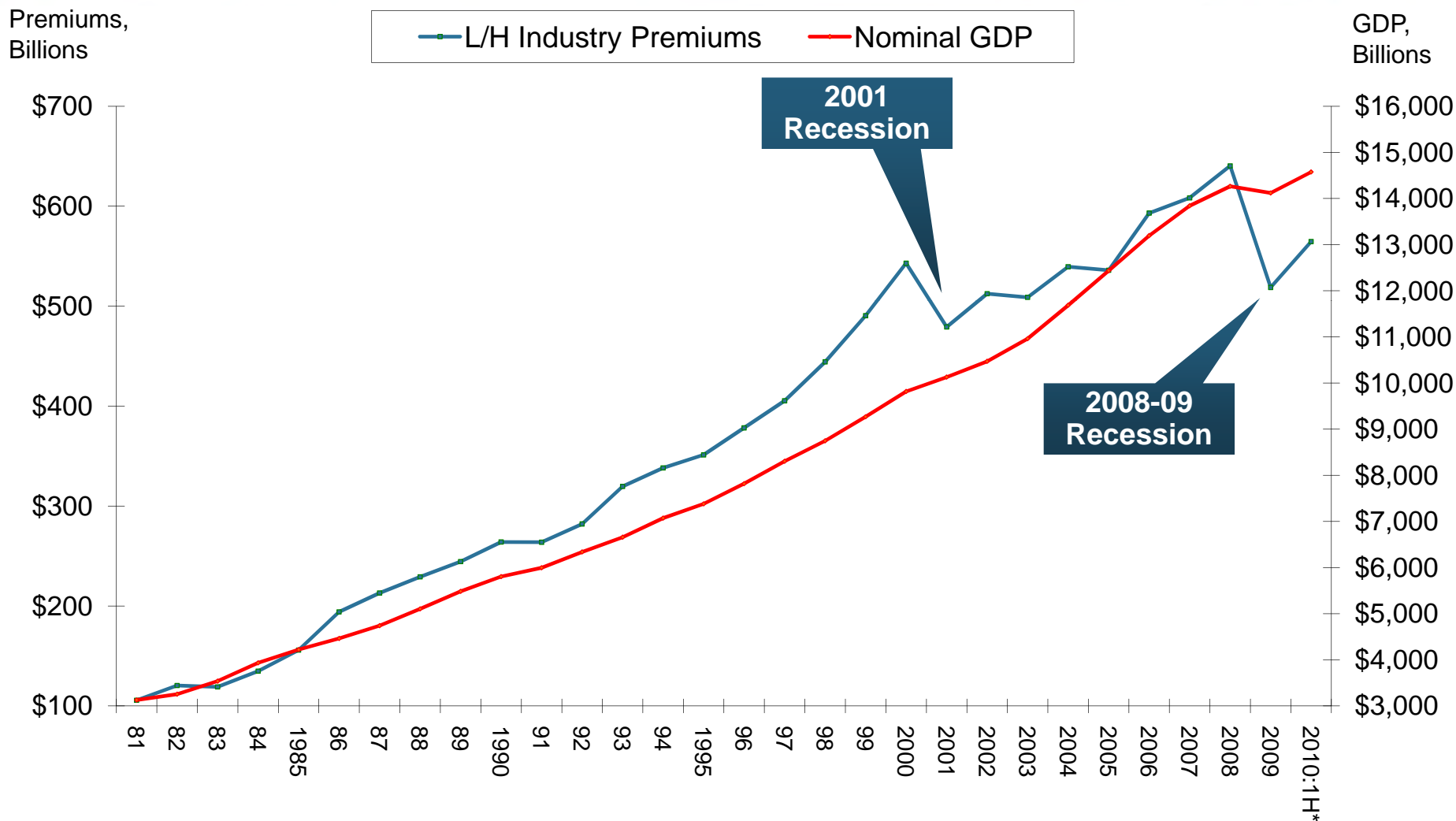
# U.S. GDP vs. L/H Industry Net Income: Fairly Strong Association





# Revenues and Revenue Drivers

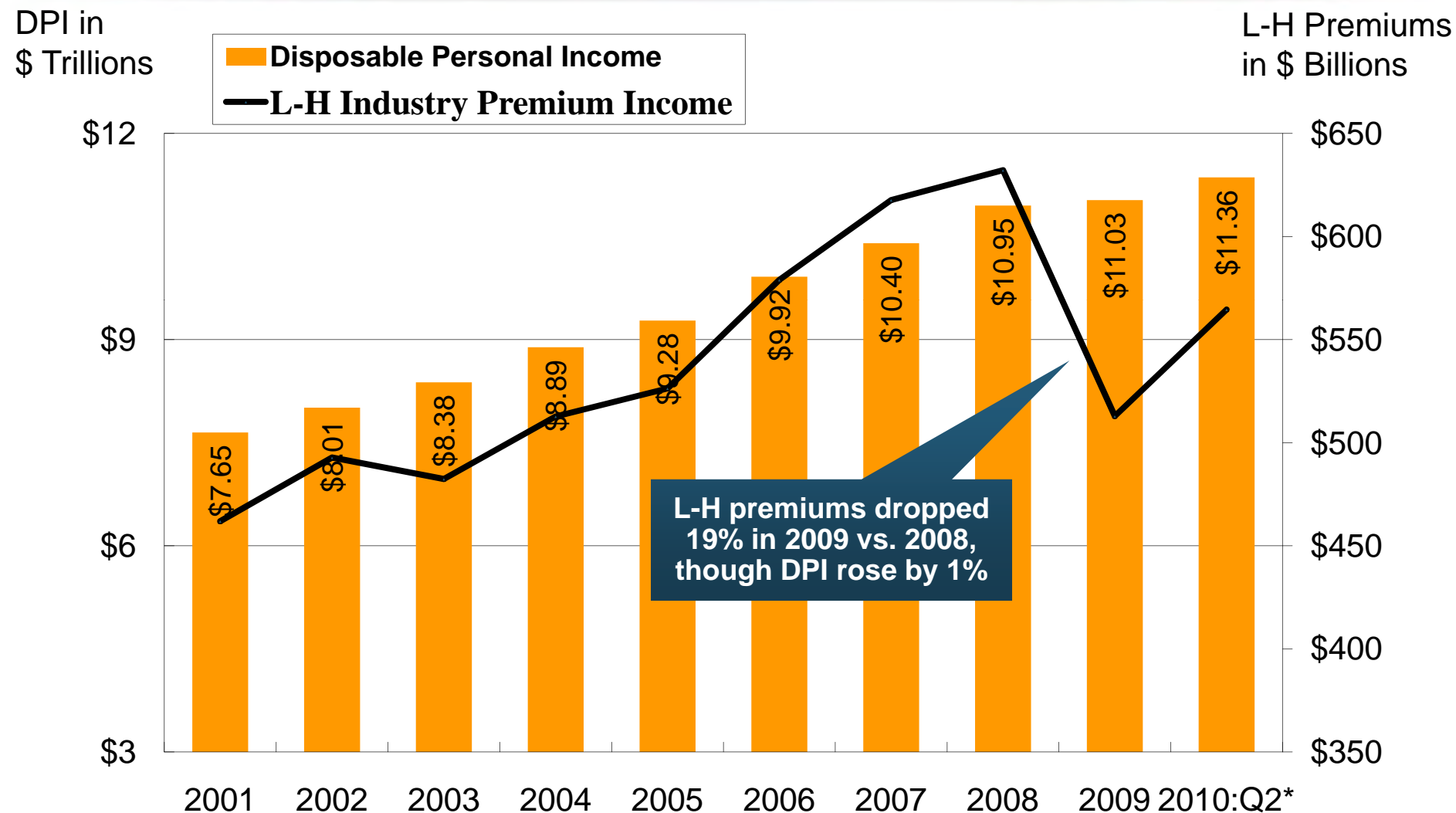
# U.S. GDP vs. L/H Premiums: Fairly Strong Association



\*Annualized

Sources: <http://www.bea.gov/national/xls/gdplev.xls> , NAIC Annual Statement data, via SNL Financial; I.I.I. calculations

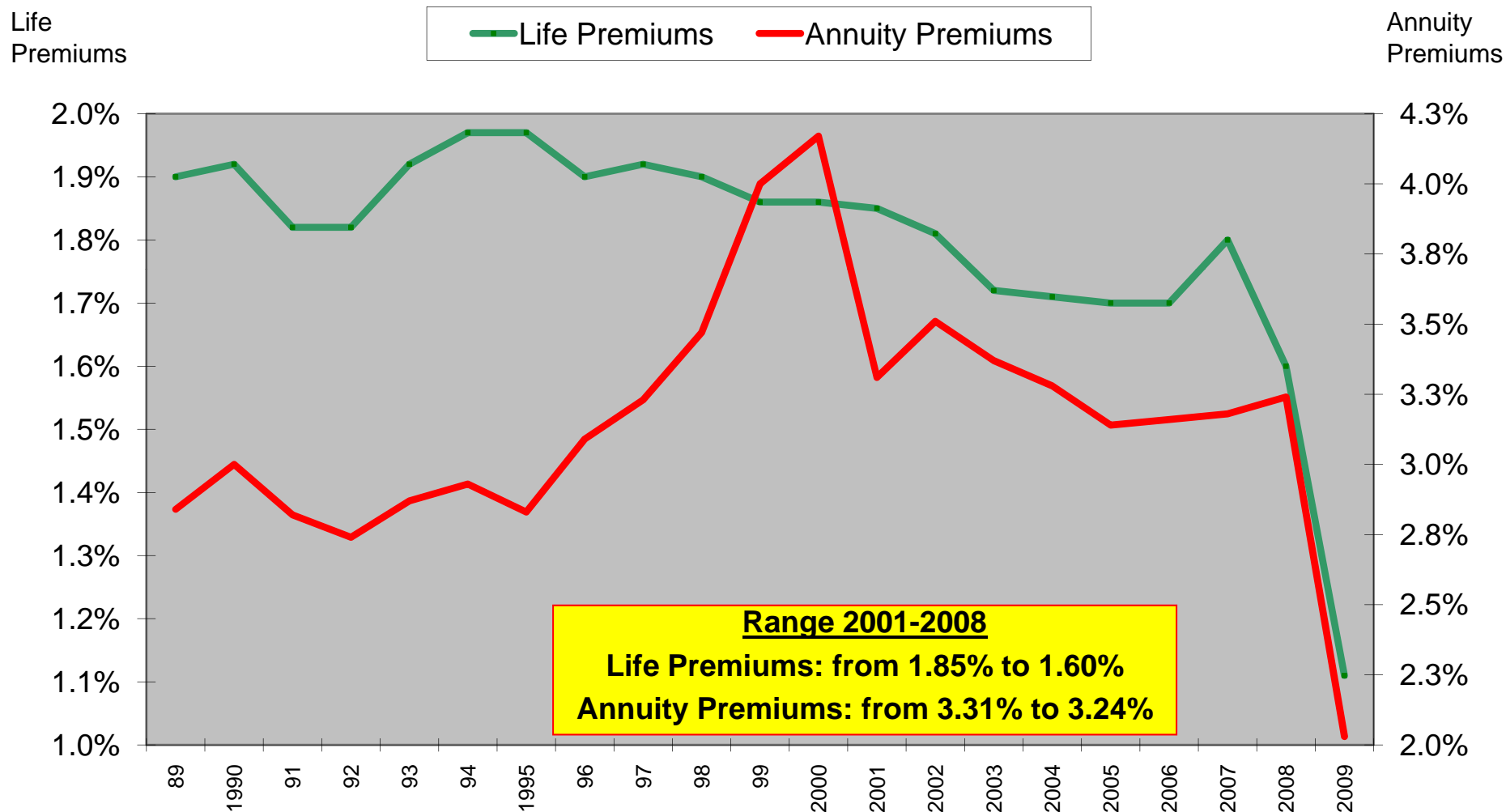
# L/H Industry Premiums Generally Track Disposable Personal Income



\*seasonally adjusted at annualized rates

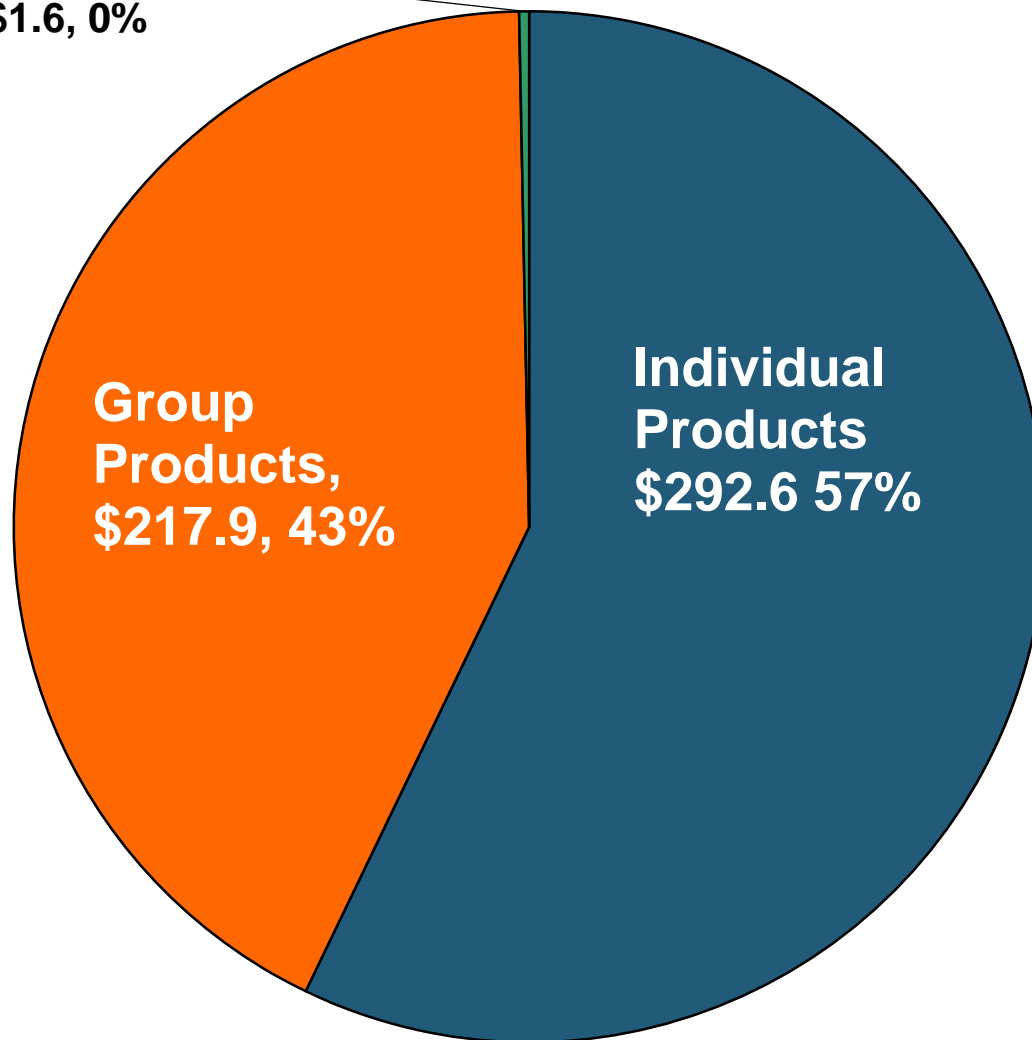
Sources: [www.bea.gov](http://www.bea.gov) and SNL Financial

