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Market Segment Outlook: US Life/Annuity Insurance

**The outlook
for the US life/
annuity segment
remains at Stable,
reflecting a
continuation of
top-line growth,
healthy capital
and risk-adjusted
capital**

AM Best is maintaining its Stable outlook for the US life/annuity segment, supported by the following key factors:

- Capital and risk-adjusted capital remain healthy.
- Continued strong top-line growth.
- The industry remains consistently profitable.
- Quality of capital has deteriorated through significant use of reinsurance by removing conservancy in reserves as the industry moves to a more economic standard.
- Quality of assets remains a concern with increased allocation to private credit and growth in affiliated assets.
- Macroeconomic factors could potentially impact future interest rates and future growth.

The US life/annuity outlook remains Stable, continued in large part due to healthy overall capital and risk-adjusted capital levels. Despite very strong growth in recent years, the industry has been able to grow surplus and maintain strong overall balance sheet metrics, which is the key for the industry. While surrender activity has also picked up with changes in interest rates and sales, the industry's commitment to strong asset/liability matching, along with liquidity stress testing, has proven capable in dealing with these challenges.

Offsetting the robust capital levels has been a deterioration of the quality of the capital and assets. Total use of reinsurance and specifically offshore reinsurance has increased in its usage. It is AM Best's opinion that this increased use of reinsurance and offshore reinsurance is to carry reserves on a more economic basis as opposed to a more conservative statutory basis on the liability side and to move the asset side of the balance sheet seeking the lowest risk-adjusted capital charges for its investments. The combination of these leads to an overall lower quality of the balance sheet.

Operating performance remains strong for the industry. While life sales have slowed in growth from the post-COVID bump, annuity sales have surged, posting record results for the last few years. Annuity growth was due to a broad-based range of product offerings, from strong sales in multi-year-guarantee annuities (MYGA) and fixed index annuities (FIA) to newer products like the registered-index-linked annuities (RILA), which grew rapidly, albeit from a low base. Even traditional variable annuity products have seen a rebound in growth following several years of declines, and institutional products like pension risk transfers and funding agreement programs are also strong. While many new entrants have come into the market over the last few years, the strong top-line growth has led to rational competition among market participants and spreads, and profitability has remained healthy. However, a concern going forward is growth may not be maintained at this record pace, and continued entrants into the market can potentially lead to much stronger competition, which could lead to increased risk-taking on both the product side in terms of guarantees and crediting rates and on the asset side in terms of seeking higher yield.

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From the business profile perspective, the industry has been aided by many of these new entrants and new capital coming into the industry as legacy blocks of business have been repriced and sold, leading to a de-risking of the product profile. The industry is still dealing with many legacy systems but has moved to a more digital approach to distribution and client interactions, which should increase efficiency and reduce errors and enable better fraud detection. The industry has moved to a more automated underwriting approach for many low face amount policies, but usage for artificial intelligence is still in its infancy, and material impacts from this new technology are only beginning to be felt.

AM Best has seen a renewed focus on enterprise risk management (ERM). Industry participants are clearly taking asset/liability management and stress testing seriously and using it to guide decision-making. AM Best has also noted a change from individual entity-level capital management to a more holistic view of capital management. Many of the stress testing and scenario analyses are more commonly performed on a consolidated aggregated basis. AM Best believes this is being driven by the need for a more holistic approach to encompass risks like reputation, cyber security, and vendor management into their ERM programs but also by more companies operating from a more diverse set of organizations, both on and offshore, in different regulatory regimes, making it more necessary to move to a more enterprising view of risk management.

GUIDE TO BEST’S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best’s Market Segment Outlook can be Positive, Negative, or Stable.

Best’s Market Segment Outlook	
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Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

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