



Life Insurance Post-COVID-19: Recovering from the Deluge

Life Insurance Post-COVID-19: Recovering from the Deluge



Paul Quaranto, Jr.

Chairman, Chief Executive Officer &
President, Boston Mutual Life
Insurance Company & Chair, ACLI
Board of Governors Forum 500 Section

WEBINAR SERIES

June 17, 2020 | 1:00 PM EDT



Life Insurance Post-COVID-19: Recovering from the Deluge



Woody Bradford

Chief Executive Officer
& Chair of the Board

Conning

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Life Insurance Post-COVID-19: Recovering from the Deluge



Scott Hawkins

Director, Insurance Research
Conning

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Life Insurance Post-COVID-19: Recovering from the Deluge



Cindy Beaulieu

Managing Director, Portfolio
Manager and Chair of the
Investment Policy Committee,
Conning

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Topics for Discussion

- COVID-19 Impact on the Life Insurance Industry
- COVID-19 Impact on Markets and Investment Portfolios
- Unknowns...

Issues Facing the Life Industry



COVID-19 IMPACT ON THE LIFE INSURANCE INDUSTRY

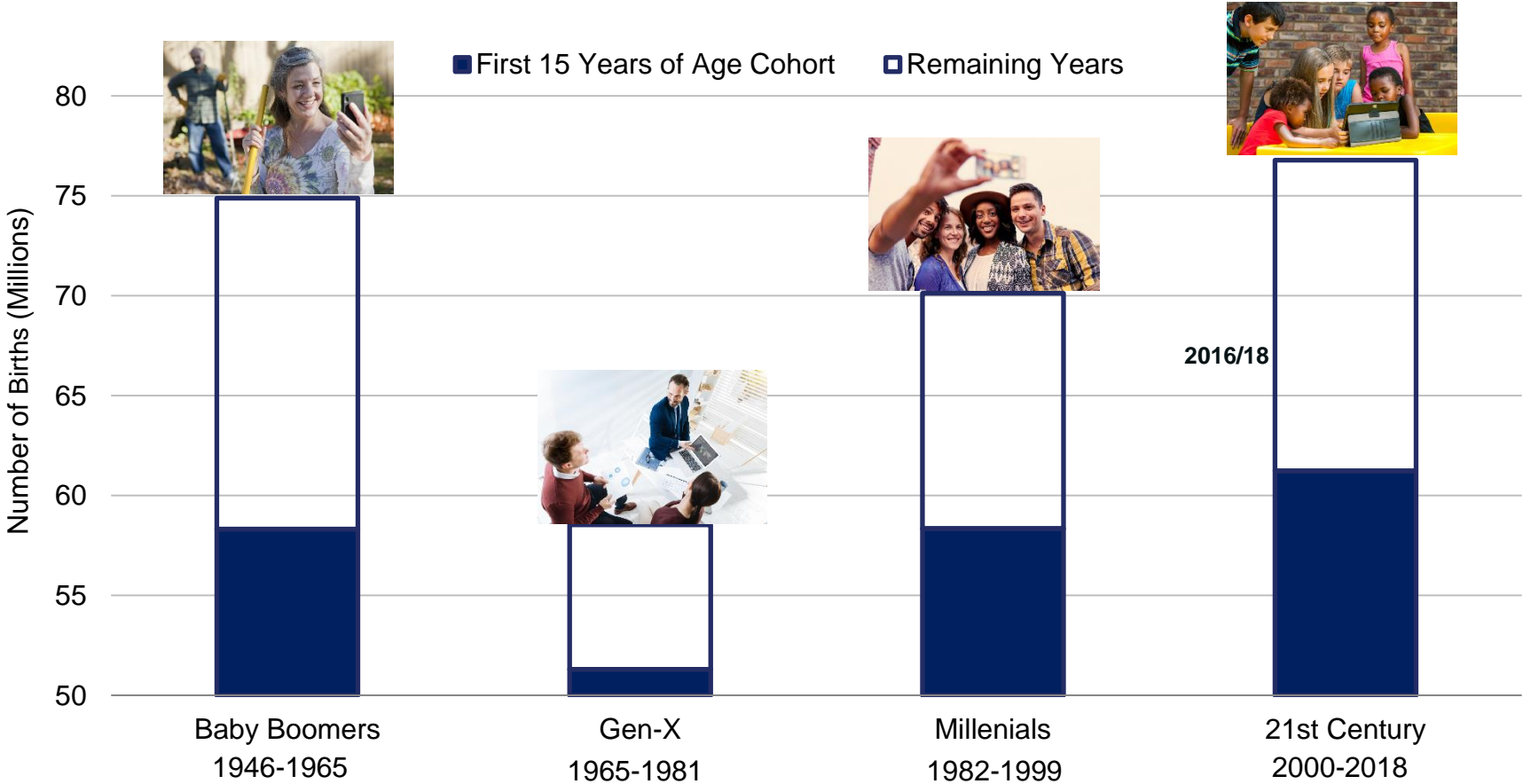
Issues Facing the Life Industry



No Exemption from Larger Social Forces