# As a Percent of Personal Disposable Income, Life & Annuity Premiums Plunged in 2009



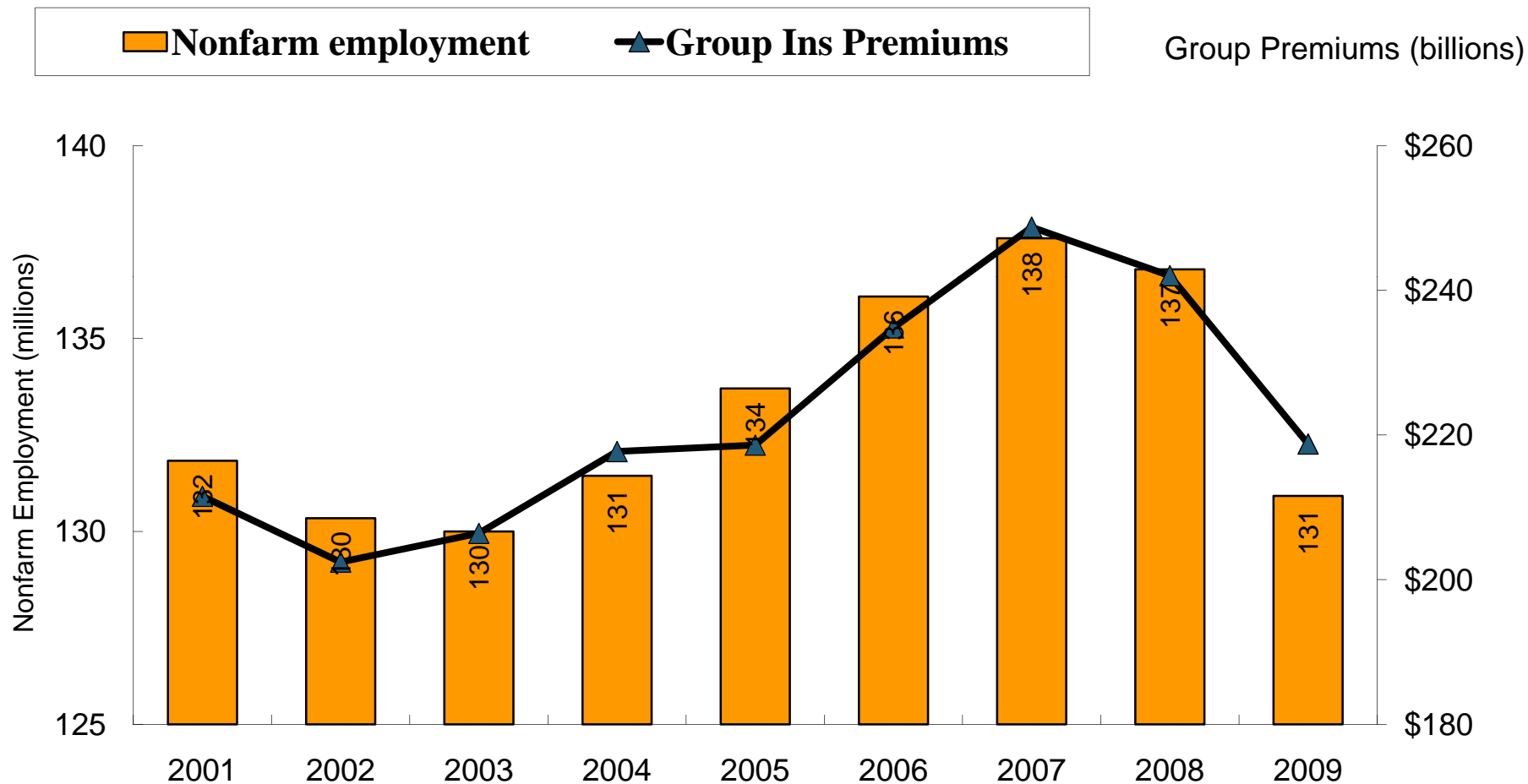
# L-H Direct Premiums by Market, (\$ Billions) 2009

Some of Each,  
\$1.6, 0%

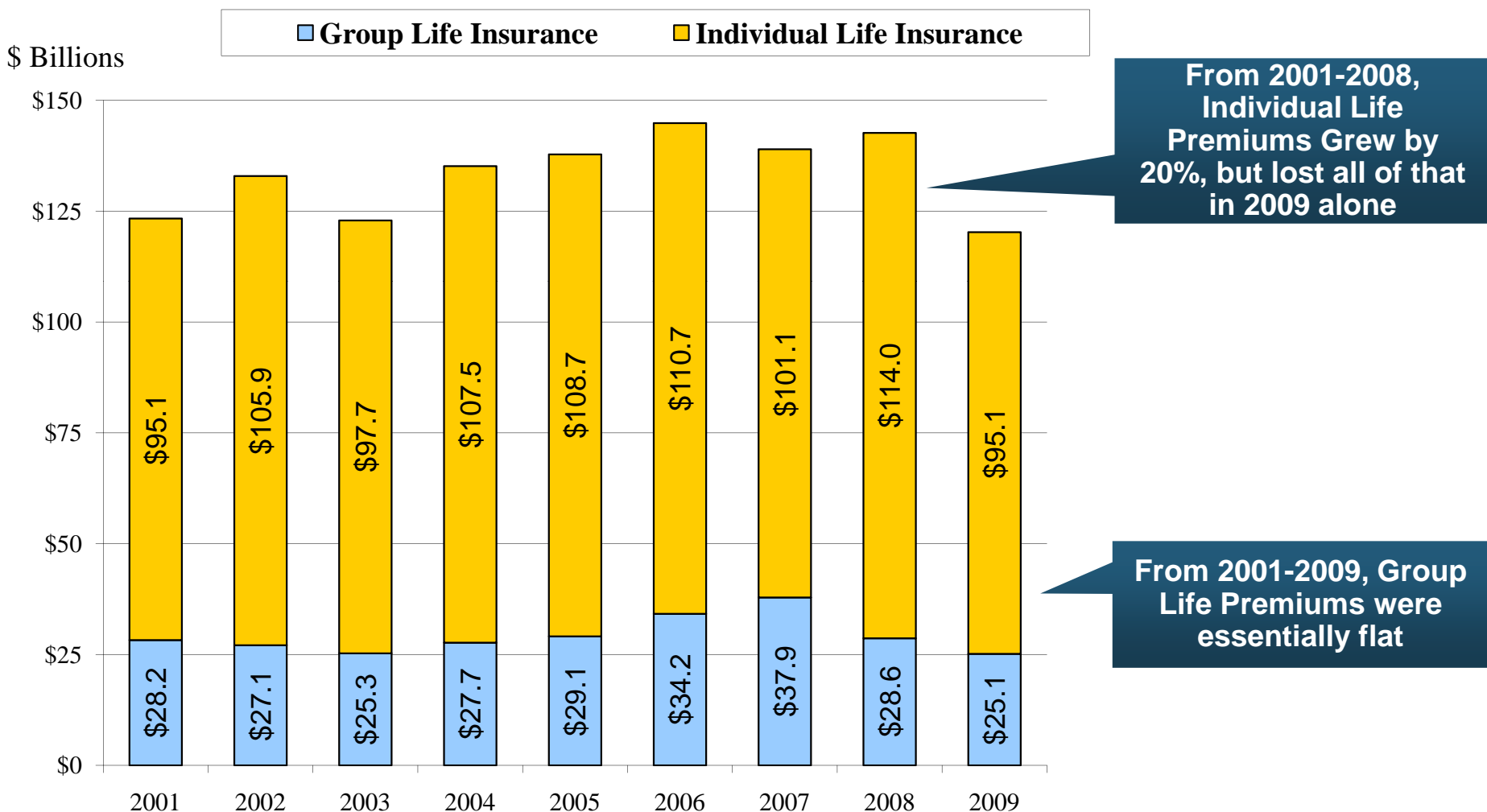


Products sold to individuals accounted for nearly three-fifths of all 2009 life-health insurance premiums.

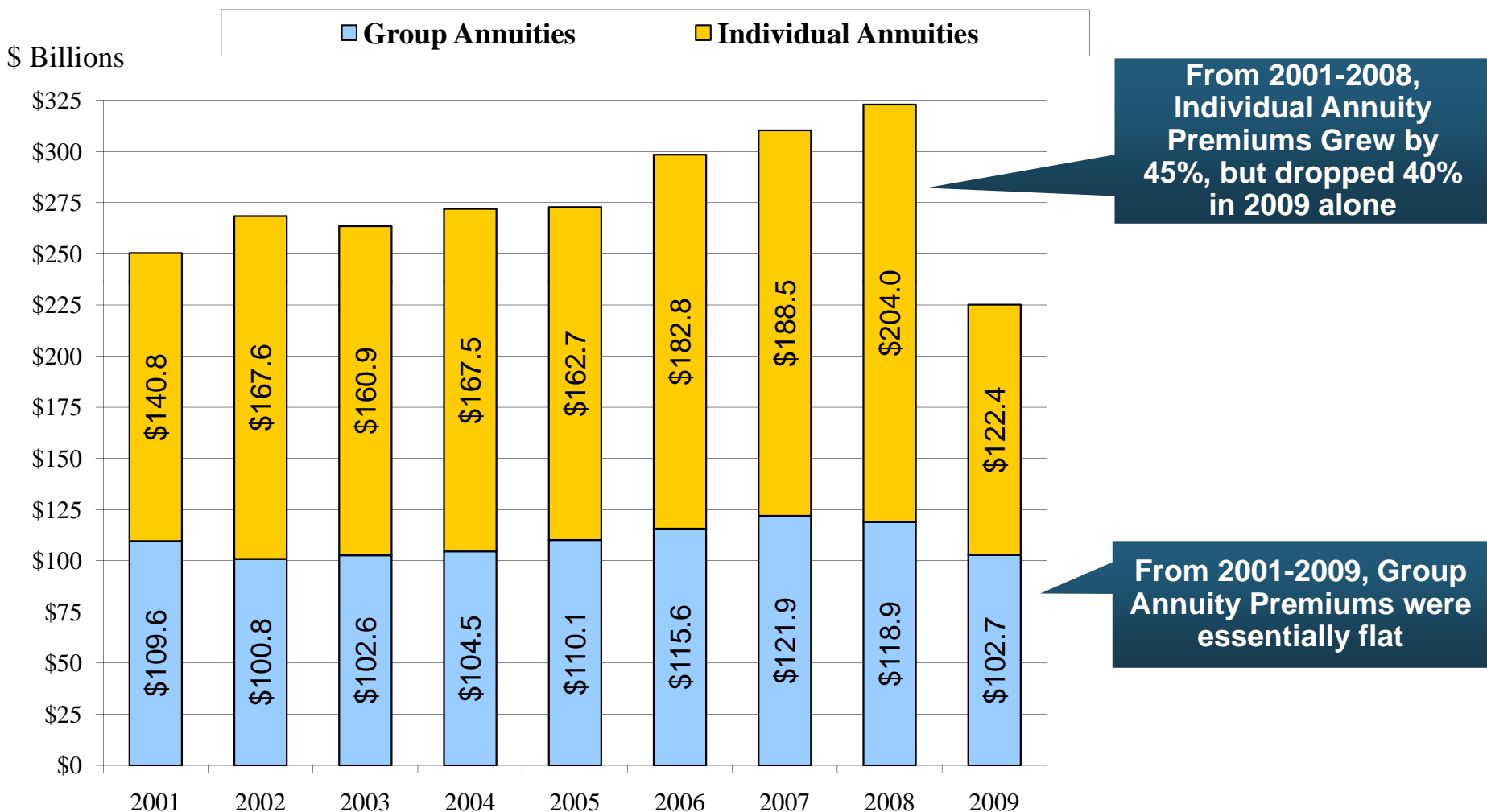
# Group Insurance Premiums (line) Follow Nonfarm Employment (bars)



