

Impact of COVID-19 on the Annuity and Insurance Business

Featured Speakers



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Agenda

- 01** Introduction and Opening Remarks
- 02** Panel Discussion and Q&A
- 03** Closing Remarks

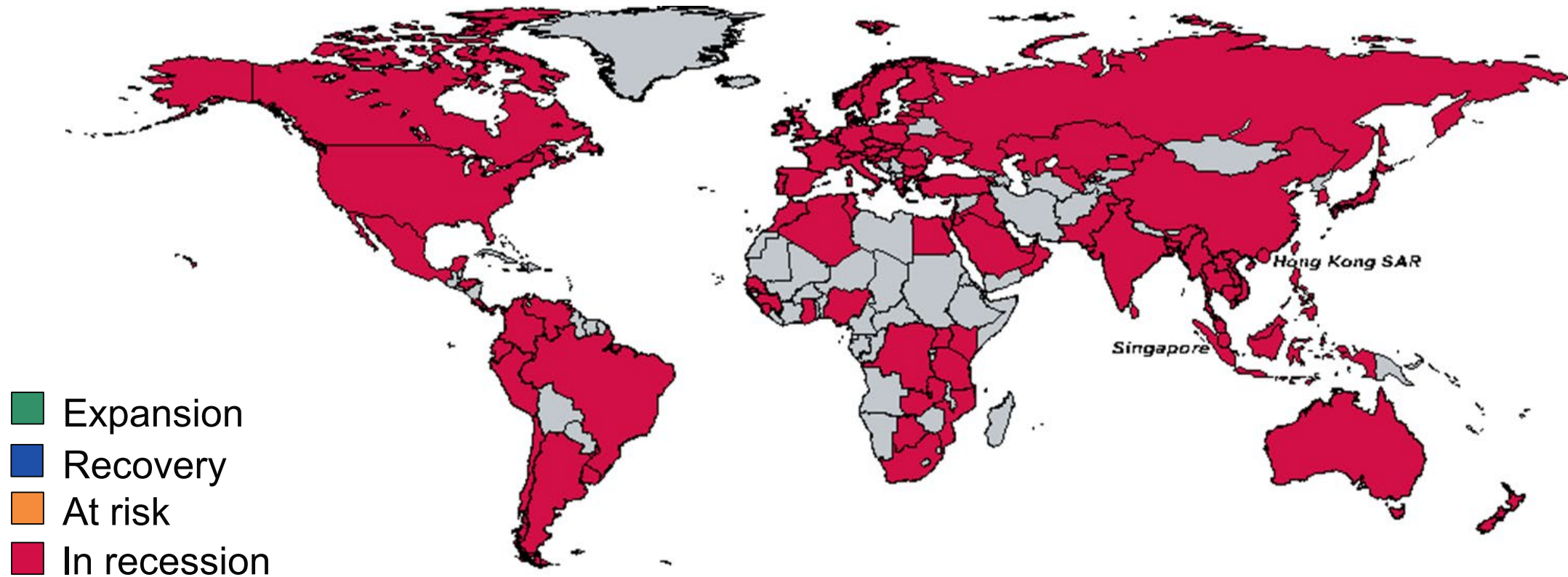
Economic Outlook: Impact of COVID-19 on the Macro Environment



Cristian deRitis
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Pandemic Upends Global Economy