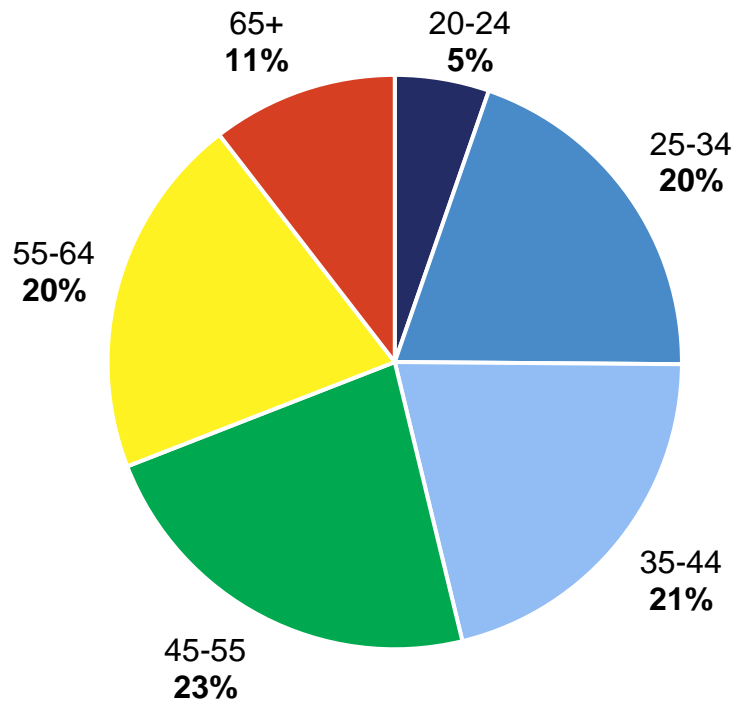


Demographics...Tomorrow's Customers Today

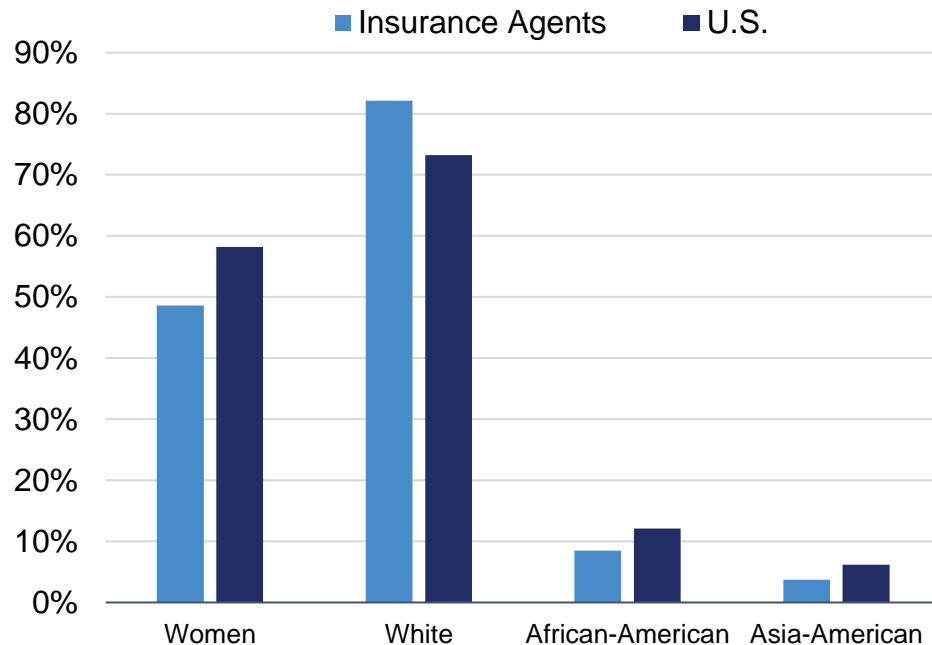


Insurance Agents Less Representative of Total U.S. Population

Percentage of Insurance Agents by Age Group: 2018

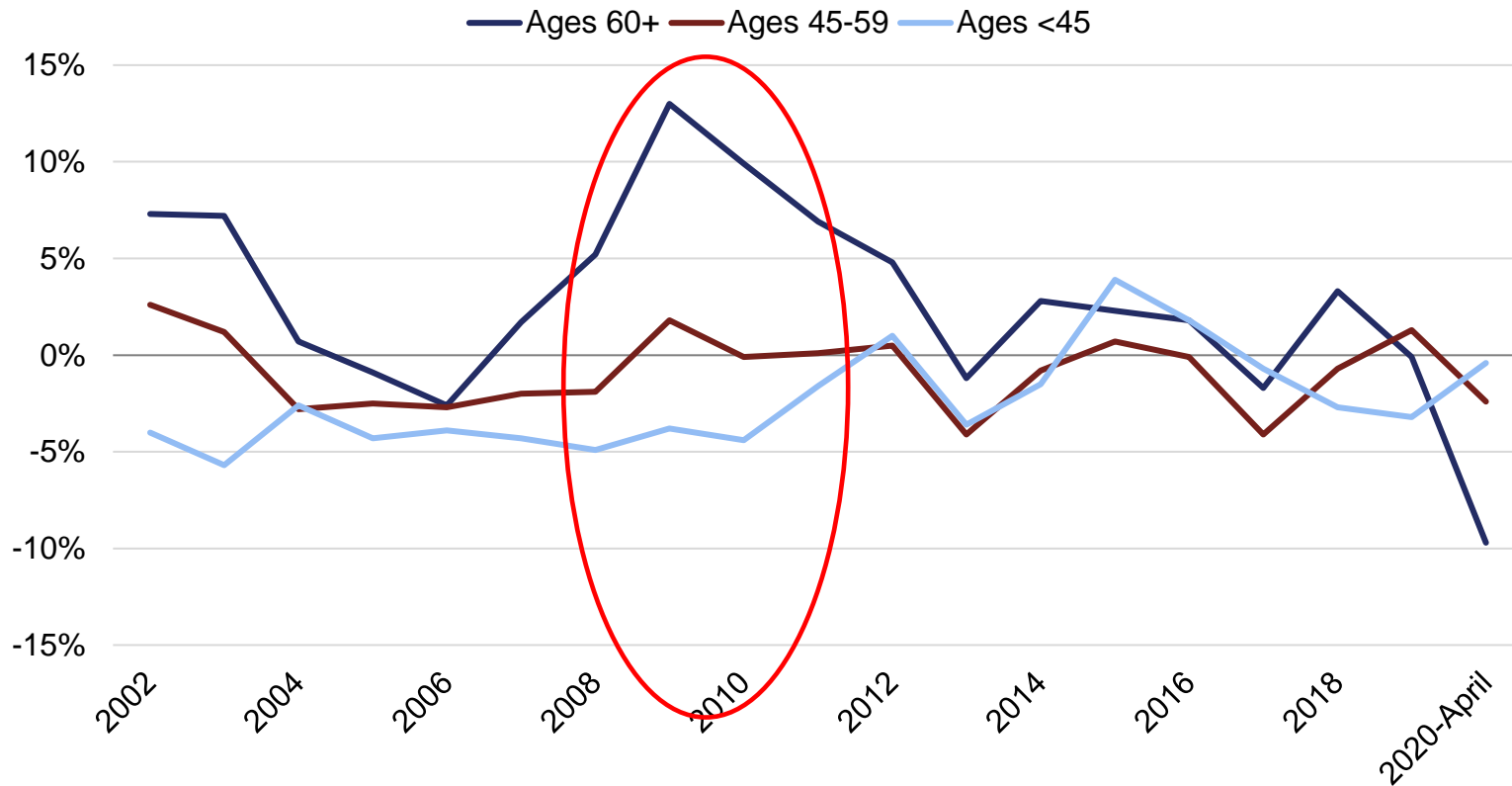


Women and Selected Cultural Make-up of Insurance Agents: 2018



COVID-19 Could Stimulate Life Insurance Sales

Year-Over-Year Change in Application Activity



Insurer Digitization Kicked into High Gear



Distribution

- Growth in online applications and sales
- Supporting agents with online tools and support



Administration

- Automated underwriting systems proving their worth
- Significant shift to remote work and WFH

Photo source: Sikov/stock.adobe.com

Insurer Responses to Current Environment

Underwriting and Product Responses

Underwriting

- Increased use of automated underwriting systems and new data sources

Age Restriction

- Restricting sales to older aged individuals

Product Halt

- Halting term life sales

Customer and Employee Responses

Premium Increases

- Higher premiums used to offset lower interest rates

Supporting Customers and Agents

- Extended grace periods for policyholders
- Accelerated commission to support distributors