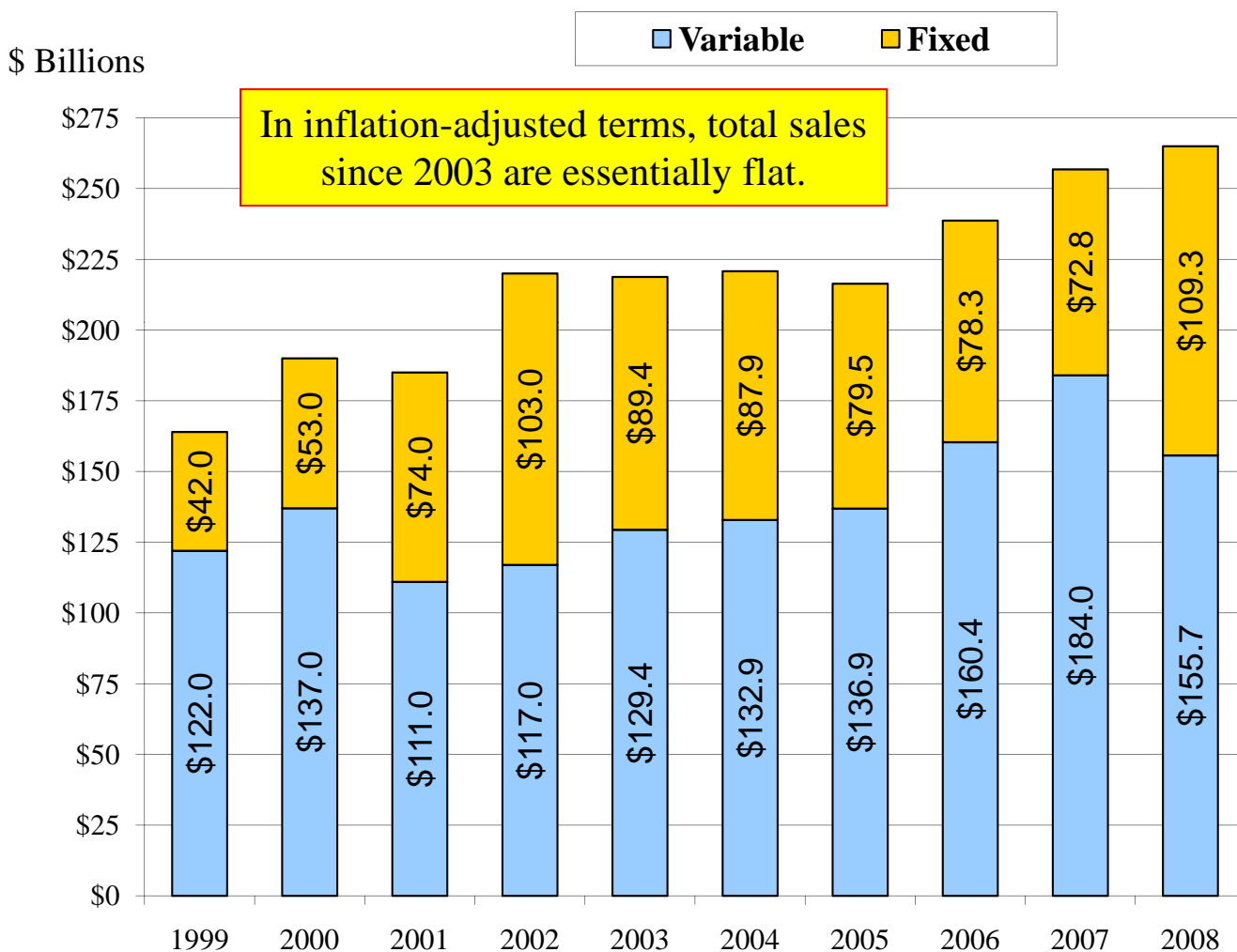
# Life Insurance Premiums, 2001-2009



# Annuity Premiums, 2001-2009



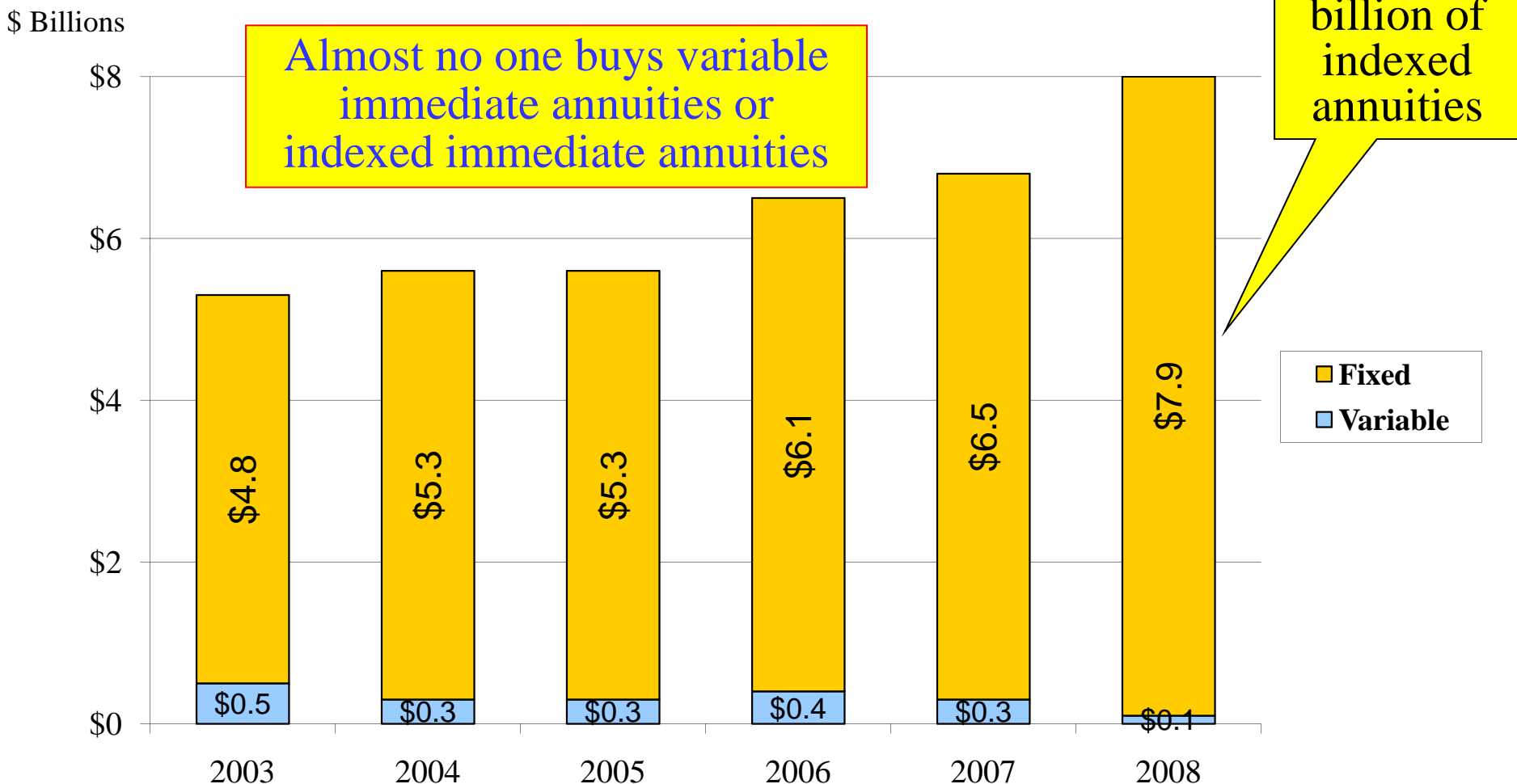
# Deferred + Immediate Individual Annuity Sales, 1999-2008



Fixed annuity sales spike when the stock market tumbles

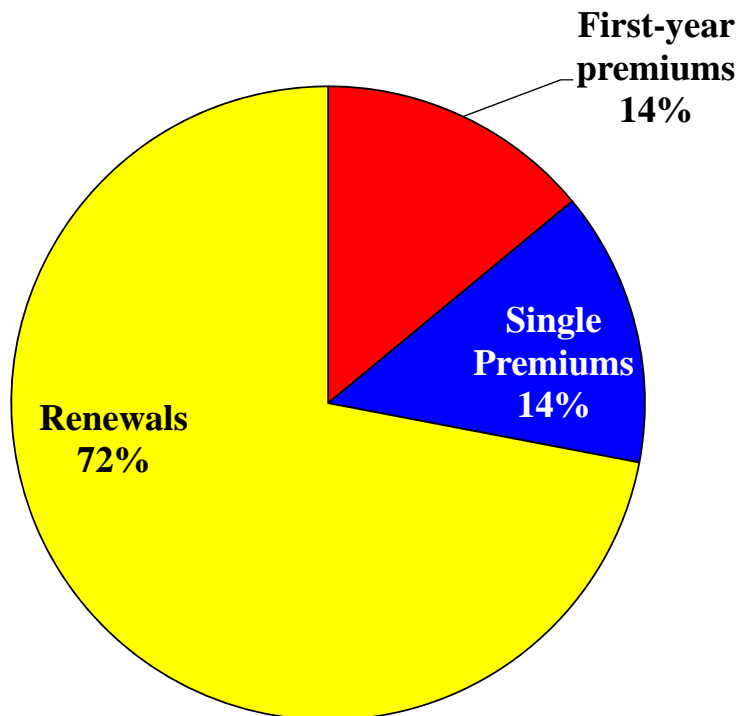
Variable sales dropped after the stock market plunge in 2000 but recovered by 2004. 2006 was a record year, up 17%. 2007 was up 15% over 2006. 2008 sales dropped by 15%.