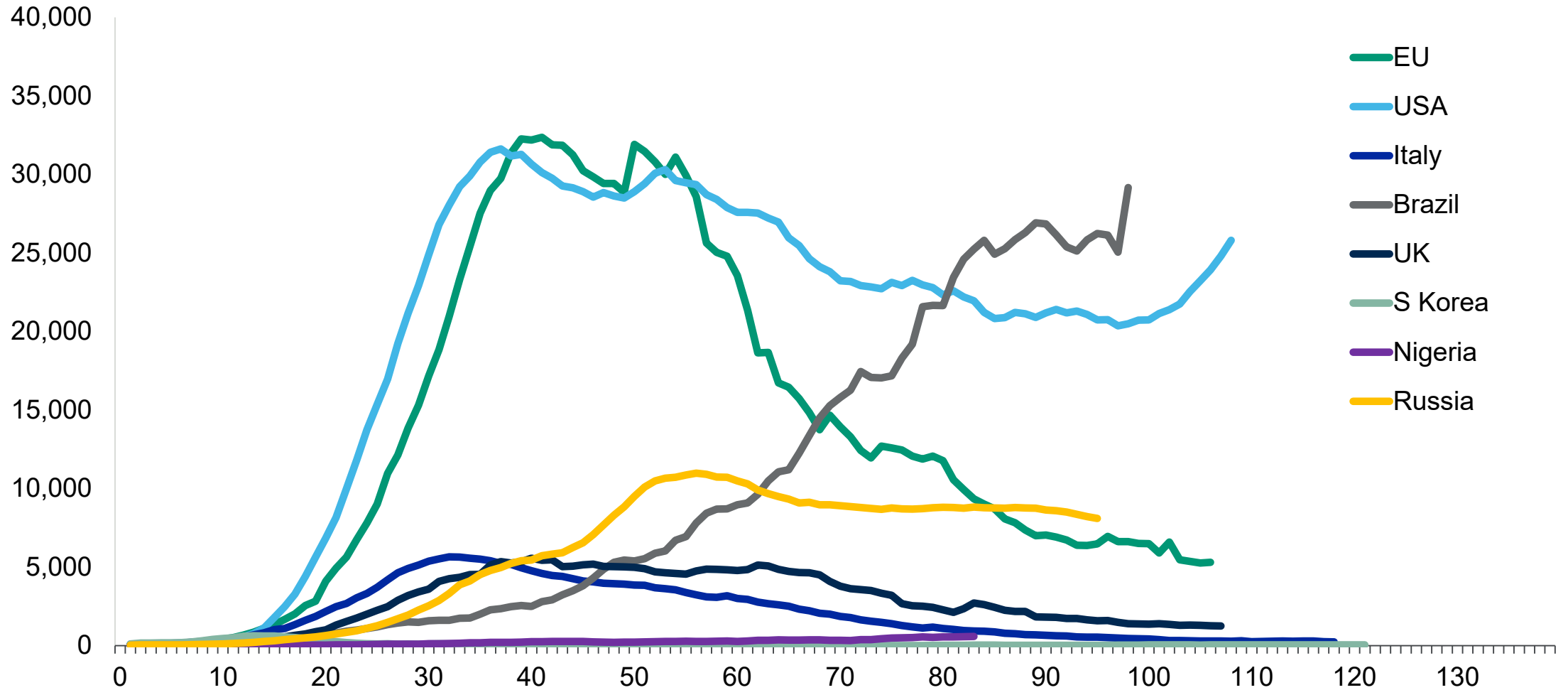
Business cycle status as of May 2020



Sources: Moody's Analytics

COVID-19 Case Trajectories Vary

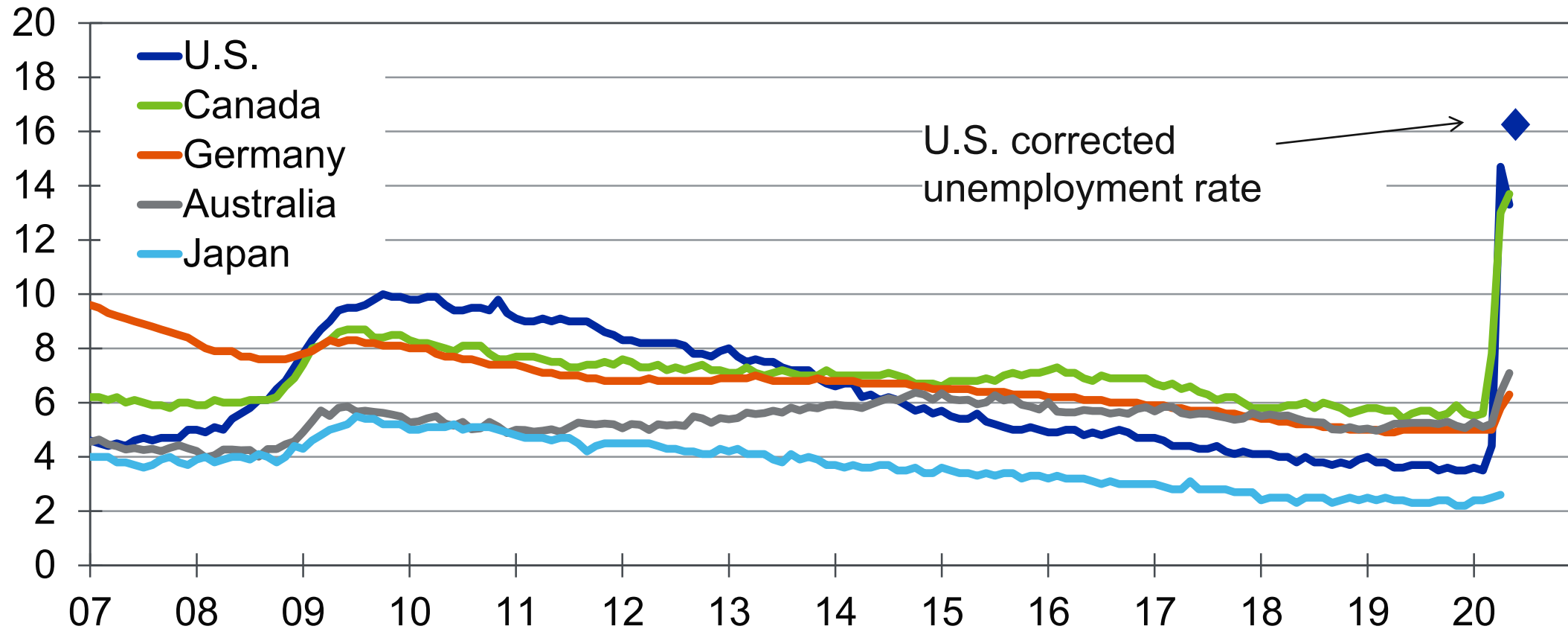
Number of COVID-19 daily cases, days since 100 confirmed cases, 7 day moving average