Staff Reductions

- Buy out packages to reduce employee expenses

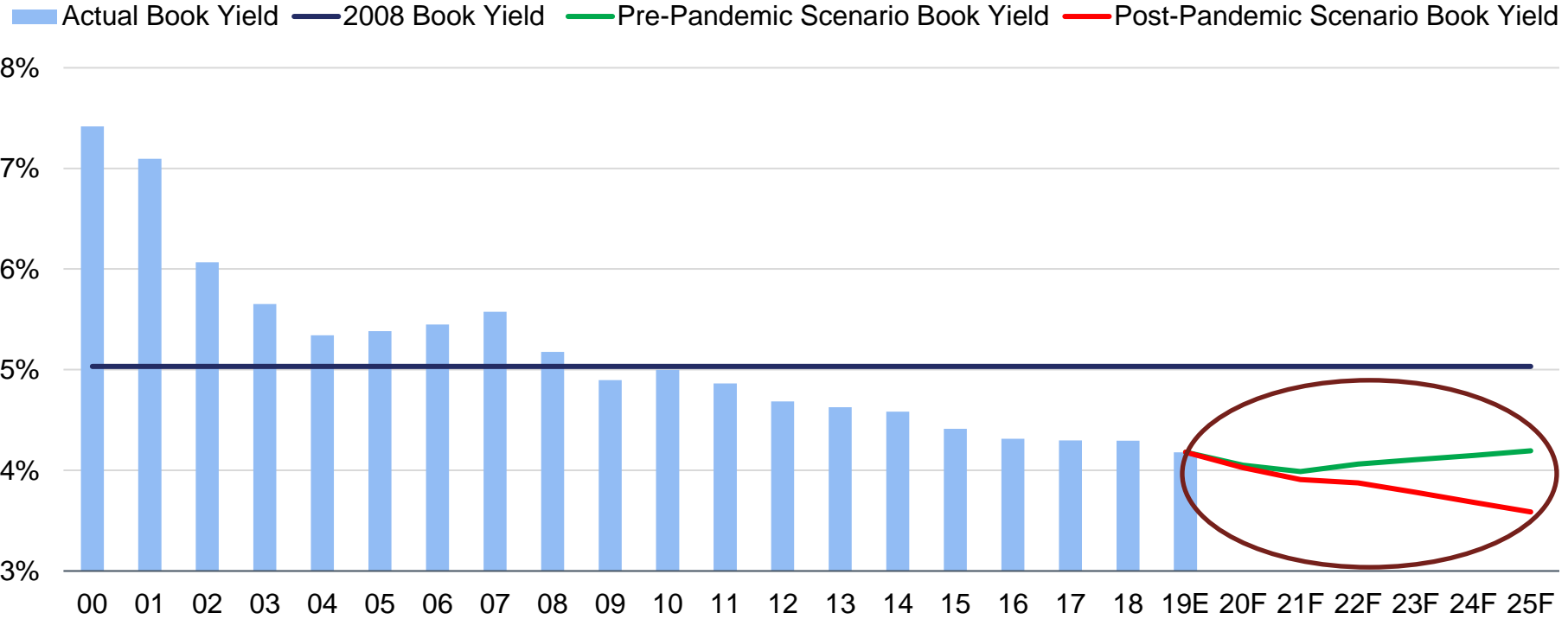
Changing the Face of Life Insurance

An Opportunity to Diversify Customers, Employees, and Work Environments



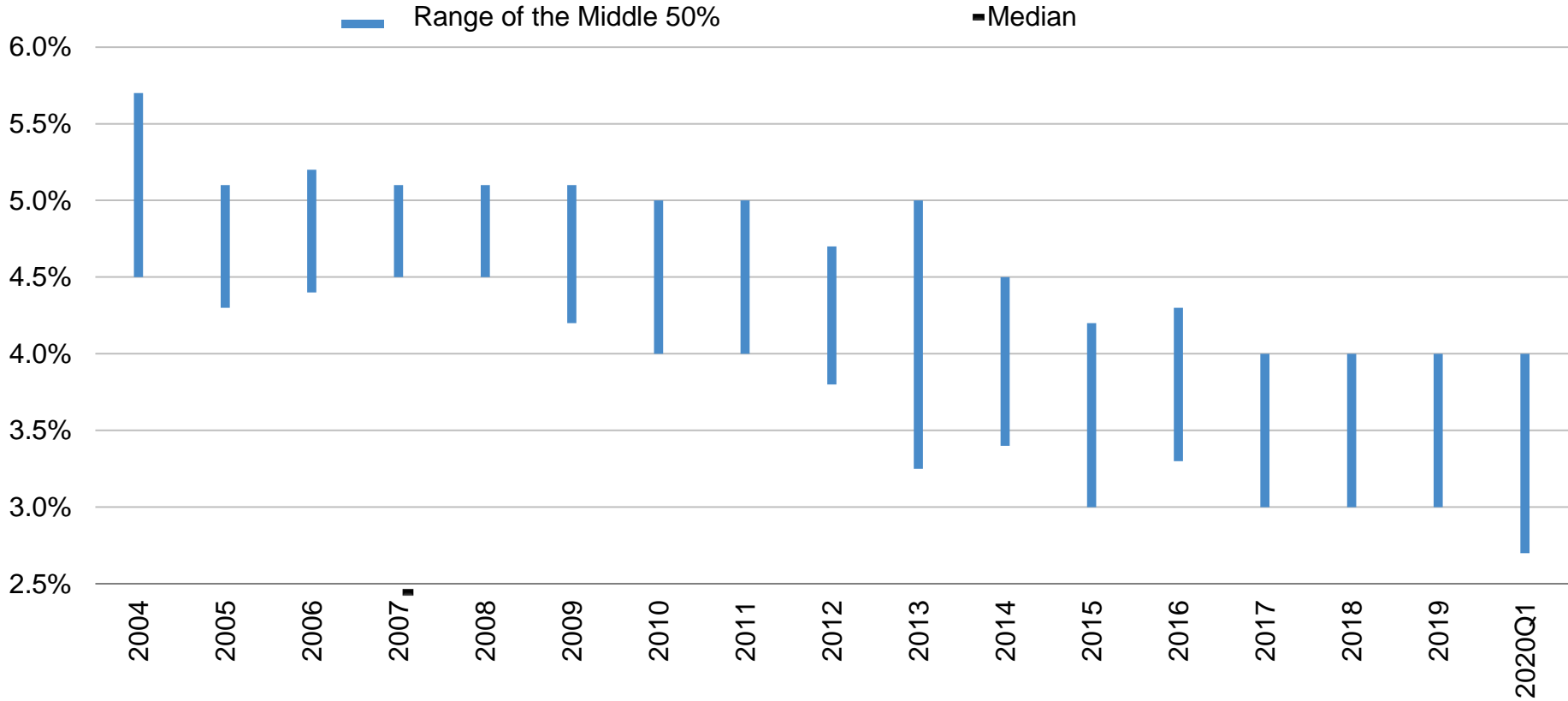
Net Book Yields Challenged by Continuing Low Interest Rates

Life Industry Portfolio Book Yield – Illustrative Scenarios



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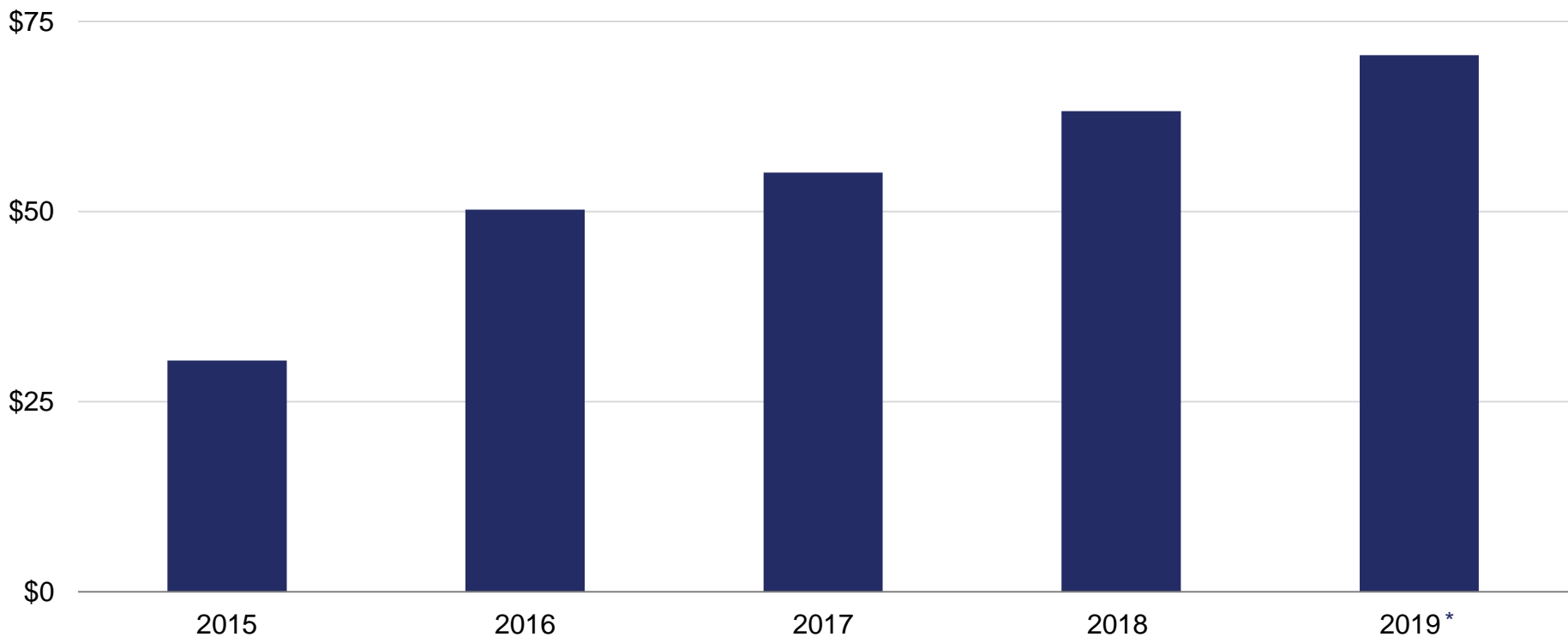
Universal Life Crediting Rates Continue to Decrease