# Individual Immediate Annuity Sales, 2003-2008

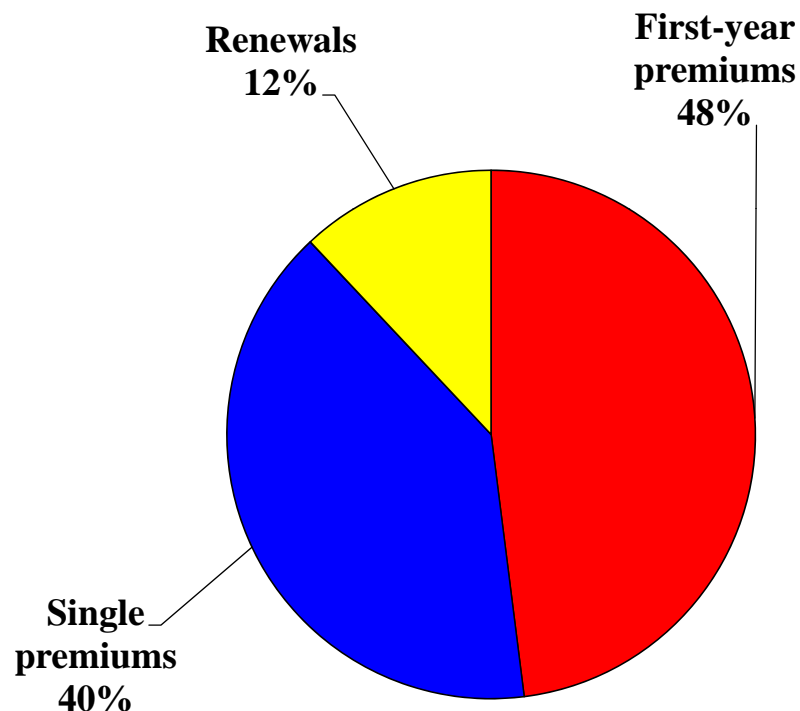


# Reliance on 1<sup>st</sup>-year and Single Premiums, by Line of Business, 2009

## Individual Life Insurance



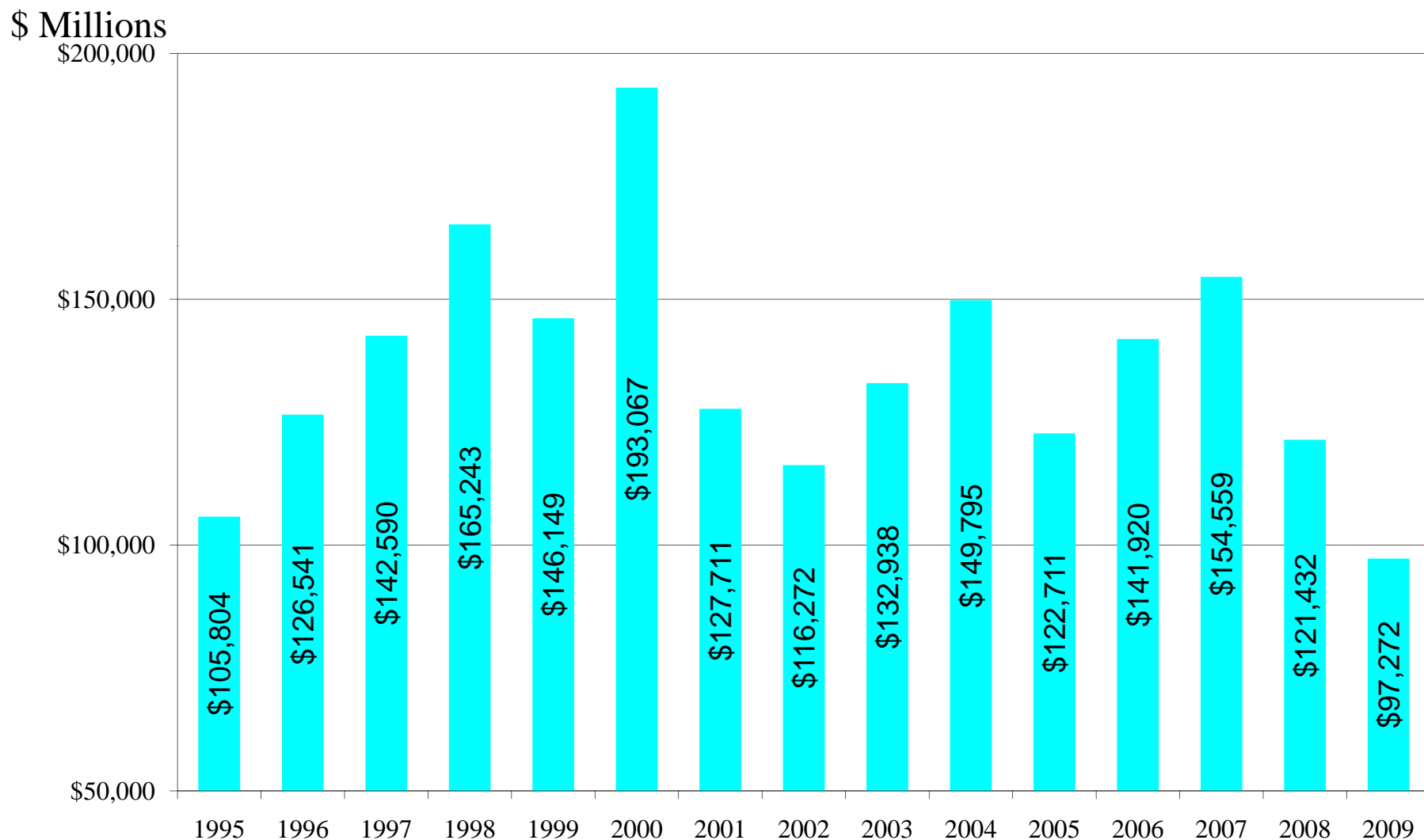
## Individual Annuities



**The Individual Annuity Line Depends Much More on Single Premiums than Does the Individual Life Insurance Line**

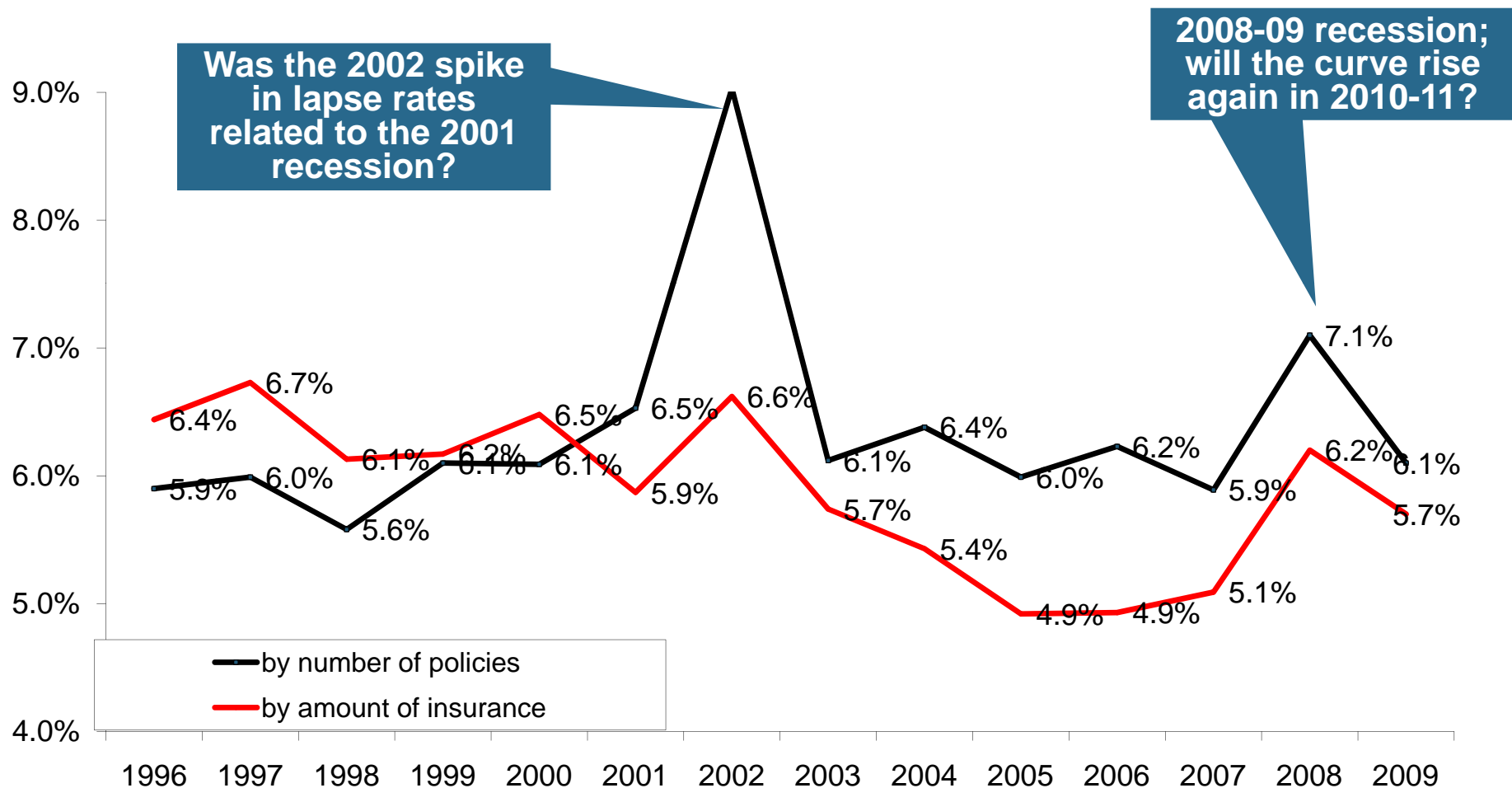
# Expenses

# Life Insurer Operating Expenses, (excl. Commissions) 1995-2009



Source: Best's Aggregates and Averages, Life/Health, 2010 Edition, p. 172

# Ordinary Life Insurance Lapse Rates, 1996-2009



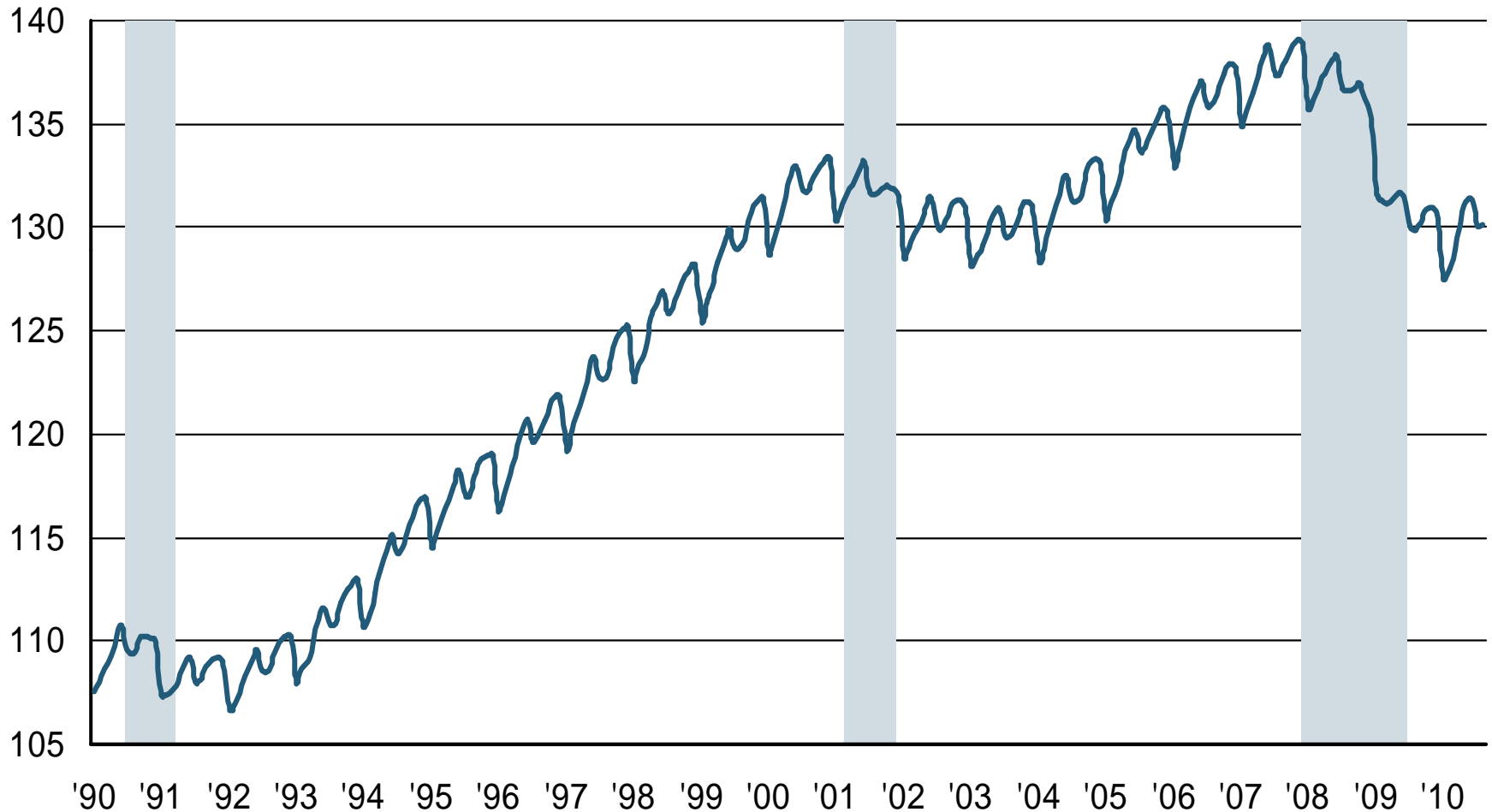
Sources: NAIC Annual Statements, p. 25 line 15 (lapses) and average of lines 1 and 21, from National Underwriter HighlineData; I.I.I. calculations



# Baselines: U.S. Employment Trends

# U.S. Nonfarm Employment, Monthly, 1990–2010\*

Millions



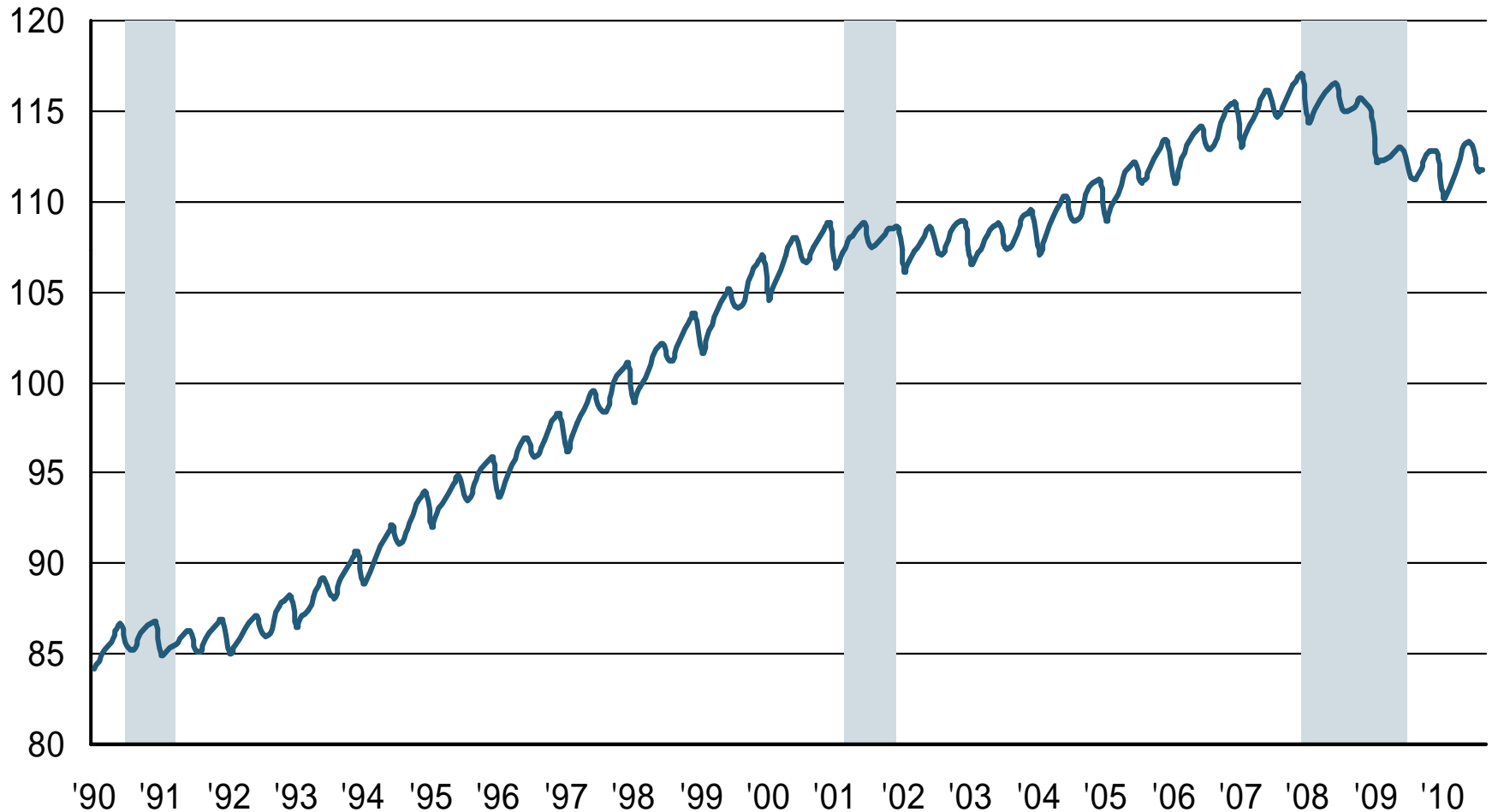
\*As of August 2010; Not seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Employment in Service Industries, Monthly, 1990–2010\*

Millions



\*As of August 2010; Not seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

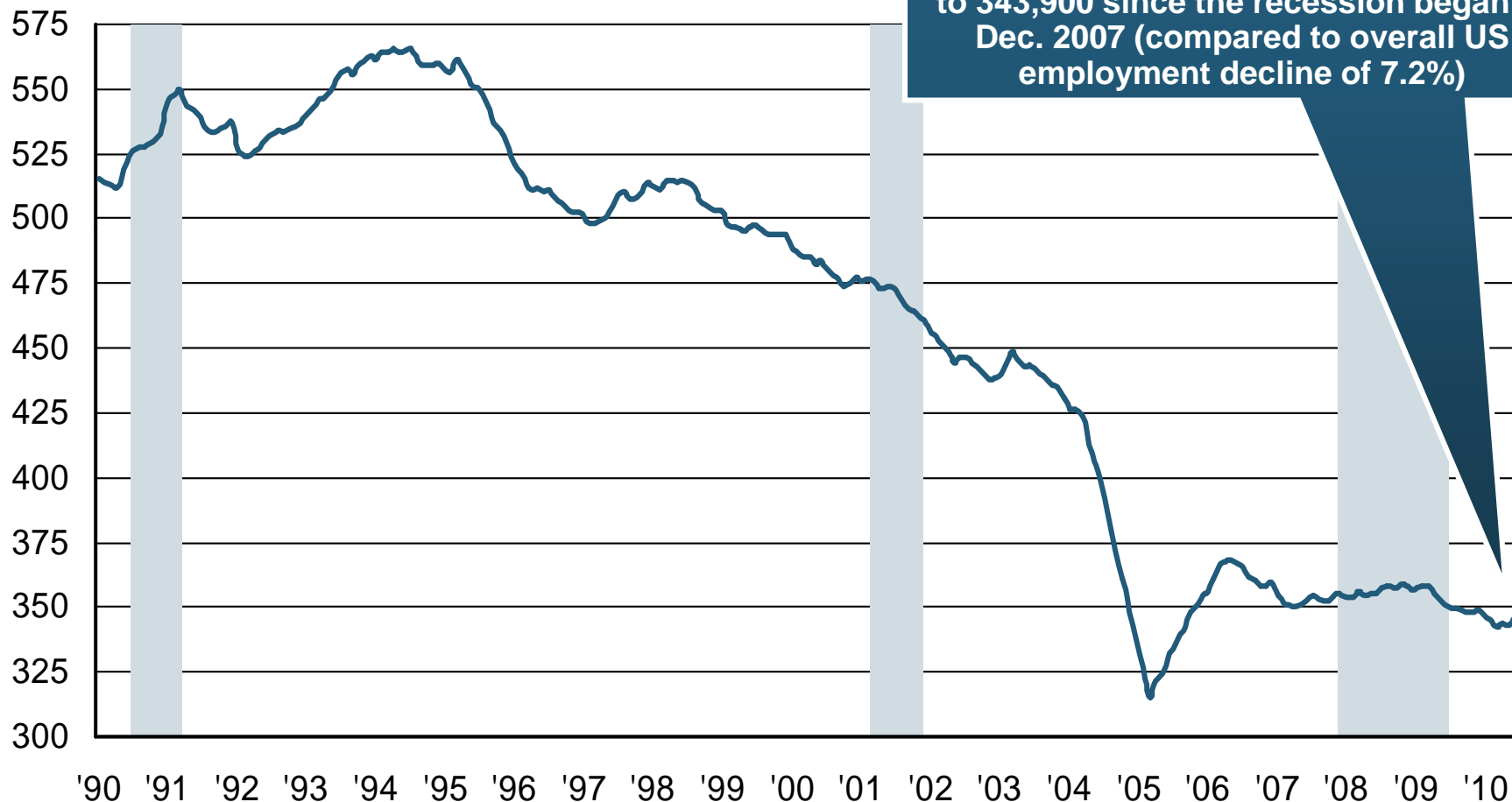


# Insurance Industry Employment Trends

**Soft Market, Difficult Economy,  
Outsourcing, Productivity  
Enhancements and  
Consolidation Have Contributed  
to Industry's Job Losses**