Sources: [Johns Hopkins CSSE COVID-19 Data Repository](#), Moody's Analytics

U.S. Job Market Hit Harder Than Others

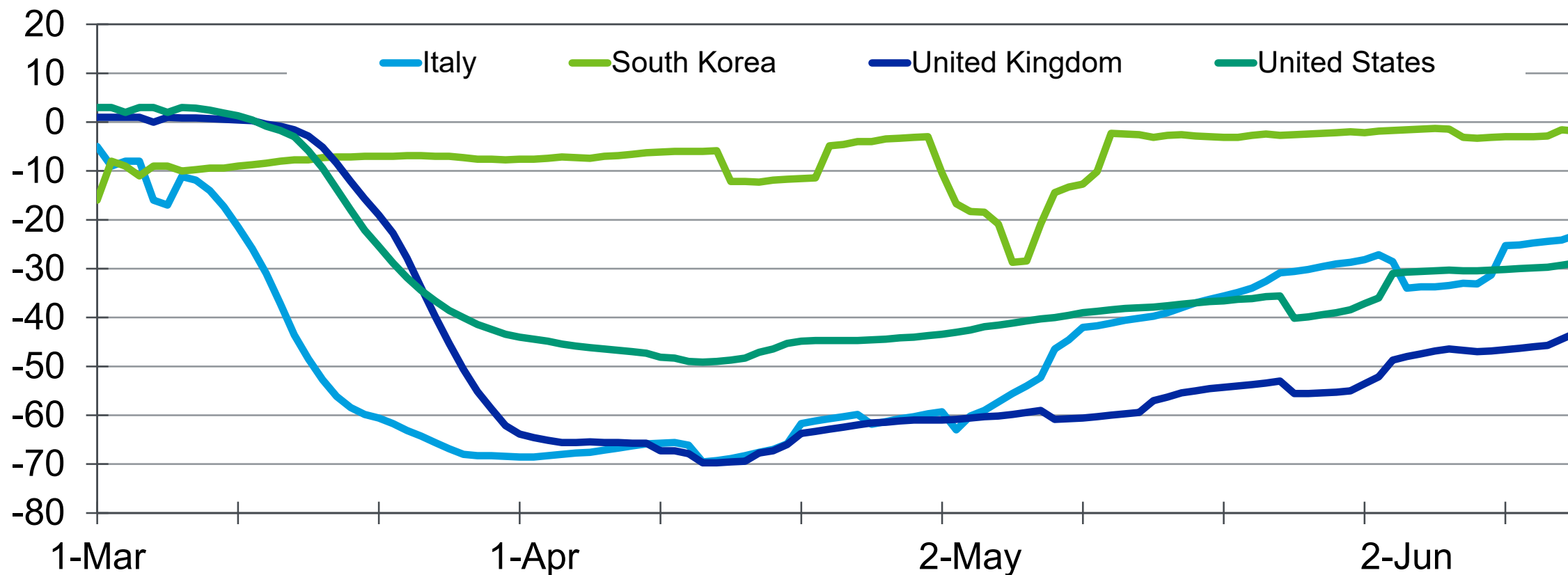
Unemployment rate through May 2020, %



Sources: National statistical bureaus, NBER, Moody's Analytics

Global Businesses Re-Opening

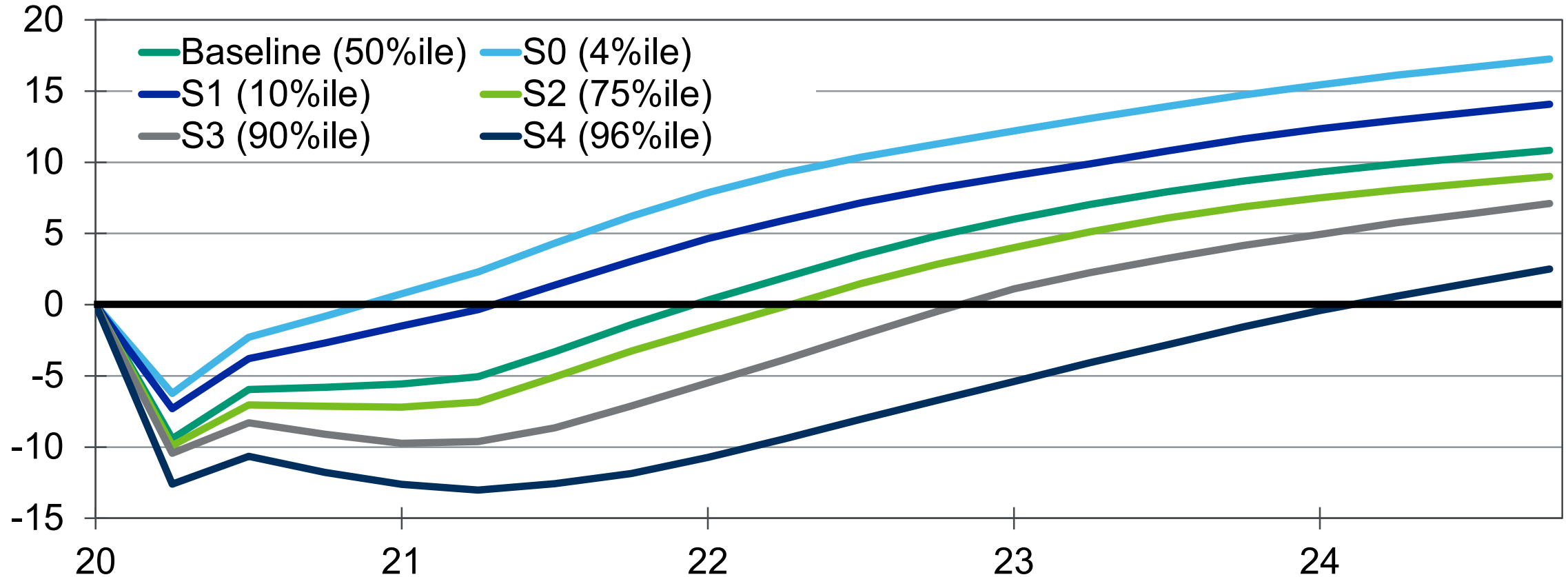
Google mobility for the workplace, 7-day moving average