Life Insurers Increasing FHLB Usage

FHLB Borrowing via Funding Agreements

\$ in billions



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*Estimate

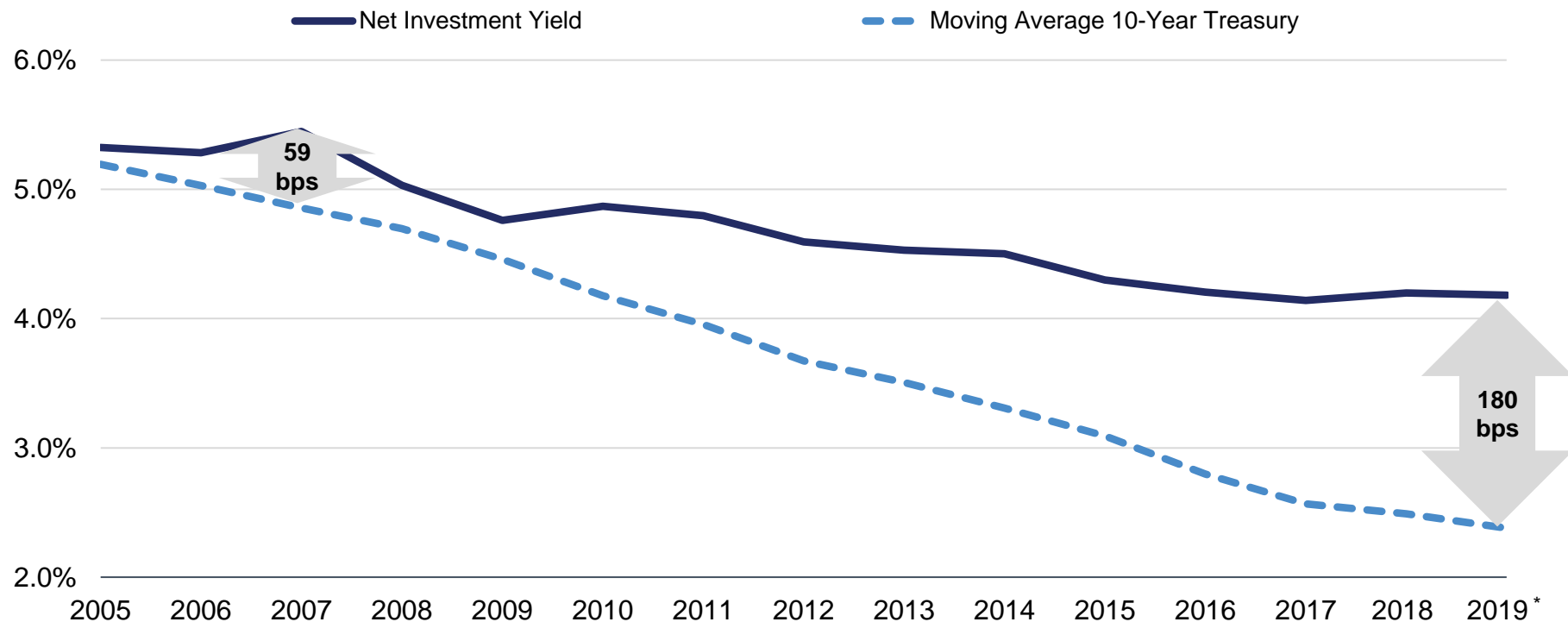
COVID-19 IMPACT ON MARKETS AND INVESTMENT PORTFOLIOS

Issues Facing the Life Industry



Increasing Spread: Increasing Risk in Asset Portfolio?

Industry Net Investment Yield versus 10-year Moving Average of 10-year Treasuries



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*Estimate

Conning Baseline Forecast

Economic Indicators (As of June 2, 2020)		Actual 1Q20	Forecast 2Q20	Actual 2019	Forecast 2020 2021	
U.S.	Gross Domestic Product	-5.00%	-36.00%			
	Real GDP (Q4/Q4)			2.30%	-3.60%	5.80%
	Civilian Unemployment Rate	3.80%	15.90%	3.70%	10.20%	6.60%
	ISM Index	50.00	43.20	51.20	47.90	53.10
	Retail Sales	-8.60%	-46.20%	3.60%	-4.10%	11.90%
	WTI Oil Price	\$46	\$27	\$57	\$37	\$42
	CPI Core (Y/Y)	2.40%	1.30%	2.30%	0.80%	2.10%
	Fed Funds Rate	0.08%	0.08%	2.13%	0.34%	0.27%
	2-Year Note Yield	0.23%	0.30%	1.92%	0.45%	0.52%
	10-Year Note Yield	0.70%	0.75%	2.09%	0.89%	0.98%
Global	Eurozone GDP	0.10%	-1.50%	1.20%	-5.20%	4.70%
	U.K. GDP	0.00%	0.20%	1.40%	-5.00%	3.10%
	World GDP (Y/Y)	na	na	2.90%	-3.00%	5.80%

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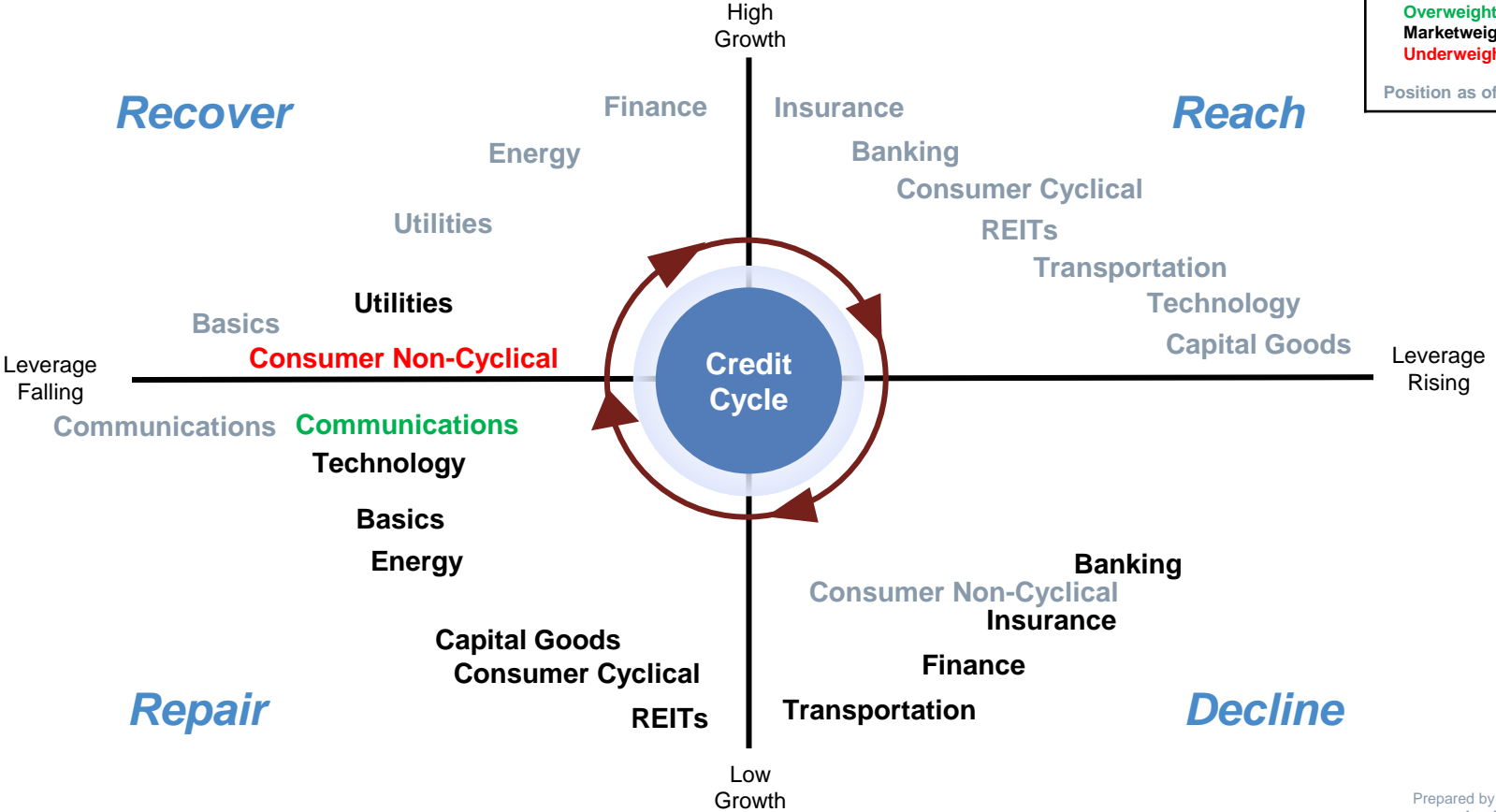
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Spreads – Recent History, Current, Forecast

Current Spreads and Forecasts (OAS)			
	March 2020 (Actual)	May 2020 (Actual)	December 2020 (Forecast)
Investment Grade Corporates	373	174	130
High Yield	1100	637	510
Emerging Markets	719	448	355
Mortgage-Backed Securities	132	73	40
Asset-Backed Securities	325	111	55
Commercial Mortgage-Backed Securities	260	158	100
Tax-Exempt Municipals	343	128	75
Taxable Municipals	262	210	165
S&P 500	2,237	3,044	3,450

Corporate Credit Cycle

Key
Current Positions:
Overweight
Marketweight
Underweight
Position as of 12/31/19