# U.S. Employment in the Direct Life Insurance Industry: 1990–2010\*

Thousands



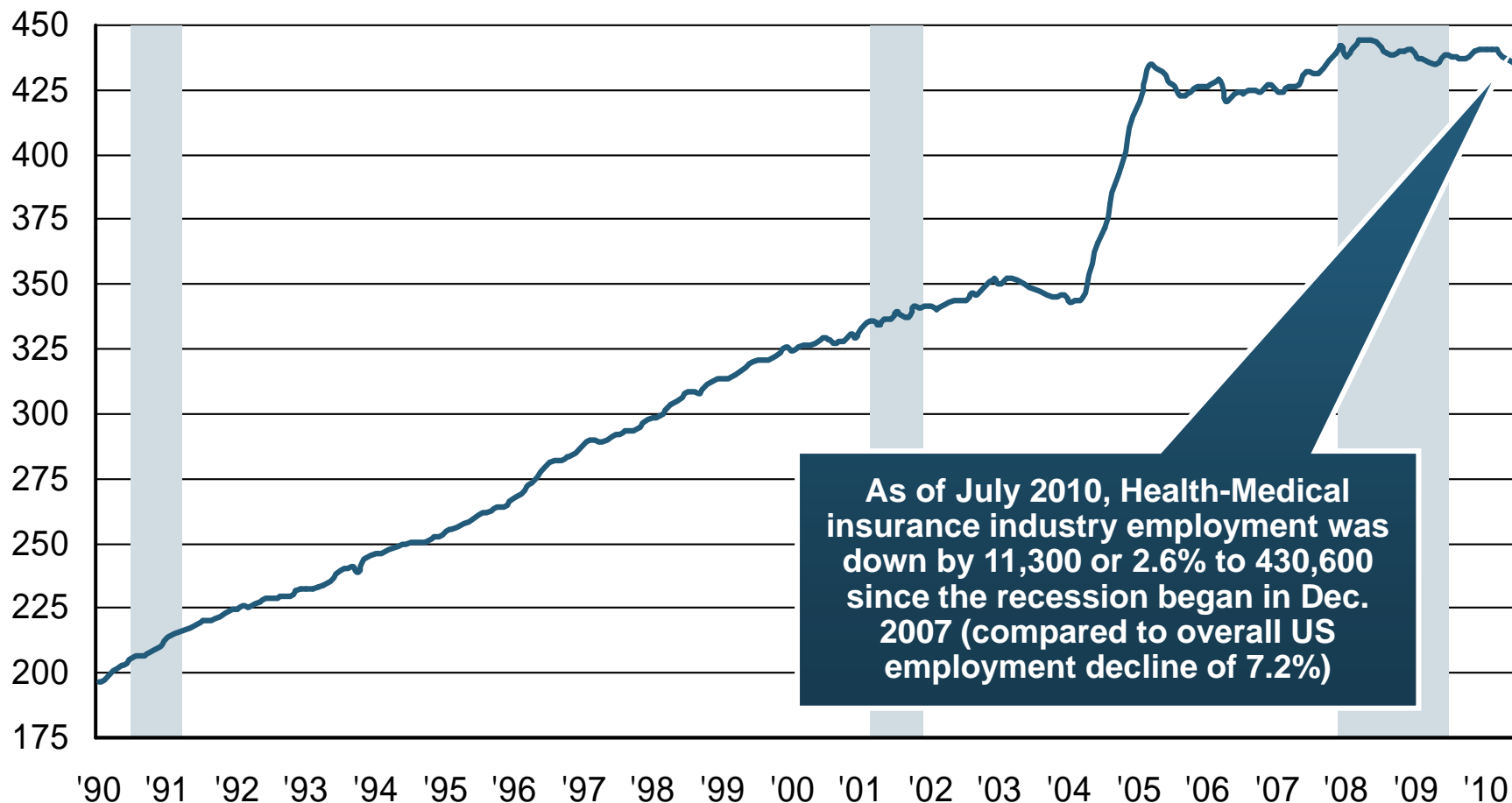
\*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Employment in the Direct Health-Medical Insurance Industry: 1990–2010\*

Thousands



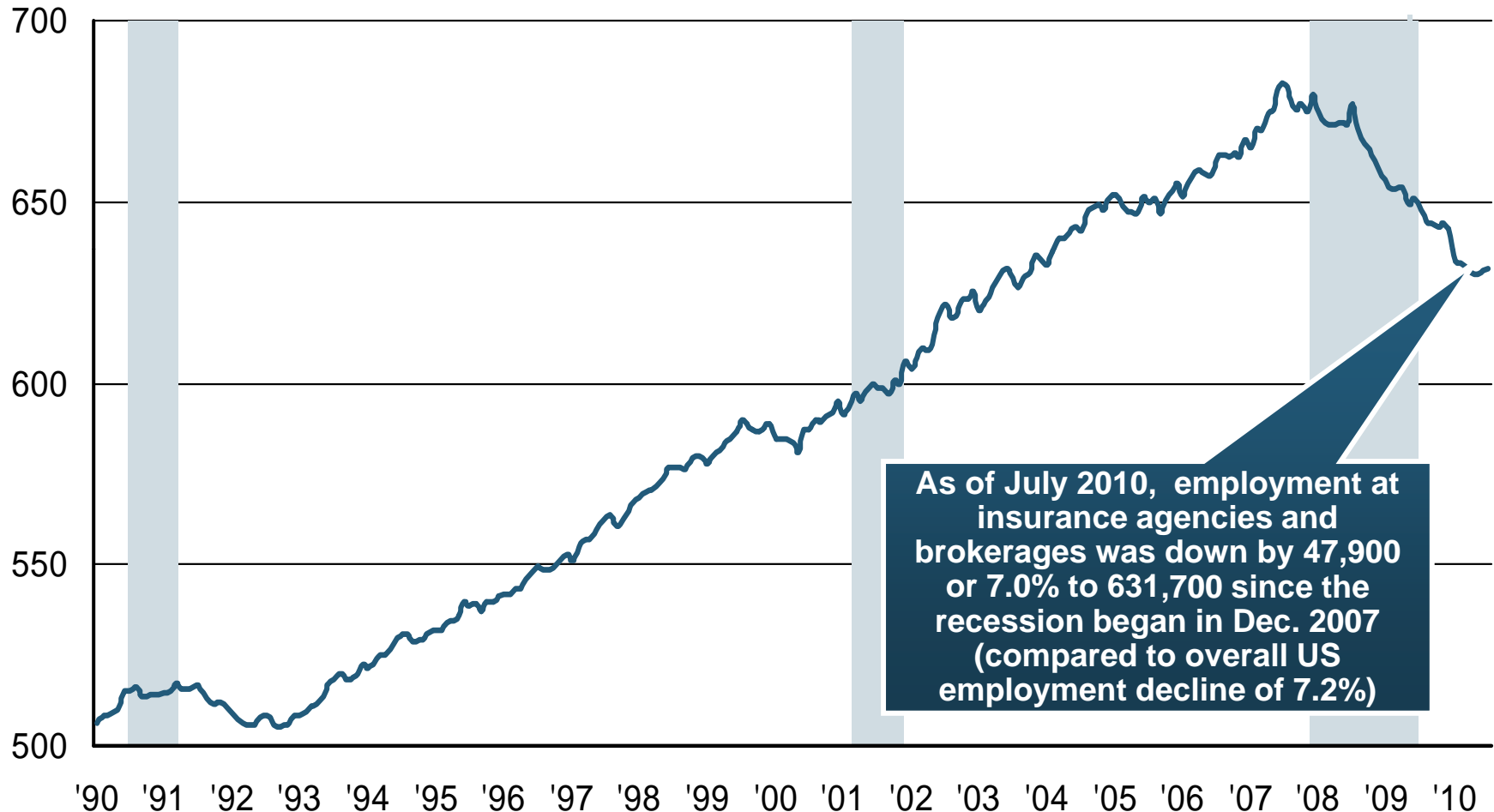
\*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Employment in Insurance Agencies & Brokerages: 1990–2010\*

Thousands



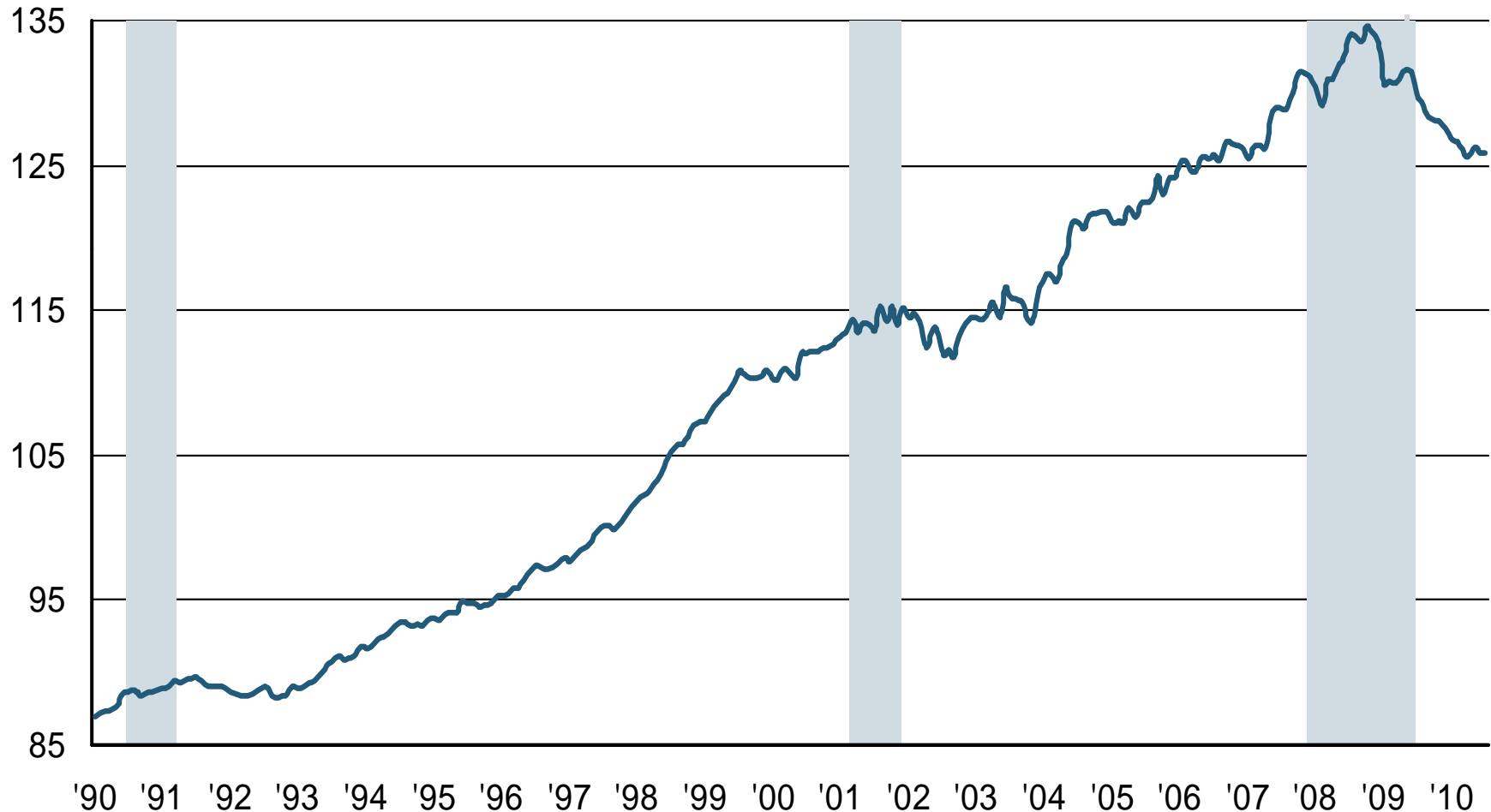
\*As of July 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Employment in Third-Party Administration of Insurance Funds: 1990–2010\*