Sources: Google, Moody's Analytics

V, U, L, or W? A Checkmark Recovery

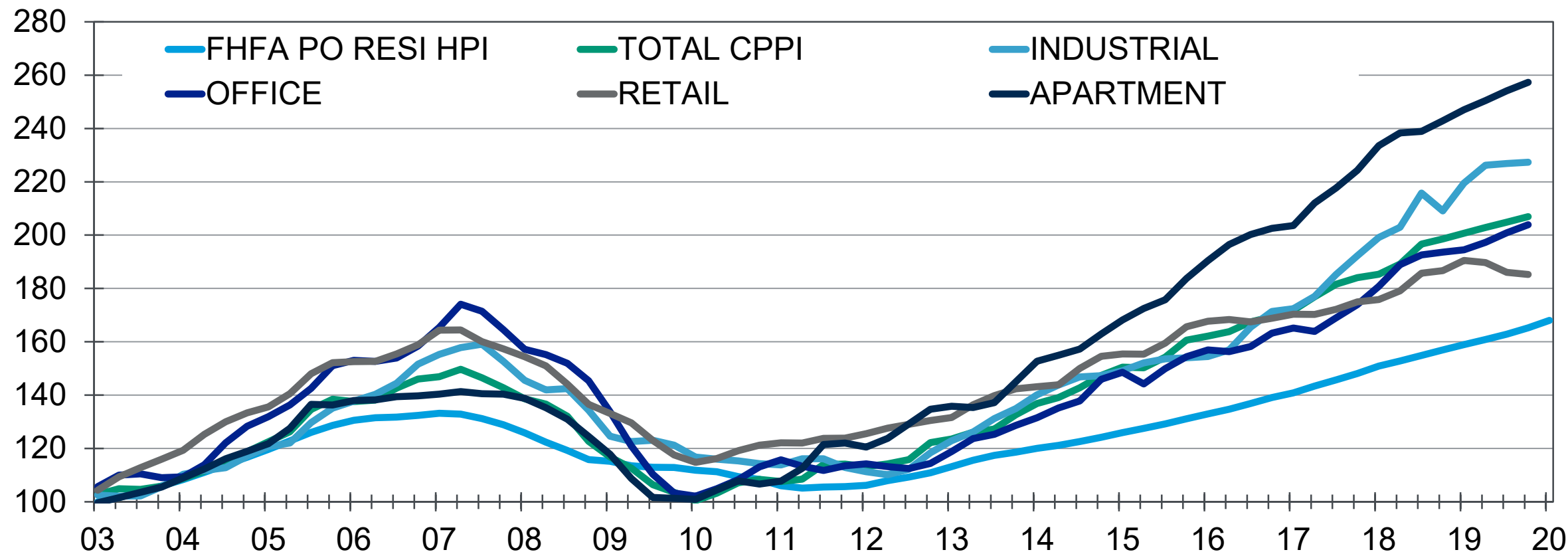
U.S. Real GDP, % change from start of recession



Source: Moody's Analytics

CRE Asset Price Declines Pose a Threat

Indices: 2002Q4 = 100



Sources: FHFA, Moody's Analytics

Sector Outlook: Impact of COVID-19 on Life and Annuity



Michael C. Fruchter
Vice President – Senior Credit Officer,
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US Life Insurance Outlook is Negative

NEGATIVE

Key drivers

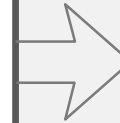
- » Negative economic growth and double digit unemployment will reduce demand for insurance
- » Low interest rates will reduce earnings and increase reserves
- » Downgrades & defaults will weaken asset quality, reduce capital
- » Mortality claims will grow if COVID-19 related deaths rise
- » Solid risk management, capital levels help offset some impact of capital market movements.