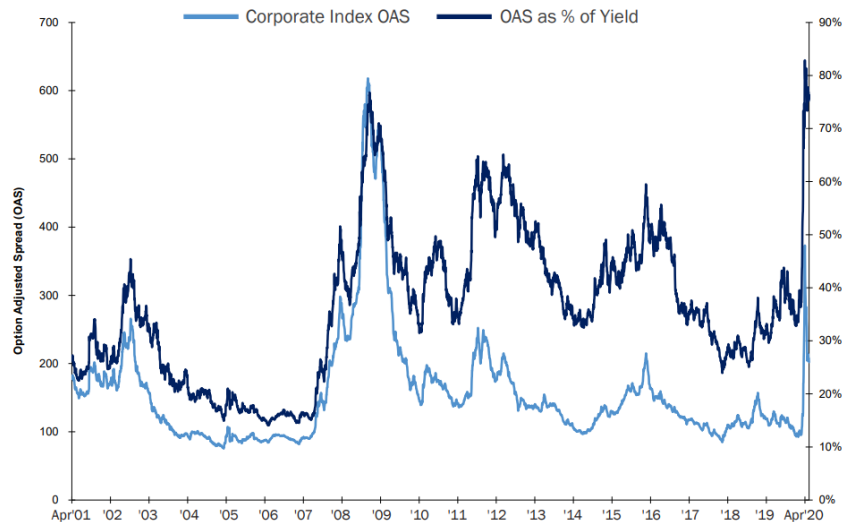


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As of June 8, 2020

The Rise of BBB Rated Debt

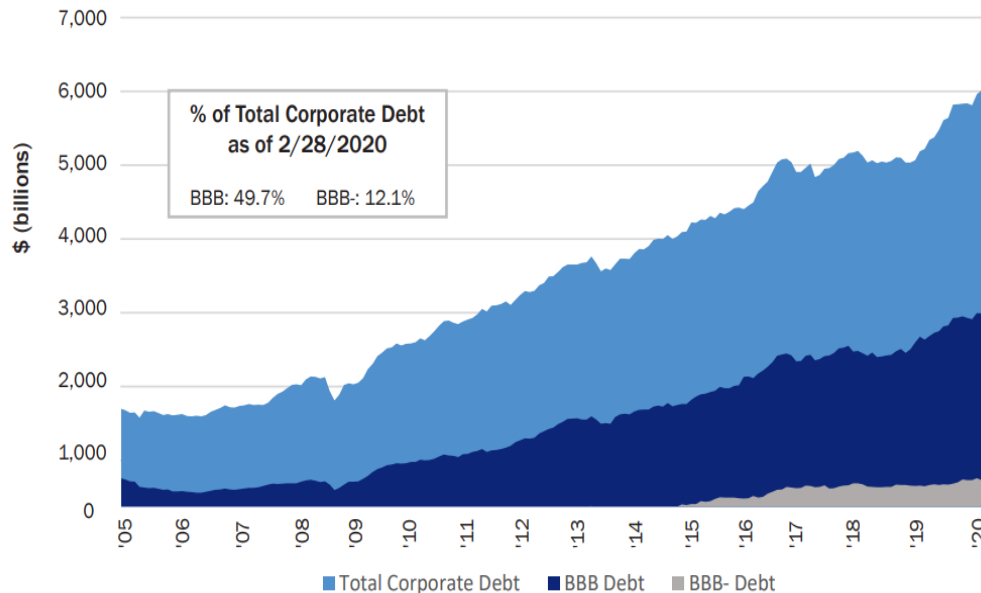
Corporate Index Spread as Percentage to Yield-to-Worst

(April 2001-April 2020)



Growth of U.S. Corporate Debt and BBB, BBB- Exposures

(2005- April 2020)

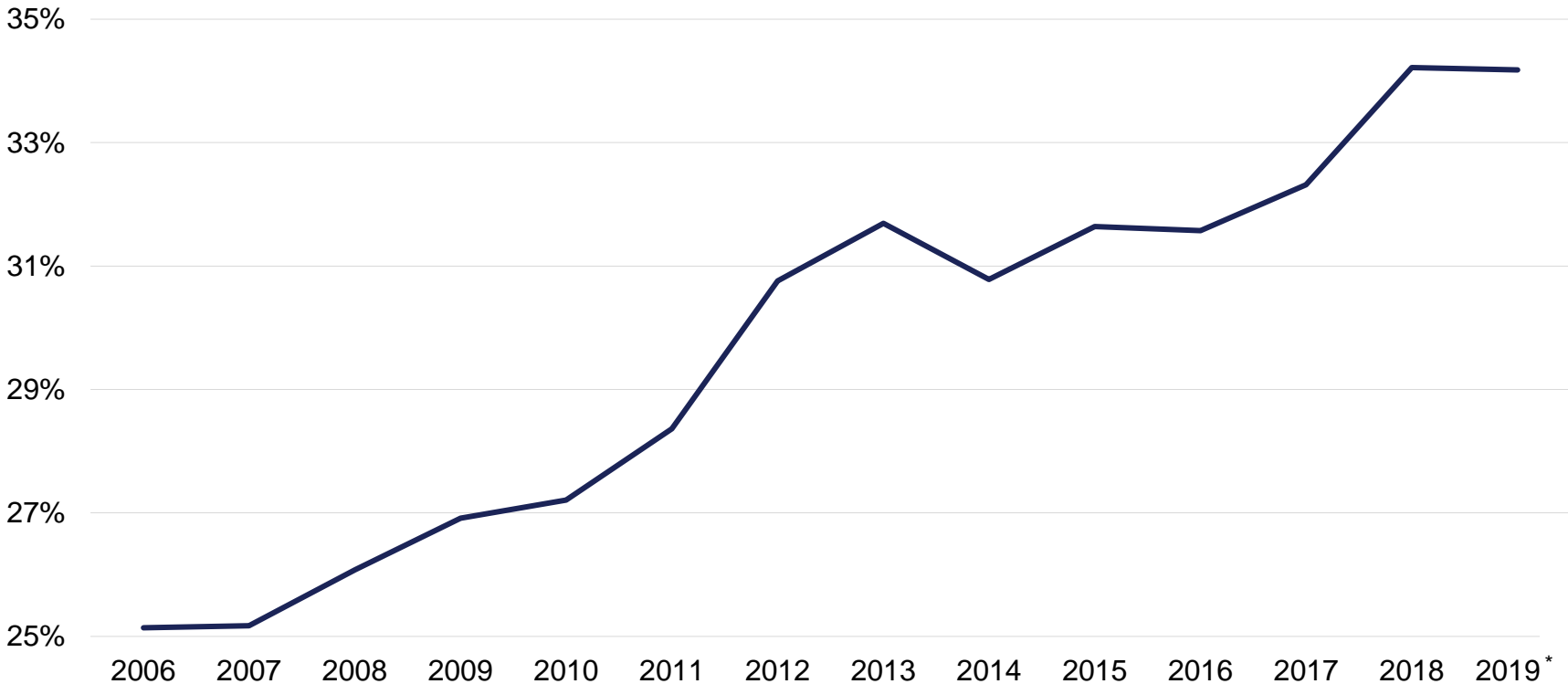


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Increasing Exposure to BBB Bonds