Thousands



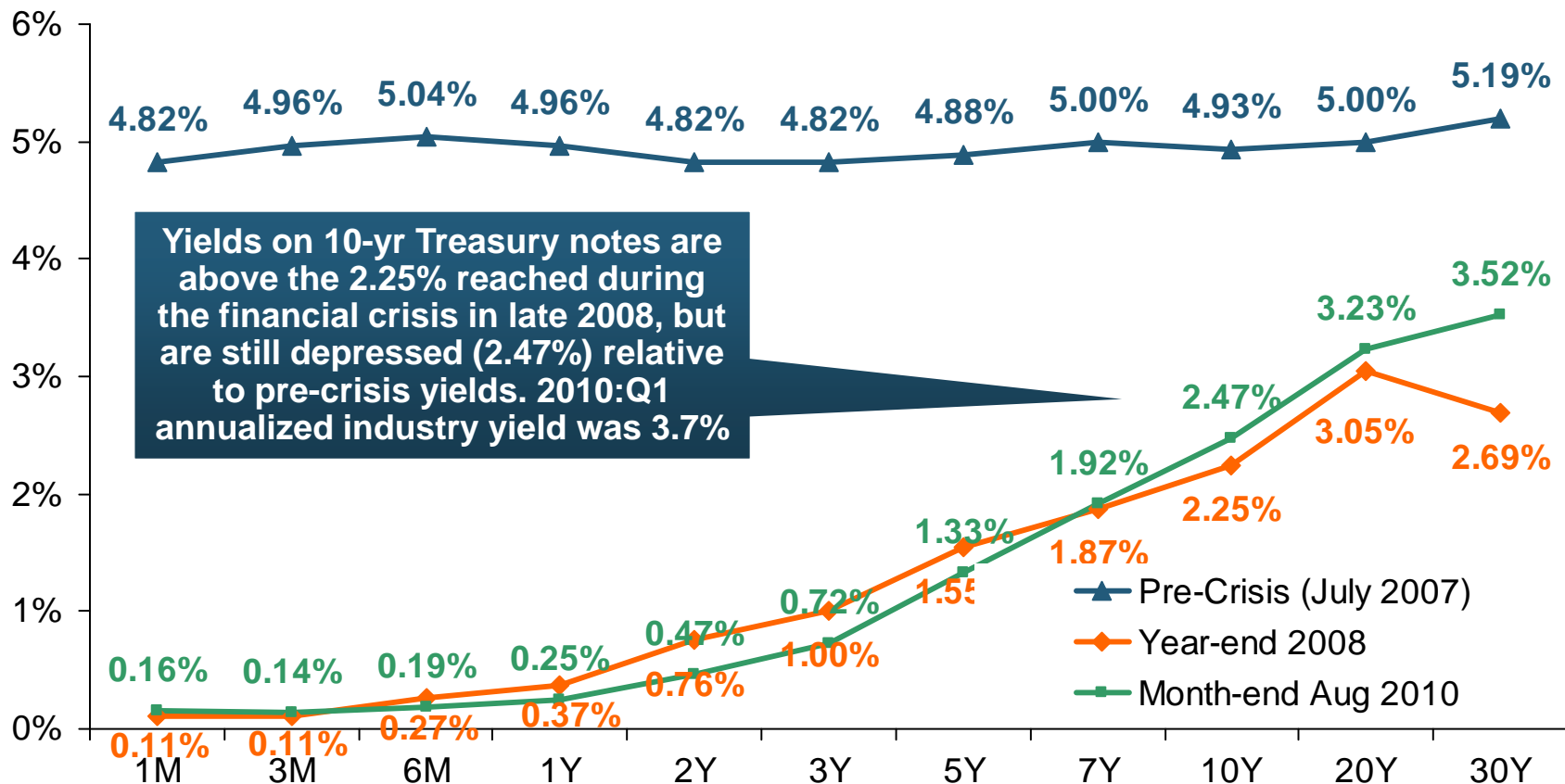
\*As of July 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

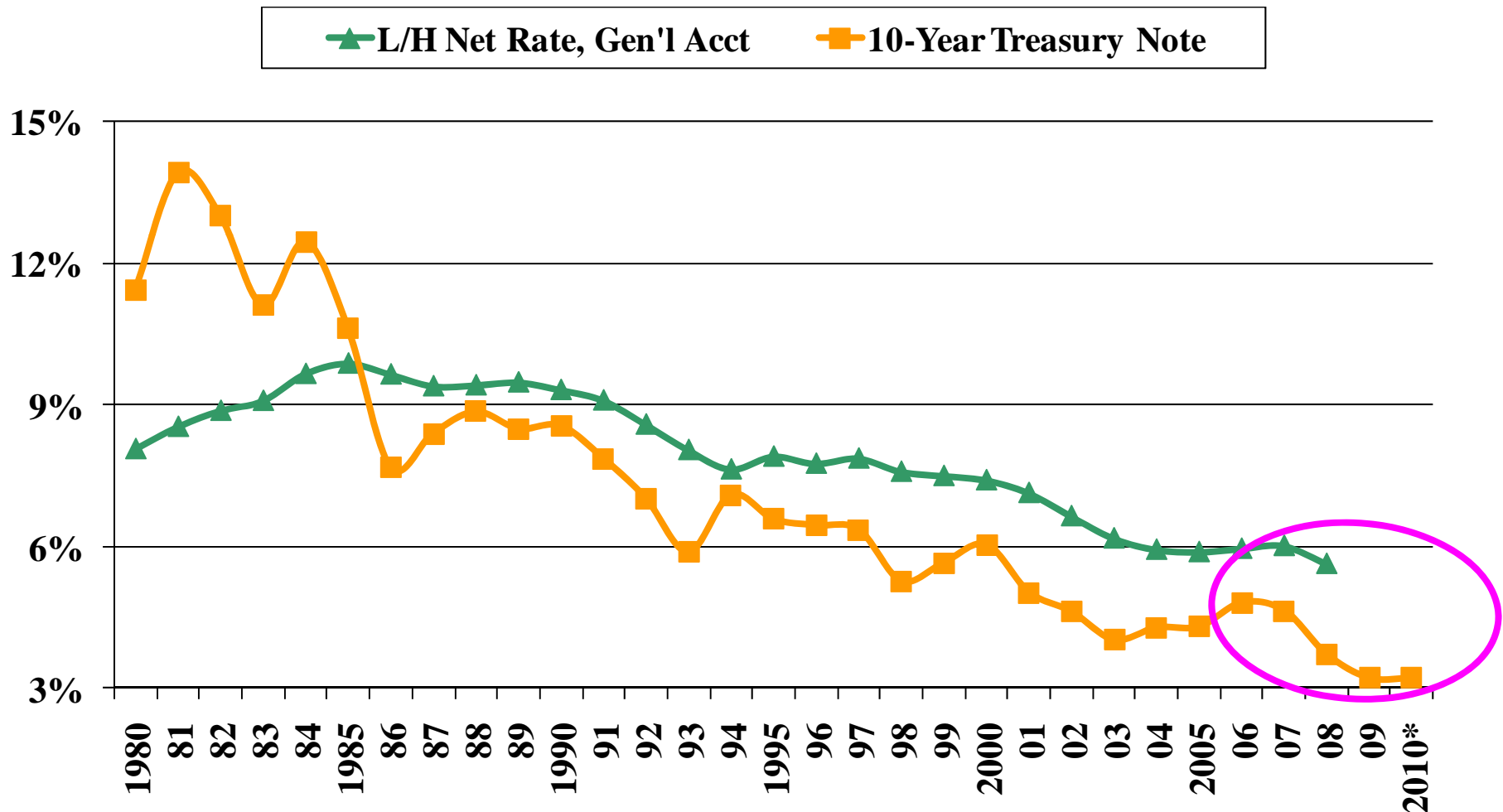
# Investments

# U.S. Treasury Yields Are Low: Near 2008 Financial Crisis Levels



**The Average Maturity on Bonds in P/C Insurers' Portfolios Has Remained Steady at About 7.5 Years Through the Last Decade**

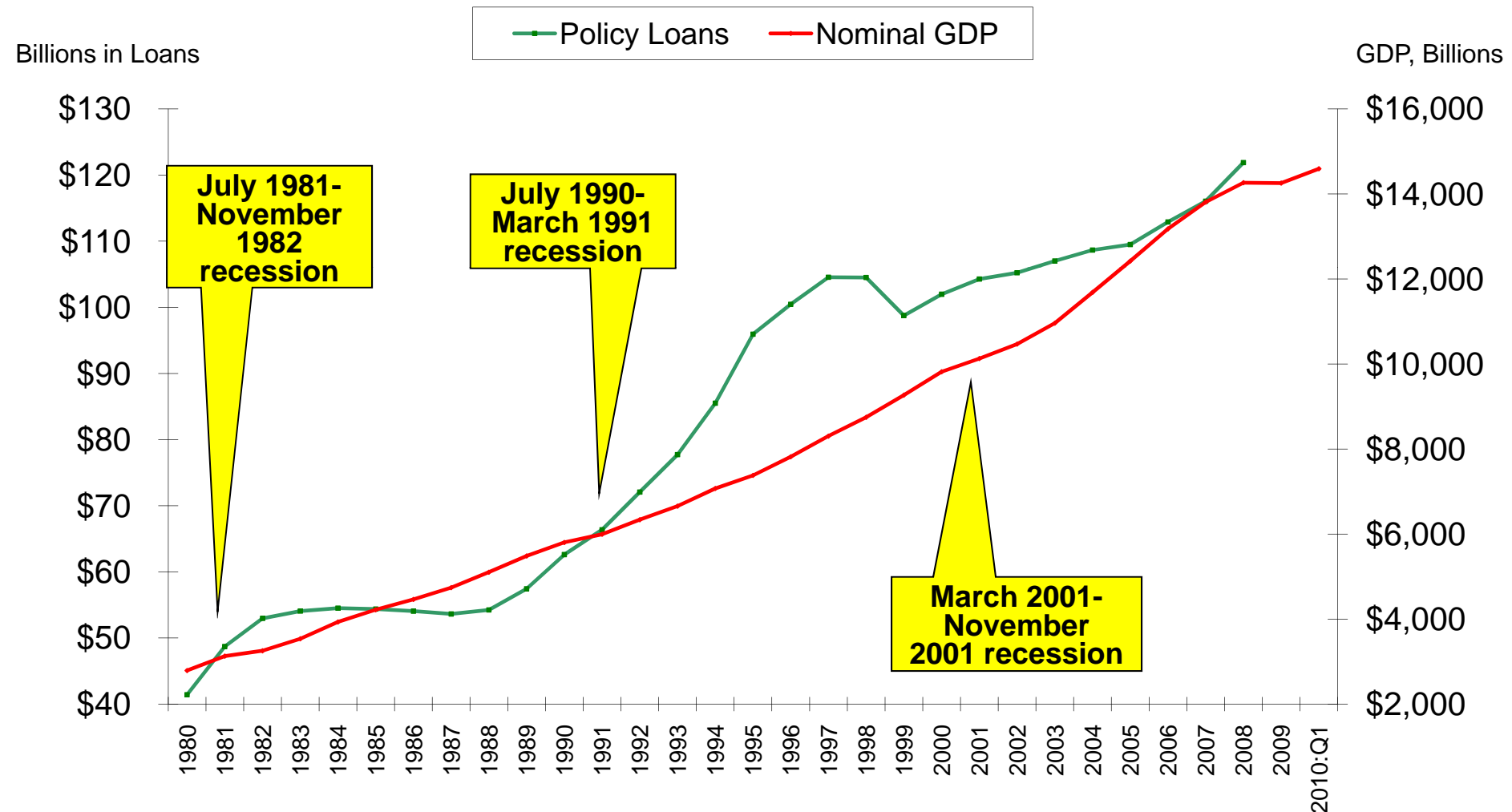
# Net Rate on L/H General Account Assets Tends to Follow 10-Year US T-Note



\*forecast from Sept. 2010 issue of Blue Chip Economic Indicators

Sources: ACLI Life Insurers Fact Book 2009, p. 40; [http://federalreserve.gov/releases/h15/data/Annual/H15\\_TCMNOM\\_Y10.txt](http://federalreserve.gov/releases/h15/data/Annual/H15_TCMNOM_Y10.txt)

# Policy Loans Increase During/Following a Recession, but Also in Boom Times





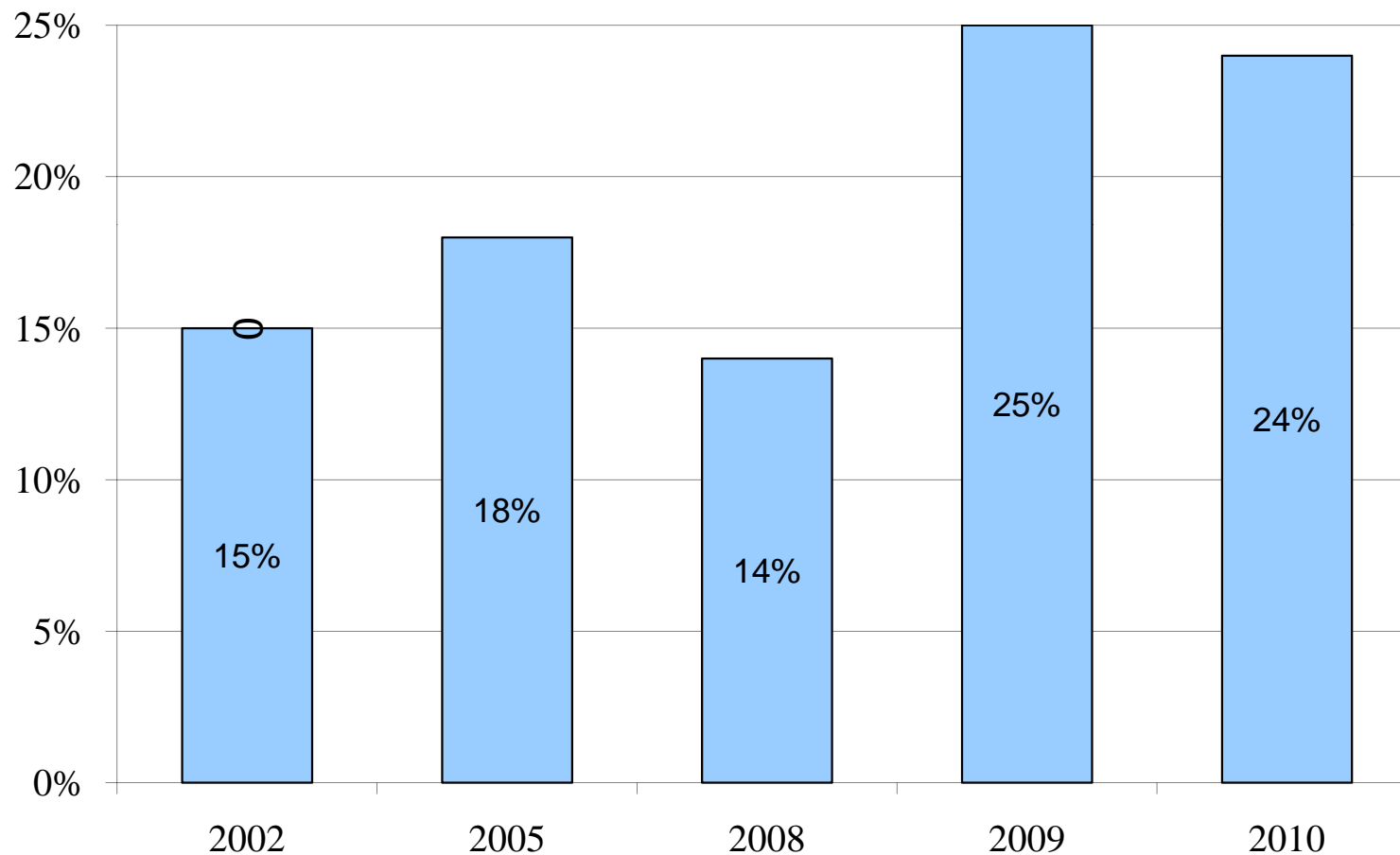
# Markets: People Over 60?