STABLE

What could change outlook back to stable

- » The availability of a vaccine or effective treatment which would resume economic activity on a steadier basis
- » A rise in interest rates with the 10-year treasury exceeding 2%
- » Steady equity market growth in conjunction with a reduction in equity market volatility
- » Balance sheet remains strong, including solid capital levels and focus on risk management



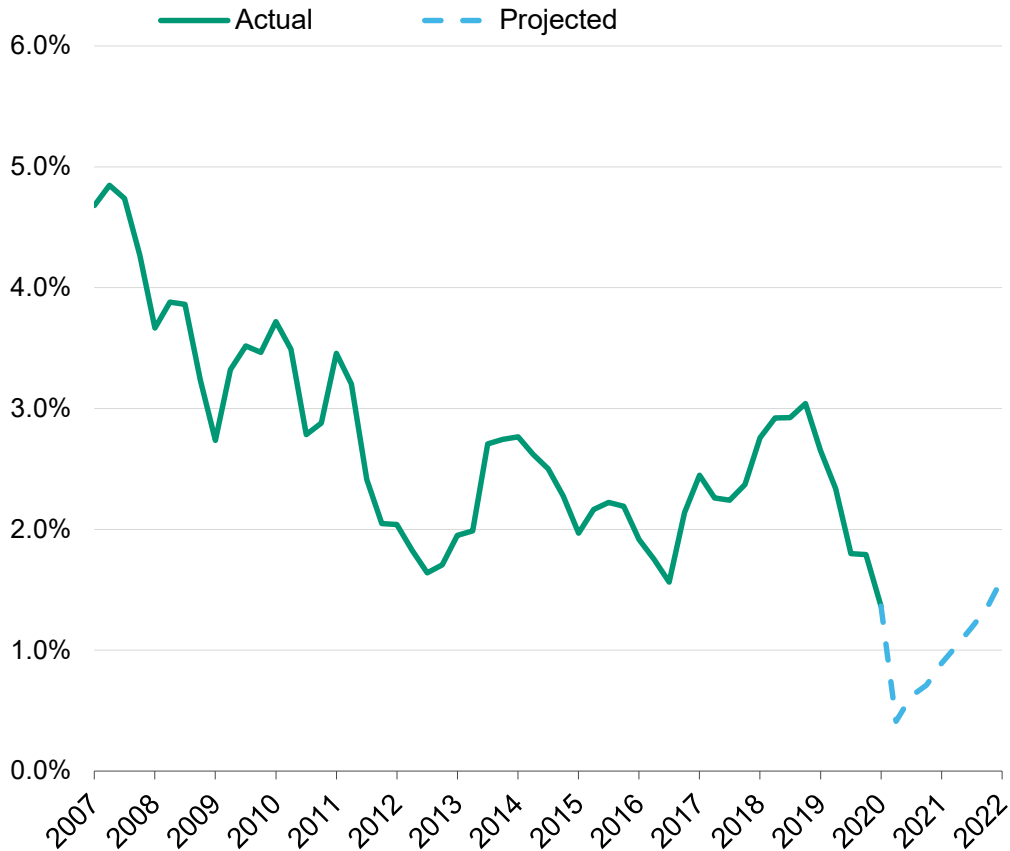
POSITIVE

What could change outlook to positive

- » Stronger economic growth. e.g. Moody's forecast of GDP growth above 4% and unemployment ratio below 4%
- » Gradual increase in interest rates. e.g. 10-yr US treasury gradually rising above 4%
- » Robust equity market growth with no signs of a recession
- » Balance sheet remains strong, including solid capital and focus on risk management

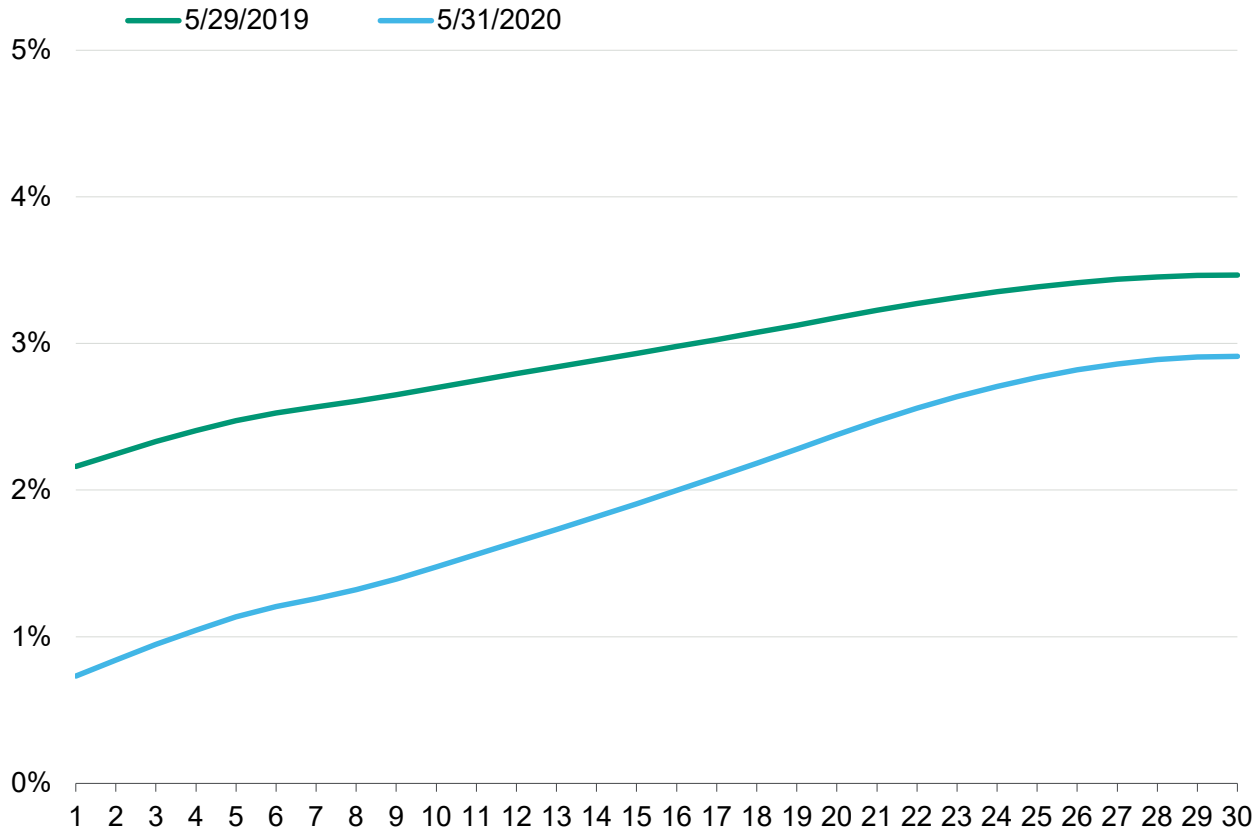
Ultra-Low Interest Will Pressure Earnings, Capital