BBB-rated Bond Holdings of Life-Annuity Industry

As % of Total Bonds

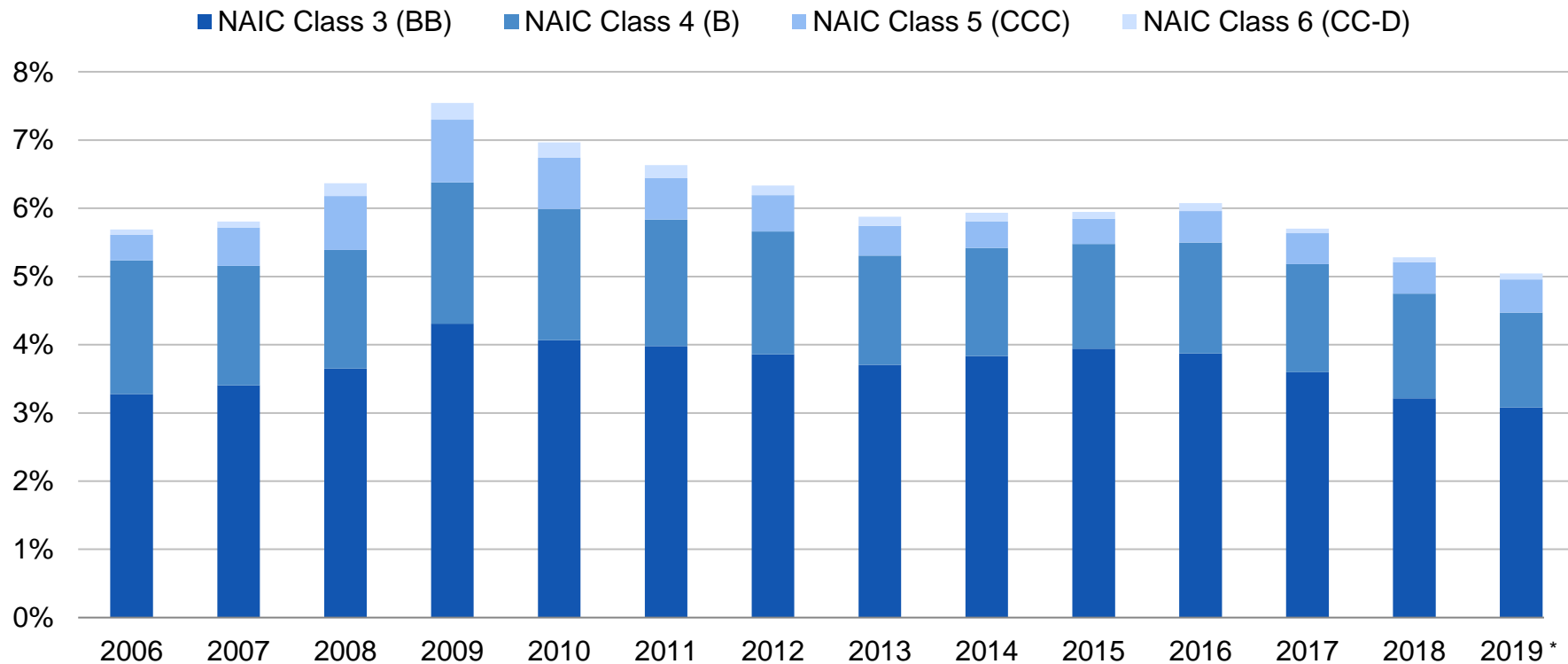


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*Estimate

High Yield Bonds Have Been a Decreasing Portion of the Portfolio

Below Investment Grade Bond Holdings of Life-Annuity Industry

As % of Total Bonds



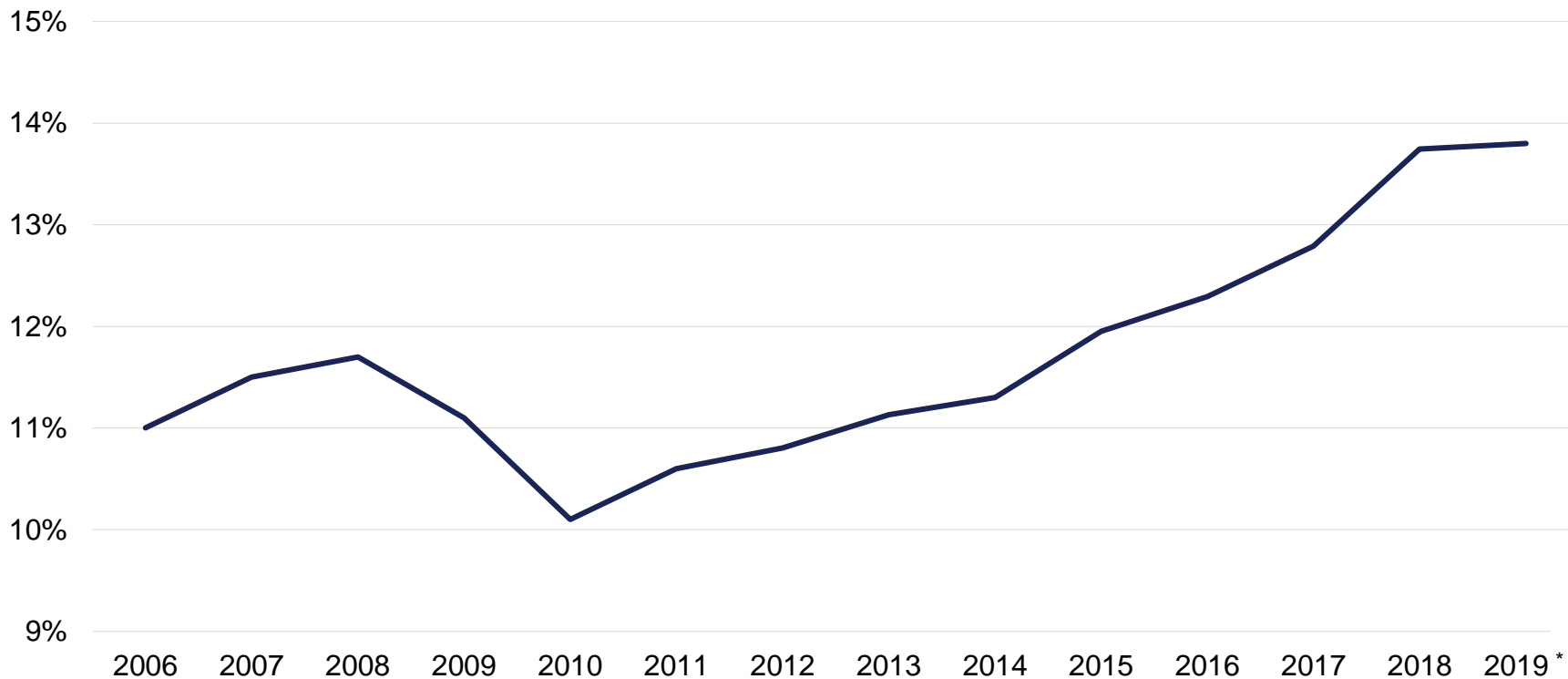
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Increasing Allocations to Mortgages In Pursuit of Income

Mortgage Holdings of Life-Annuity Industry

As % of investable assets



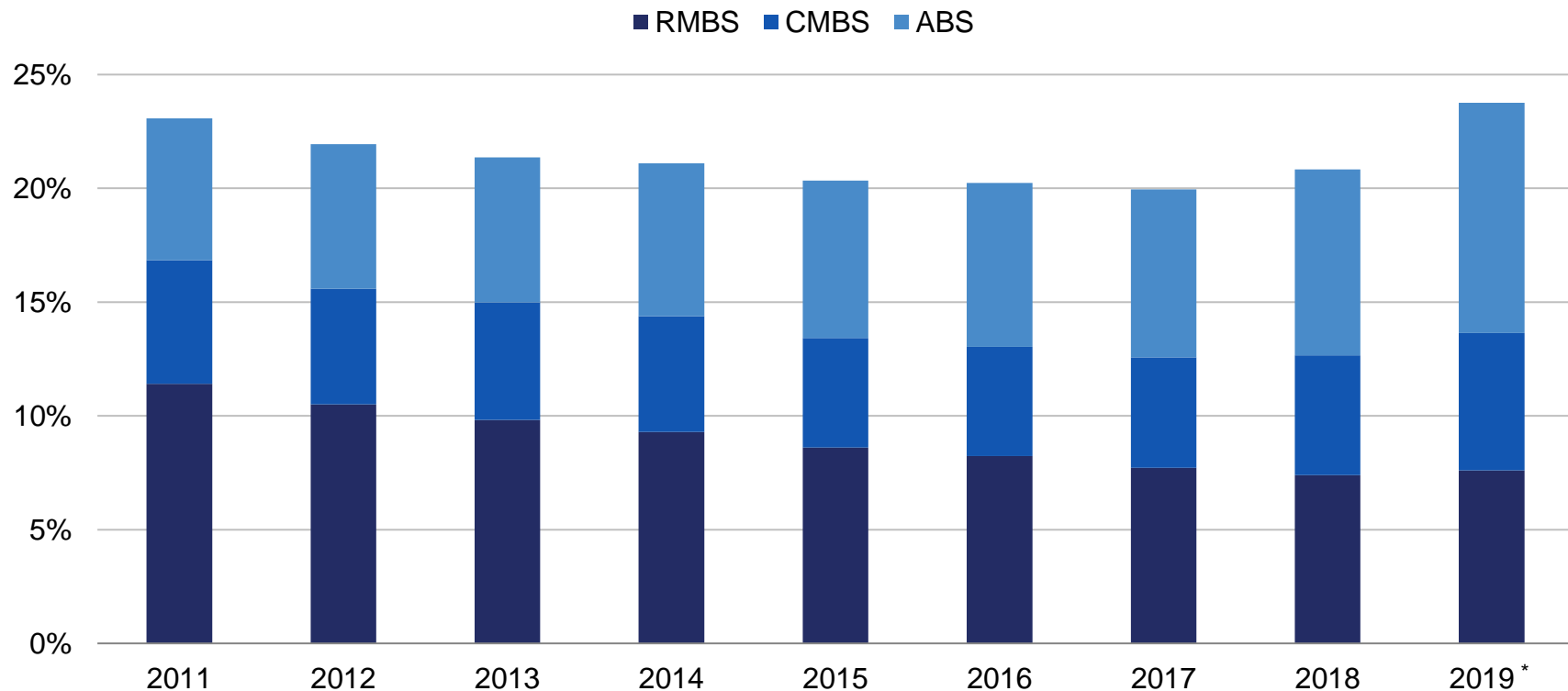
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Increasing Exposure to ABS, Decreasing RMBS Holdings

Structured Security Holdings of Life-Annuity Industry

As % of Total Bonds



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*Estimate

Commercial Real Estate

Pros

Cons

Commercial Mortgage Loans

- **Growing exposure and key source of yield for life insurers**
- Diversifying asset with larger investable universe and low correlations
- Attractive alternative to CMBS with better underlying assets and investor protection

- Large life insurers carry greater exposure
- **Underlying assets suffer from the same negative fundamental trends as all commercial real estate**

REITs

- Entered cycle with strong balance sheets
- **Resilient rent collection for most property types**
- Debt capital markets have improved