**The Older Generations Might Boost  
Economic Growth and Life/Annuity  
Purchases by Continuing to Work**



# More Workers Are Delaying Their Planned Retirement

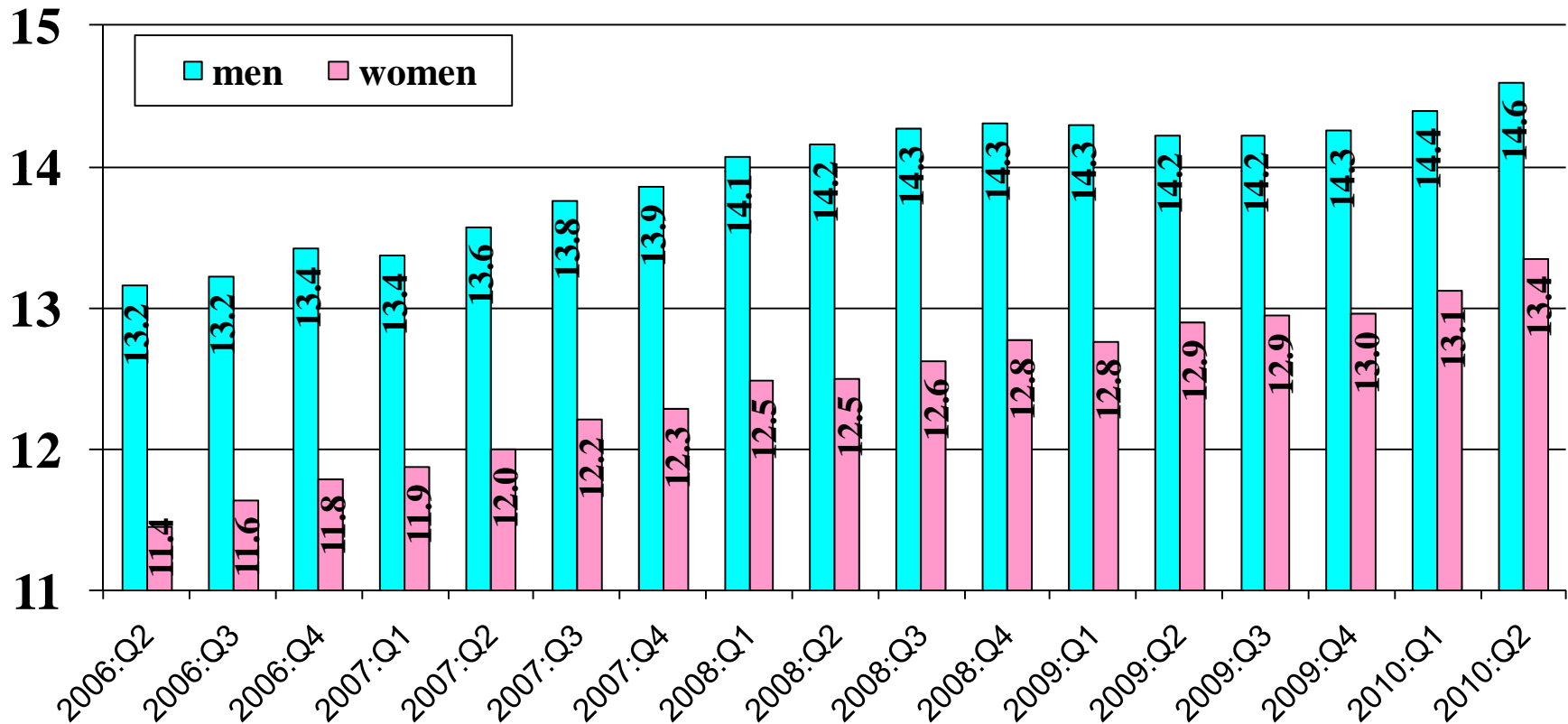
Percent who postponed  
their planned retirement age



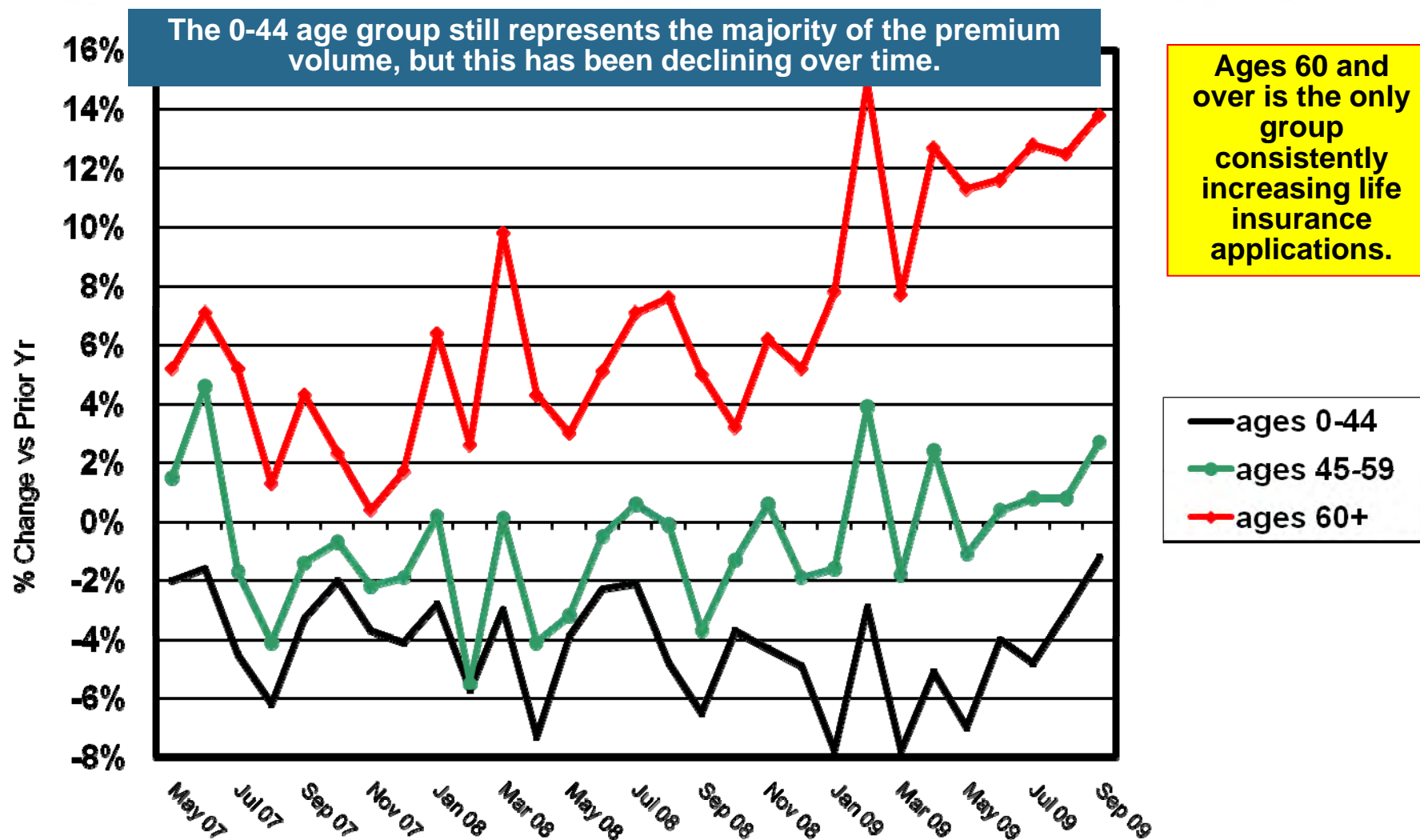
# Labor Force Participation, Ages 55 and Over, 2006:Q2-2010:Q2

Number in the  
Labor Force  
(millions)

Labor force participation by workers—especially women—age 55 and over has grown in spite of the recent recession.



# Percent Change\* in Applications for Individual U.S. Life Insurance Policies



\*vs. same month, prior year

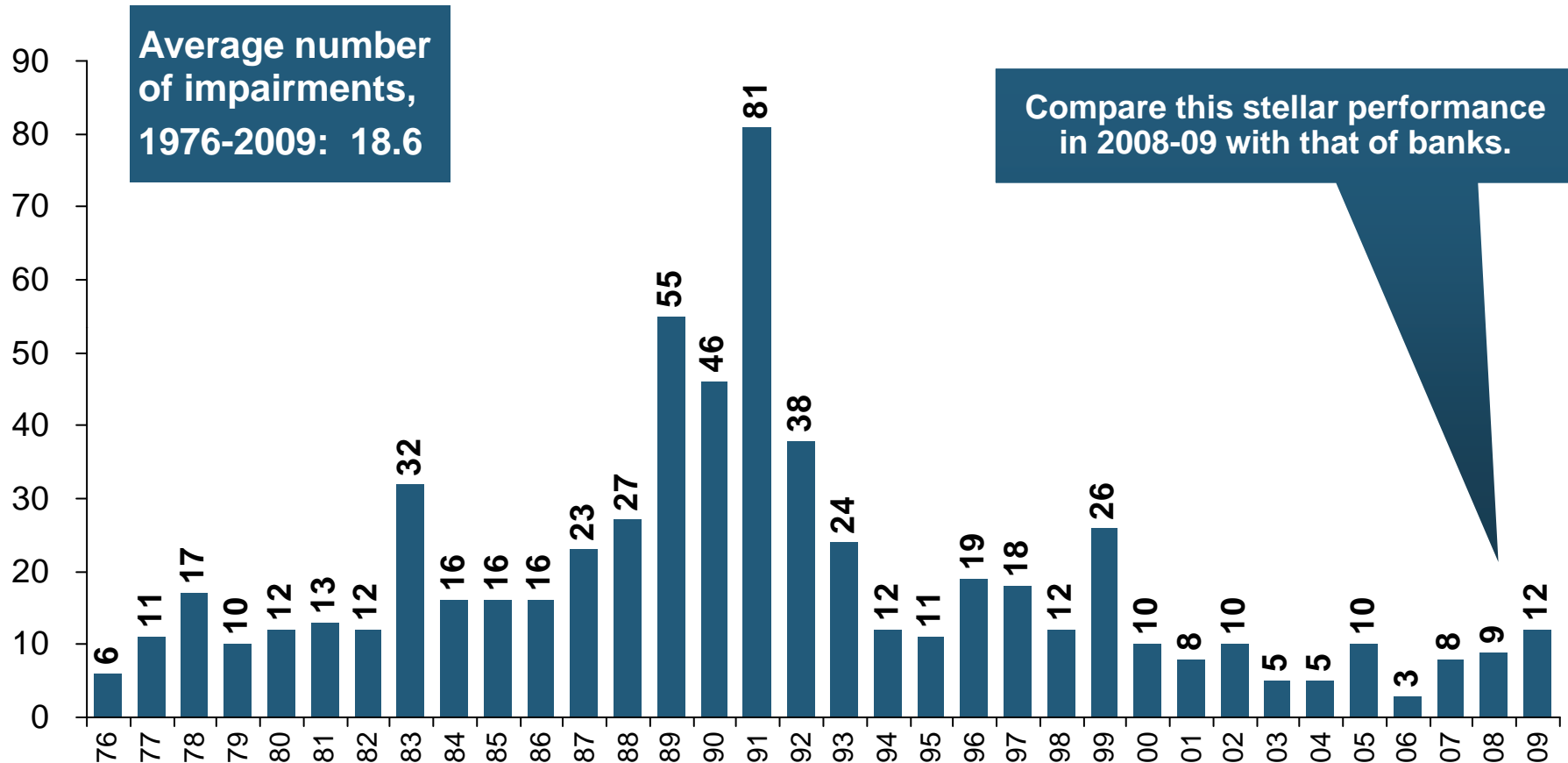
Source: MIB Life Index, monthly releases