10-yr US treasury rates below 1%



Note: The rates represent quarterly averages
Source: Moody's Analytics

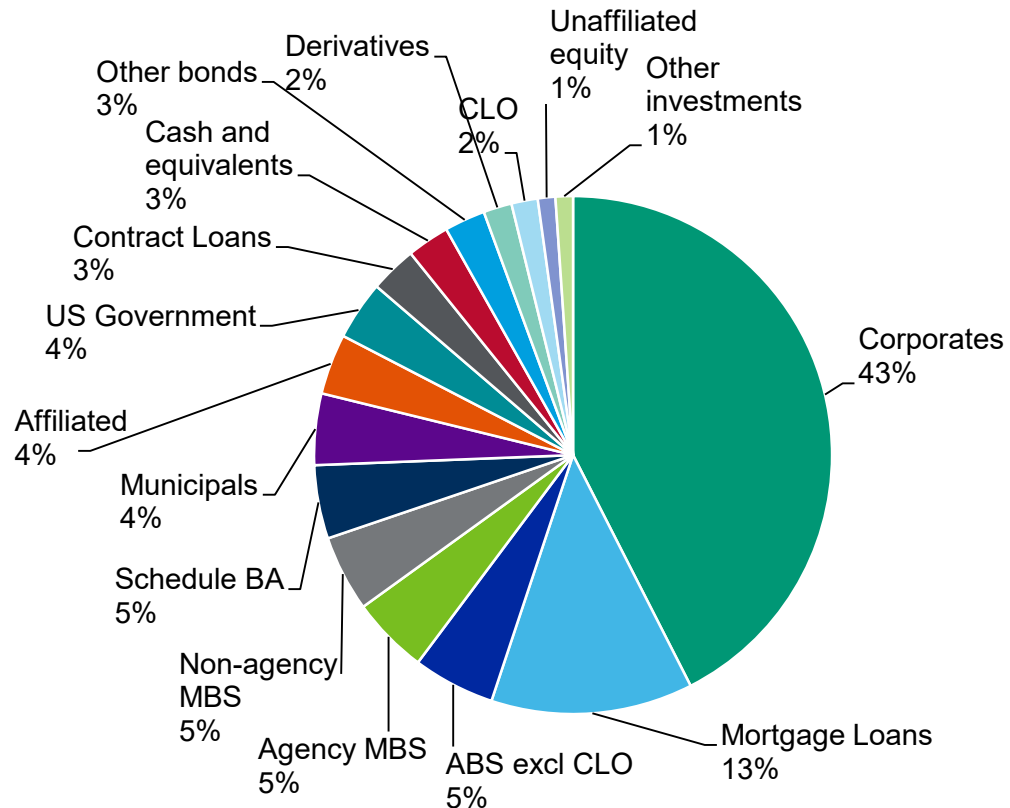
10-yr US treasury: rates remain low



Source: Factset

Diverse Investments, But Significant Downside Risk

2019 Investment portfolio



- Diversified asset mix, but current environment exposes companies to downgrades and defaults. Specifically
- Baa-rated bonds
- CMLs – retail and lodging
- CLOs – specifically lower-rated
- Oil and gas
- Other retail exposure in real-estate, CMBS, alternative assets, etc.

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Pandemic Mortality Expected to be Limited

Overall industry levels

- » Total industry coronavirus death benefits will marginally reduce capital in base case
 - Assuming 0.2 - 1.0 deaths/thousand in base case; 4 deaths/thousand in severe stress case
 - Base case range of \$8B - \$40B of gross COVID-19 related claims; \$160B of claims in stress case
 - For context, total 2019 death benefits for the industry were \$76 billion

Company exposure

- » Life reinsurers most exposed to increased death benefits
 - Reinsurers that are subsidiaries of larger entities could benefit from parental capital support
 - Hit to capital from coronavirus-related death benefits should be modest for our rated direct writers
 - Pretax losses expected to be below 1%-5% in base case and below 20% in stress scenario

Offsets

- » Expect limited offsets from reserves and longevity risk
 - Reserve release would vary significantly by age and type of product; highest for whole life, which has most exposure at older ages
 - Longevity risk offset expected to be relatively small; companies with payout annuities and pension risk transfer should benefit most