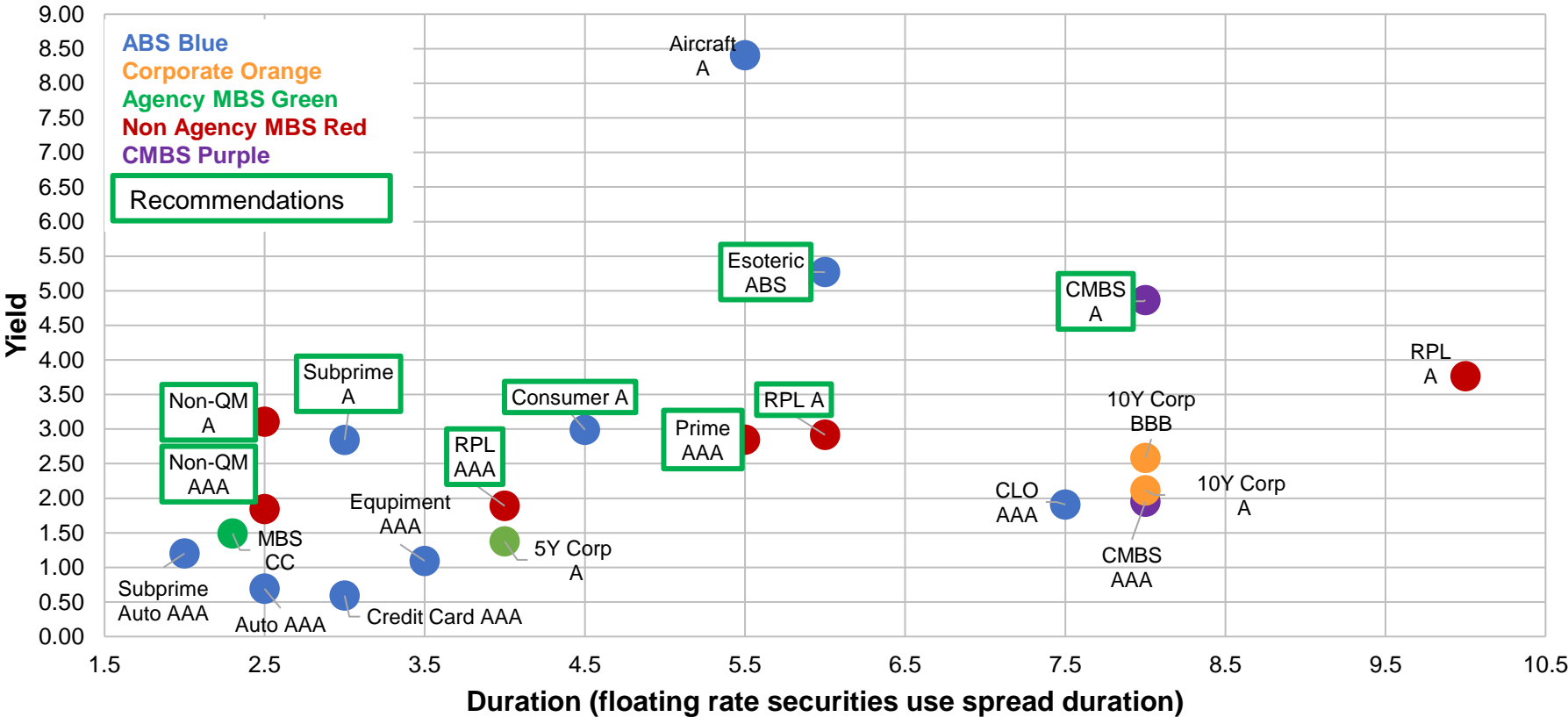
- Malls, hotels and senior housing properties most pressured
- **Tenants disrupted by social distancing and stay at home orders**
- Office and retail properties most affected from acceleration of trends from pandemic

CMBS

- **Structural protections should limit losses**
- Broad investment base benefits market liquidity
- Credit performance was strong heading into crisis

- Heightened balloon maturity risk due to interest-only loans
- **Mixed implications from TALF program**
- CMBS market could lose market share to competition

Structured Market Opportunities



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Structured Market Opportunities

Pros

Cons

AAA CLOs

- Attractive spreads versus corporates and on-the-run ABS
- Limited projected new issuance is a strong positive technical
- **Robust structural protection with high enhancement levels**
- Collateral consists of many diverse sectors

- **Short Duration: May not meet portfolio needs**
- Negative Convexity: Prepayment risk exists
- Relatively New

Non-QM

- **High Quality: Near prime borrowers with substantial equity**
- Structural Deleverage: Potential for upgrades over time
- Exceptional Yield: Yield advantage relative to other sectors

- Short Duration: May not meet portfolio needs
- **Negative Convexity: Prepayment risk exists**
- Relatively New: Performance history is short

Esoteric (Container)

- **Long term leases with staggered lease expirations creates cashflow stability**
- Bond valuations are attractive versus corporate alternatives
- Diversification from consumer-based ABS

- **Potential headline risk due to potential global trade disruption**

Sector Recommendations

Market Call

Asset Class

Overweight



- Investment-Grade Corporates
- Private Placements
- Tax-Exempt Municipals
- Taxable Municipals
- Asset-Backed Securities

Marketweight

=

- High-Yield Corporates
- Bank Loans
- Emerging Markets
- Collateralized Loan Obligations (CLOs)

Underweight



- Mortgage-Backed Securities
- Commercial Mortgage-Backed Securities
- Treasurys
- Agencies

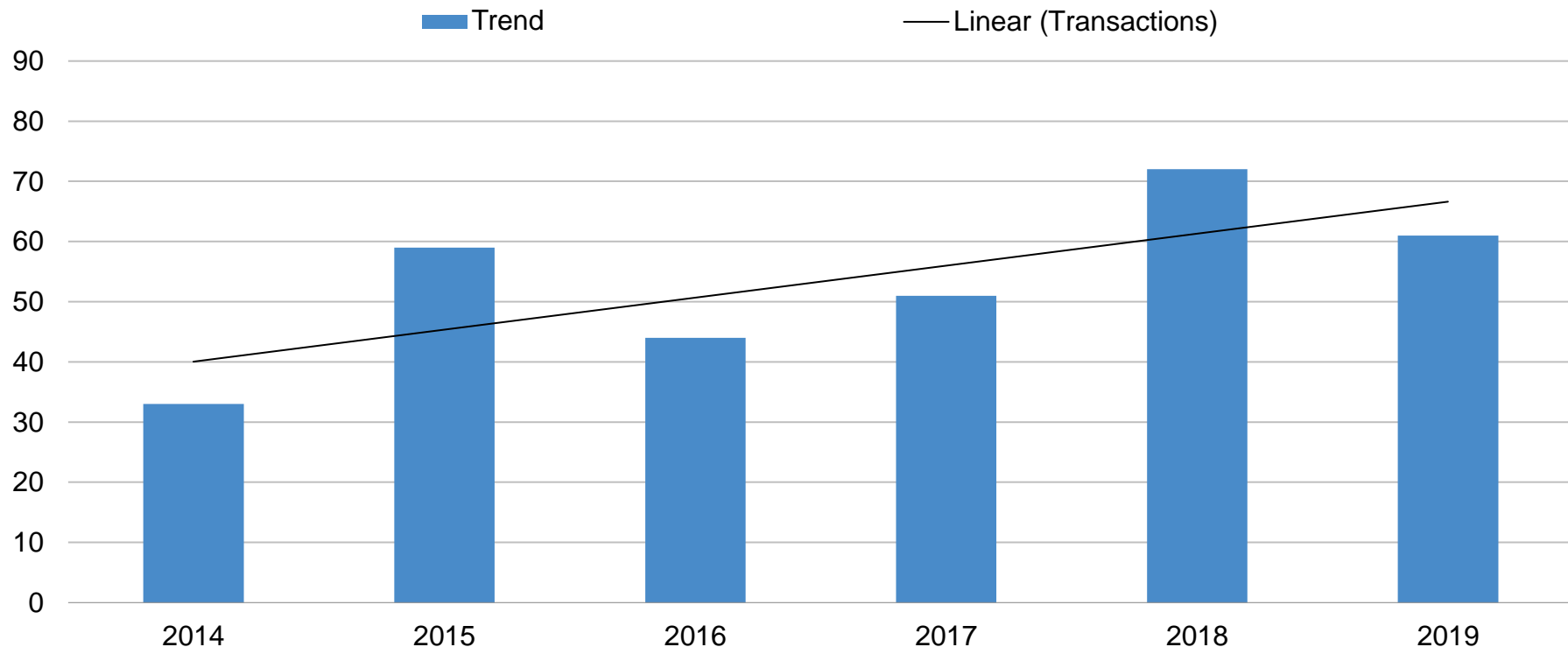
THE UNKNOWN...

