Impact of COVID-19 on the Annuity and Insurance Business

Moody’s In Conversation with Venerable Annuity

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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
Deputy Chief Economist, Moody's Analytics
Impact of COVID-19 on the Annuity and Insurance Business

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, Moody's Investors Service
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

Patrick D. Lusk
President and CEO,
Venerable Insurance and Annuity Company (“VIAC”)
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

**Post-Global Financial Crisis**

- Asset market dislocations post-crisis contributed to substantial FA M&A / reinsurance activity
- Research indicates more than $160 billion FA assets were transferred following the financial crisis

**Post-COVID 19 Crisis**

- Rationalized new business and re-underwritten legacy blocks are better positioned for market volatility
- FA carriers focus on organic growth as less reinsurance activity is anticipated

**FA**

- Narrow buyer universe given product complexity and wide bid/ask on key valuation assumptions
- Limited significant VA transactions in the decade following the crisis

**VA**

- Market volatility drives pressure from public market investors for VA risk transfer activity
- Recent regulatory reform and emergence of buyers creates environment for more VA transactions
Panel Discussion
Key Themes for the Panel Discussion

- Broad Implications of COVID-19
- Impact on Financial and Credit Markets
- Pricing, New Product Design and Hedging
- Regulatory and Accounting Change Change
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.
Impact on sale of Annuities

Q1 2020 Results – Year over Year Change

Annuity sales drop by 8%

Source: Secure Retirement Institute, U.S. Individual Annuity Sales Survey, April 2020

Q1 Annuity Sales
Year-over-year change, by product type

- MYGA: -32.9%
- Traditional fixed: -27.1%
- Non-variable indexed: -7.5%
- Variable: 15.2%
- Structured: 37.9%

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