Industry Perspective: Impact of COVID-19 on Annuity Business



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COVID-19 Impacts on Annuity Business



OPERATIONS / IT

- > Employee safety
- > Operational continuity
- > Customer satisfaction



FINANCIAL MARKETS

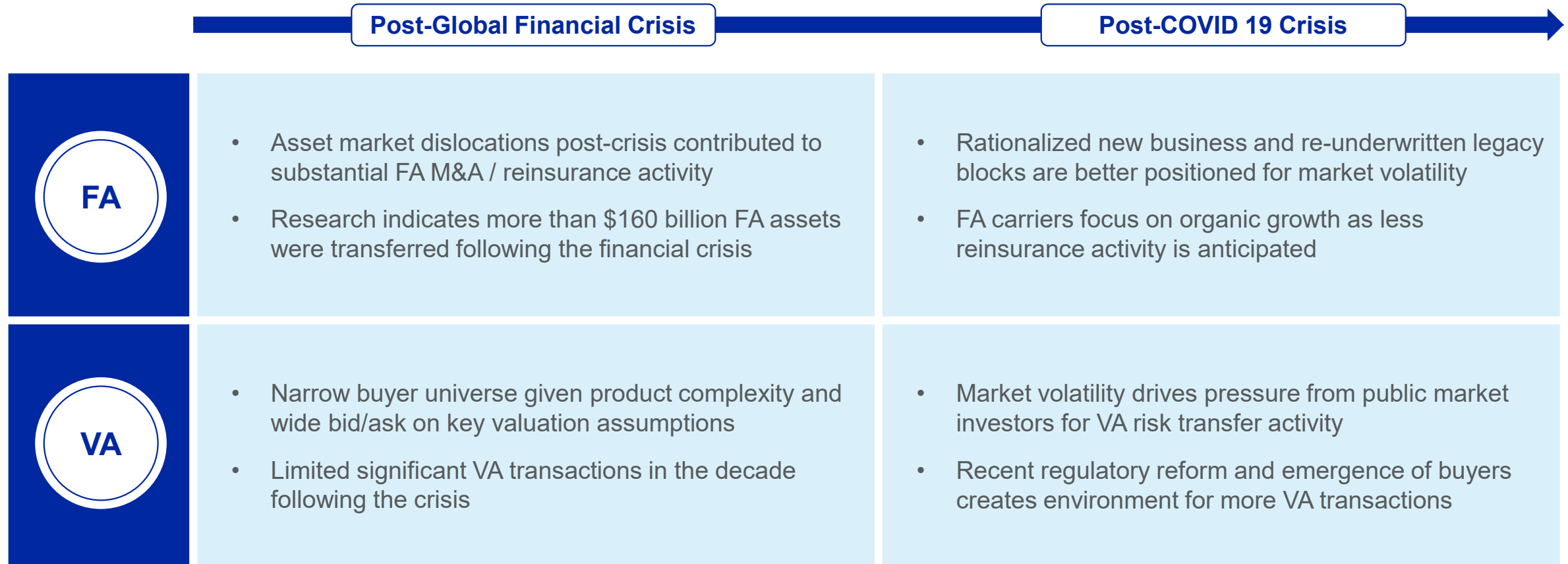
- > Financial statement impacts
- > Hedging challenges
- > Downgrades / impairments