# Financial Strength

**The Industry Has  
Weathered the Storms Well**

# Number of Impaired L/H Insurers, 1976–2009

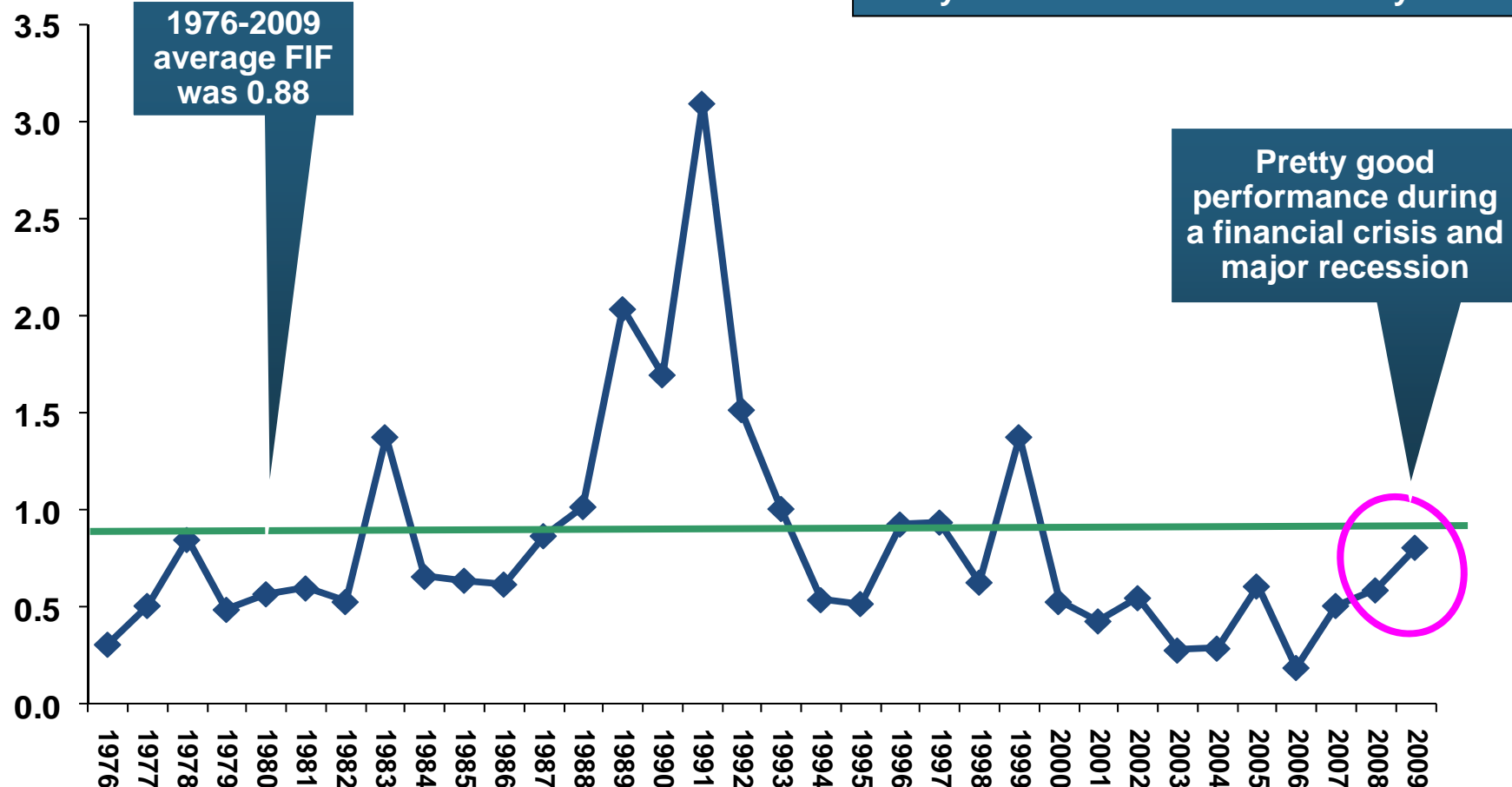


**The Number of Impairments Spiked in 1989-92, with Smaller Spikes in 1983 and 1999. But in the Financial Crisis, When Hundreds of Banks Failed, Virtually No Life Insurers Failed.**

# L/H Insurer Impairment Frequency 1976-2009

Financial  
Impairment  
Frequency

FIF is the number of insurers that  
became impaired during the year divided  
by the number that started the year

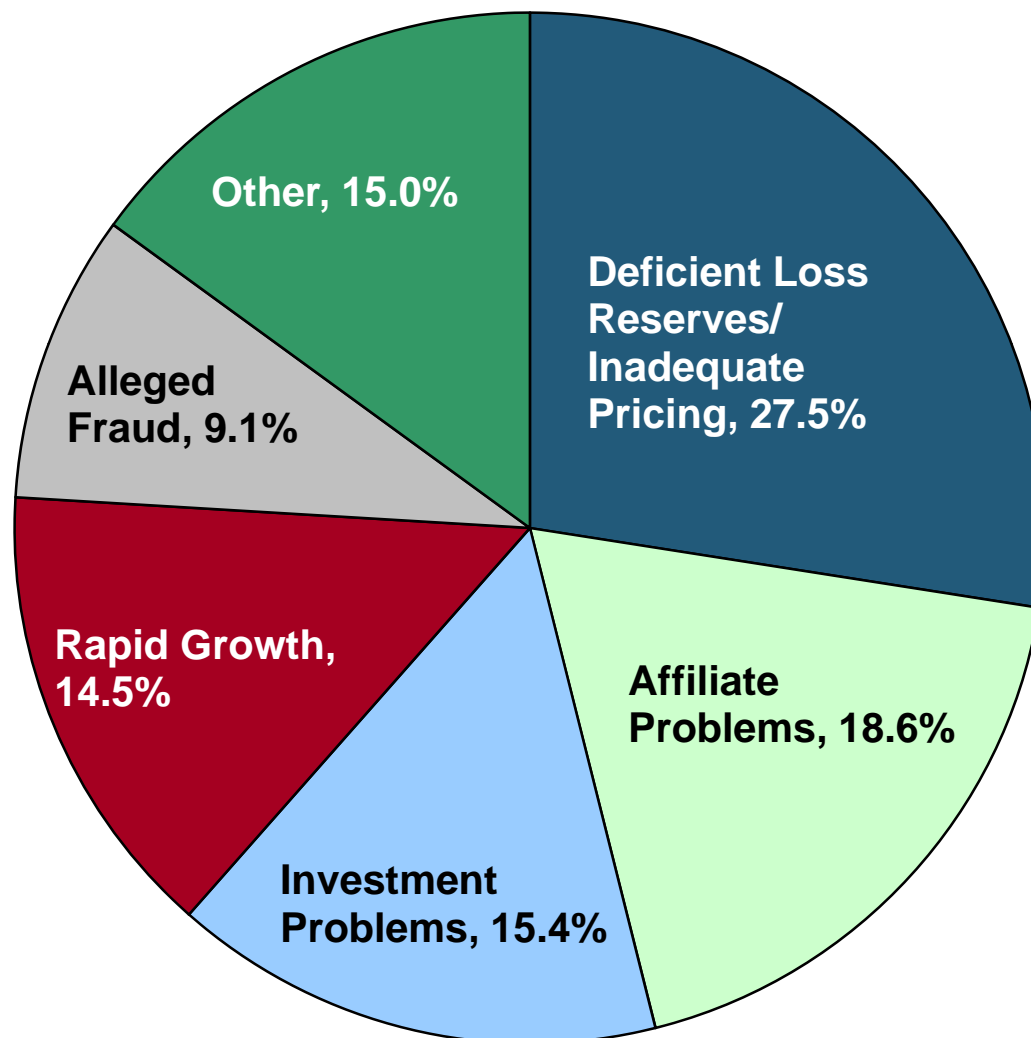


# Reasons for U.S. L-H Insurer Impairments, 1976-2009

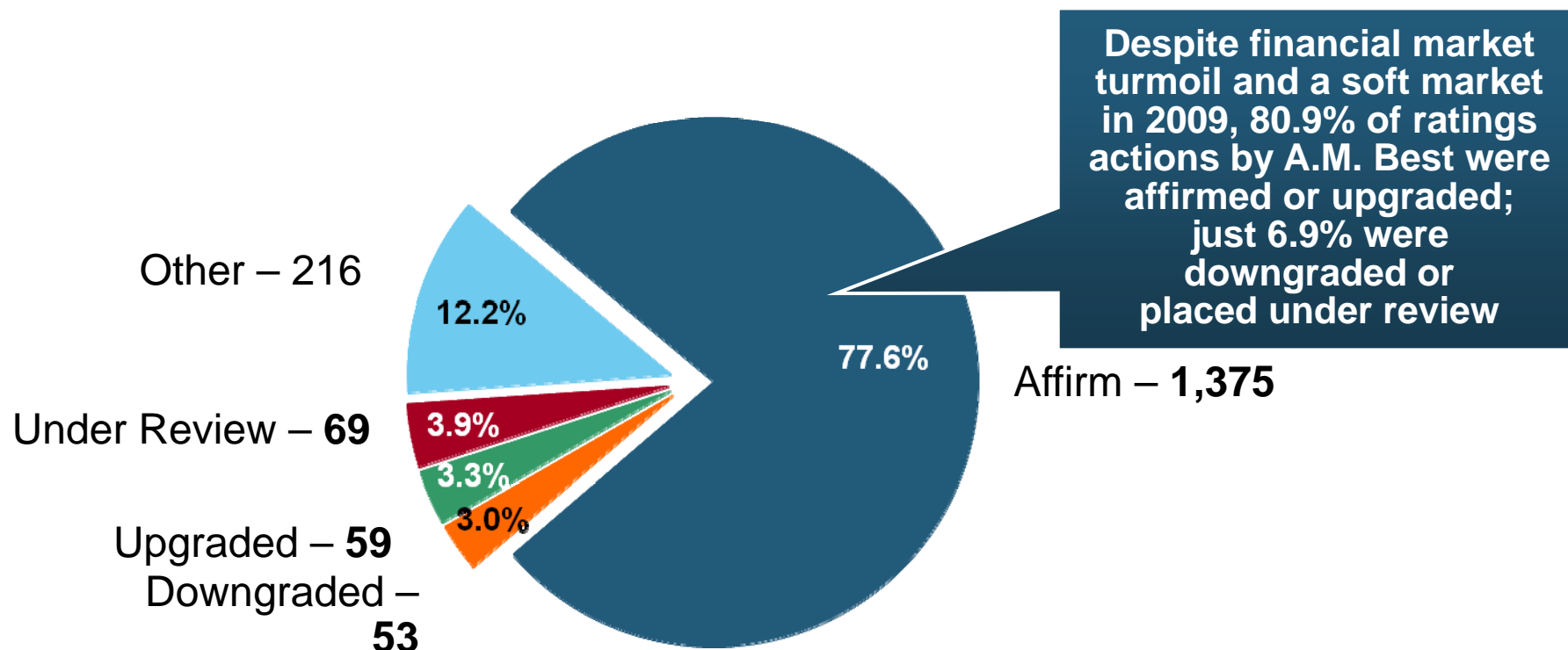
## Leading Causes of Impairment

---Business Management  
(Rapid Growth, Significant  
Change in Business, Affiliate  
Problems)

---Deficient Loss Reserves/  
Inadequate Pricing

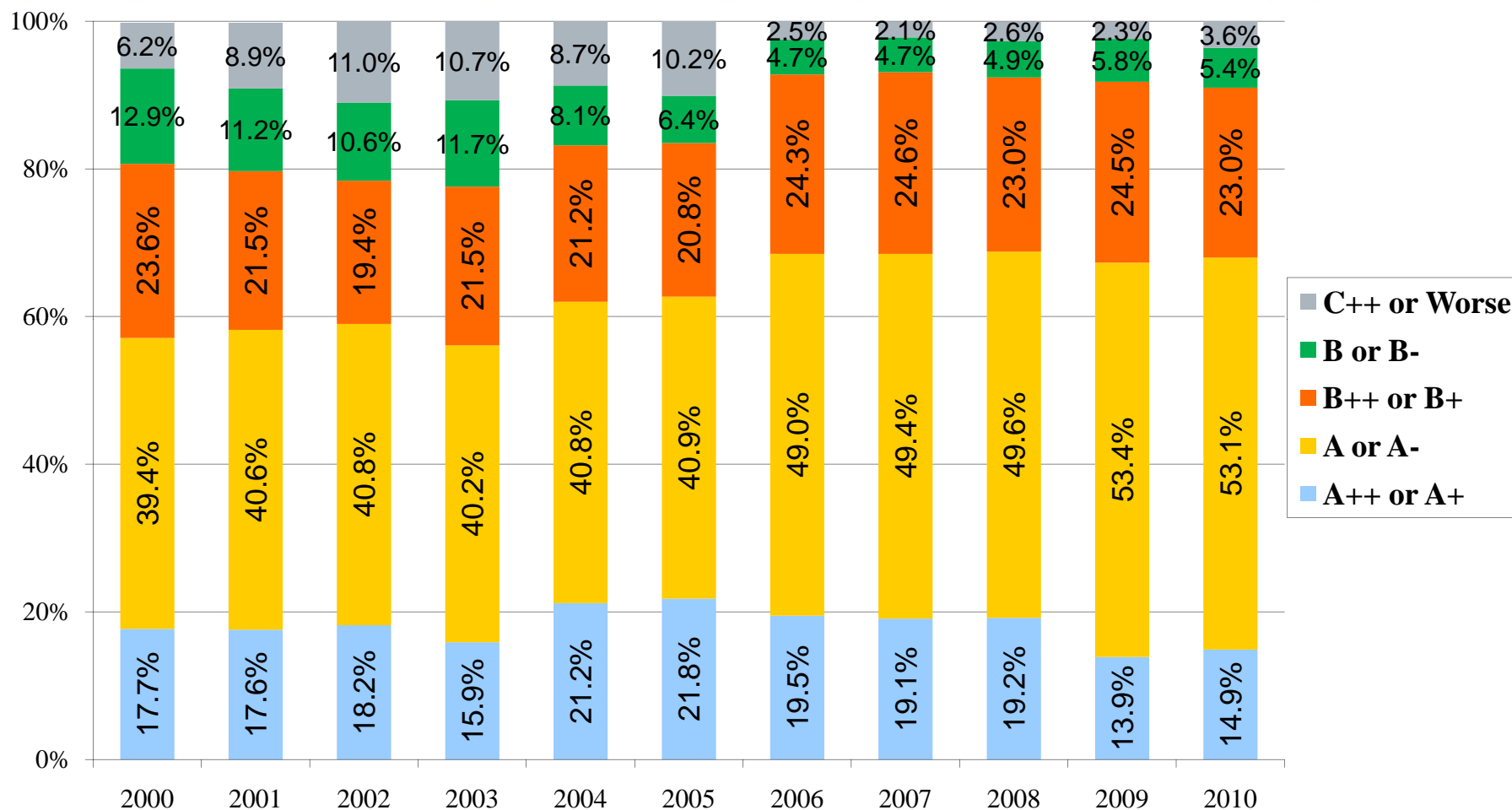


# Summary of A.M. Best's P/C Insurer Ratings Actions in 2009



**P/C Insurance is by Design a Resilient Business.  
The Dual Threat of Financial Disasters and Catastrophic Losses  
Are Anticipated in the Industry's Risk Management Strategy**

# Distribution of A.M. Best Ratings for L-H Insurers, 2000-2010



**The Percent of A/A- L-H Insurers Has Grown.  
Today 2/3 of L-H Insurers Have A. M. Best Ratings of A- or Better**

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and your attention!***

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