Issues Facing the Life Industry



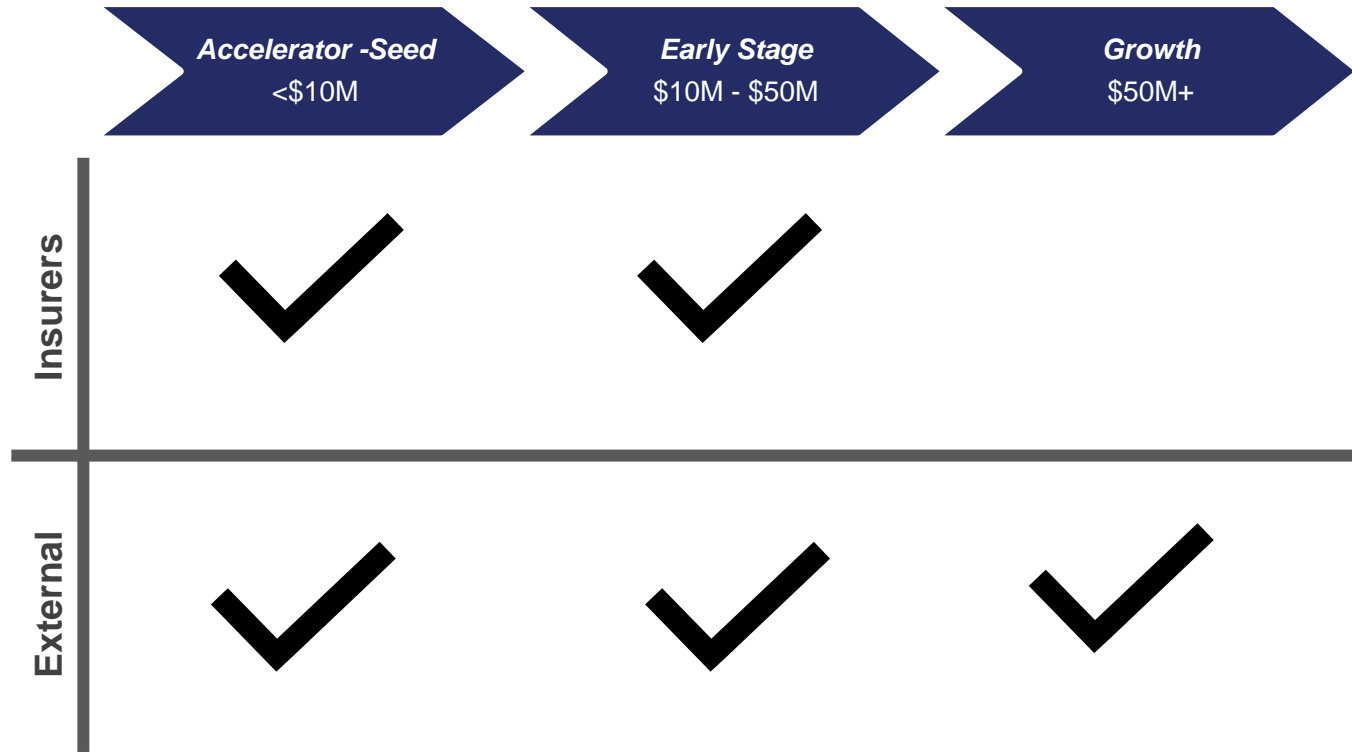
Insurer M&A Down Globally, Muted Outlook for 2020

Historical Number of Life-Annuity Global Insurance Mergers & Acquisitions



Prepared by Conning, Inc. Sources: Company press releases, public filings, and news articles.

Insurers Seeking Insurtech Advantage via External Investments



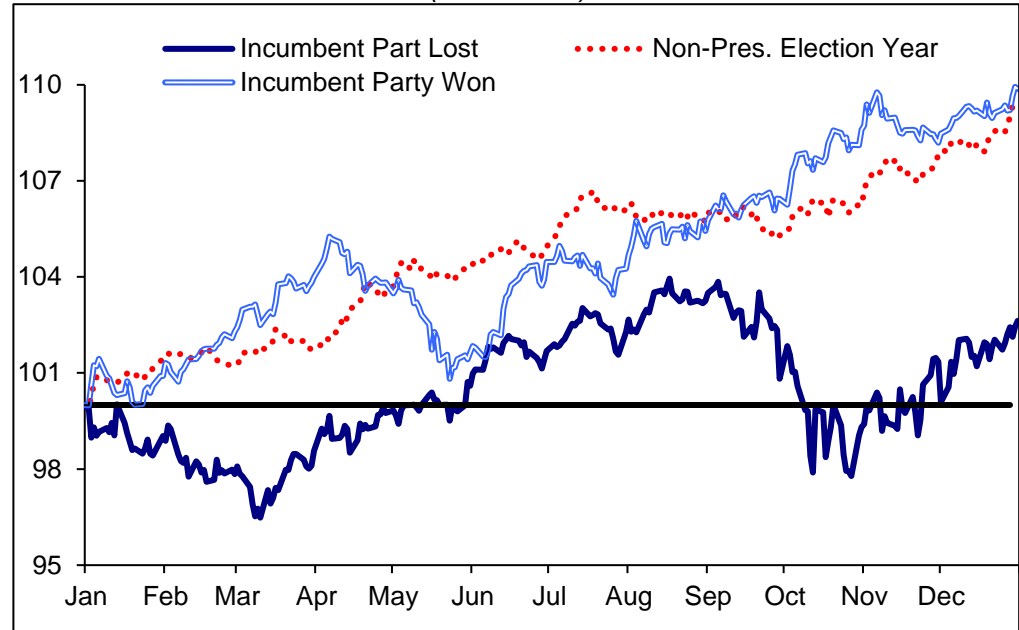
S&P 500 Performance in Election Years

S&P 500 Performance 3 Months Prior to Presidential Election

Year	S&P 500 Price Return	Incumbent Party	
'28	14.91%	Won	✓
'32	-2.56%	Lost	✓
'36	7.92%	Won	✓
'40	8.56%	Won	✓
'44	2.29%	Won	✓
'48	5.36%	Won	✓
'52	-3.26%	Lost	✓
'56	-2.58%	Won	✗
'60	-0.74%	Lost	✓
'64	2.63%	Won	✓
'68	6.45%	Lost	✗
'72	6.91%	Won	✓
'76	-0.09%	Lost	✓
'80	6.73%	Lost	✗
'84	4.80%	Won	✓
'88	1.91%	Won	✓
'92	-1.22%	Lost	✓
'96	8.17%	Won	✓
'00	-3.21%	Lost	✓
'04	2.16%	Won	✓
'08	-19.48%	Lost	✓
'12	2.45%	Won	✓
'16	-1.90%	Lost	✓

S&P 500 Average Performance: Presidential Election Years & Incumbent Party Outcome

(1933-2019)



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The Unknown Unknowns...



DISCUSSION



COVID-19 Updates on the Life Insurance Industry's Response.

Visit acli.com/covid19 for articles, resources, webinars,
and updates.

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BI:FYI – A Webinar Series on Federal and State Best Interest Initiative

Part 1: Enhancing Industry Best Interest Practices

Presented by Eversheds Sutherland

June 26, 2020 | 1:00 PM EDT

Financing the COVID-19 Rescue Package: Short and Long Run Implications for the U.S.

Presented by



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Primary Risk of Investment Strategies

Structured Credit

- Investment Risk - The potentially complex structure of the security may produce unexpected investment results not based on default or recovery statistic
- Valuation Risk - Valuation of structured credit products are provided by third parties, based on models, indicative quotes, and estimates of value, in addition to historical trades. There is inherent difficulty in valuing these assets, and there can be no assurances the assets can be disposed of or liquidated at the valuations established, or that published returns will be achieved
- Underlying Asset Credit Risk - During periods of economic uncertainty and recession, the incidence of modifications and restructurings of investments may increase, resulting in impairments to the underlying asset value
- Economic Risk - Changing economic, political, regulatory or market conditions, interest rates, general levels of economic activity, the price of securities and debt instruments and participation by other investors in financial markets may affect the value of the structured security and all other asset classes

Fixed Income Primary Risks

- Fixed-income portfolios are subject to a variety of risks including, but not limited to, interest rate, yield curve, credit, liquidity and reinvestment risk

Corporate Bonds - Below Investment Grade (High Yield Bonds)

- Market Risk - Market, or systematic, risk is the risk that individual securities may be correlated with general market downturns regardless of the particular business conditions and outlook for the individual companies
- Credit Risk – eroding fiscal health in issuing companies resulting in inability to meet debt obligations
- Inflation Risk - Inflation erodes the purchasing power of future cash flows from investments. In times of high inflation the value of securities may be reduced
- Liquidity Risk - Liquidity risk can occur when market conditions do not allow transactions to be made in a quick and orderly fashion in relation to indicative market prices

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