NEW BUSINESS

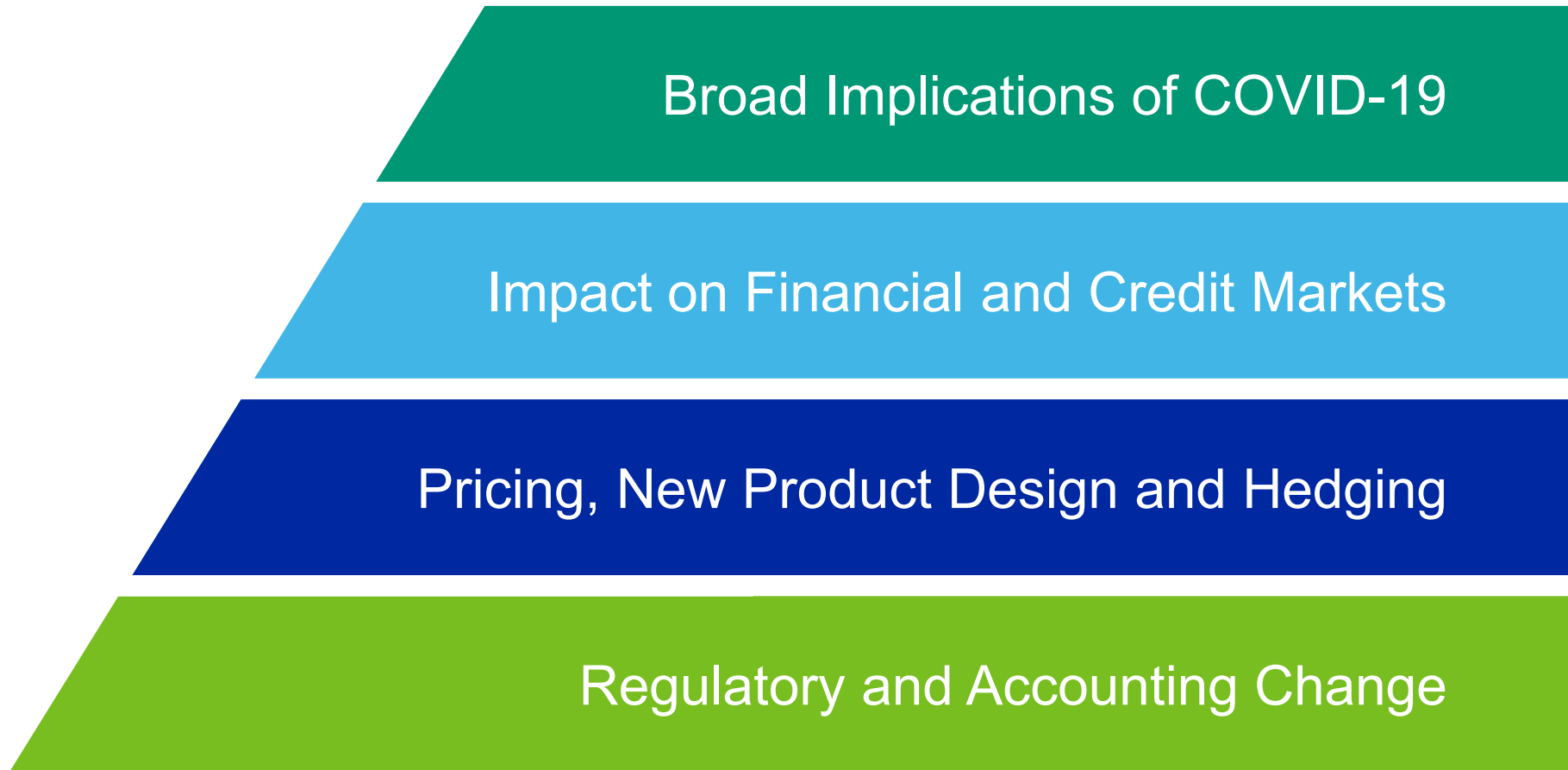
- > Lower margins
- > Reduced guarantees
- > Shift to buffer annuities

M&A & Reinsurance Implications



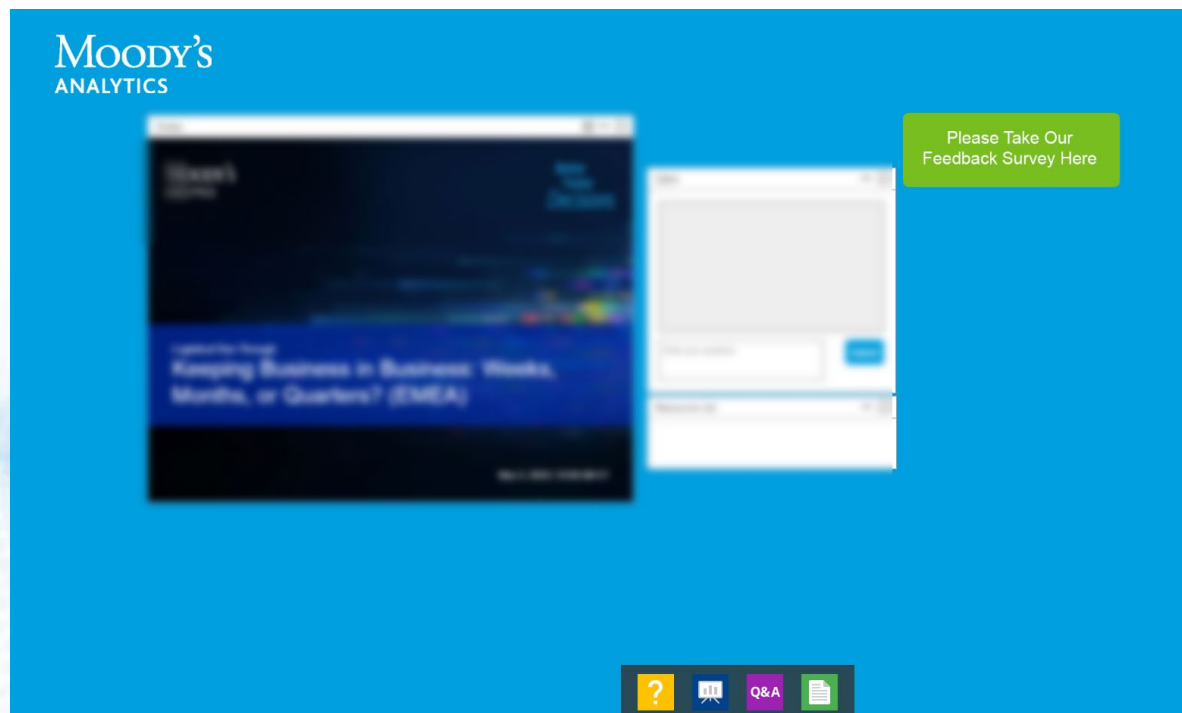
Panel Discussion

Key Themes for the Panel Discussion



We Want to Hear From You!

A survey will appear on your screen at the end of our presentation. Please take a few moments to complete it and let us know how we can continue to improve.



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VENERABLE[®]



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Impact on sale of Annuities

Q1 2020 Results – Year over Year Change

