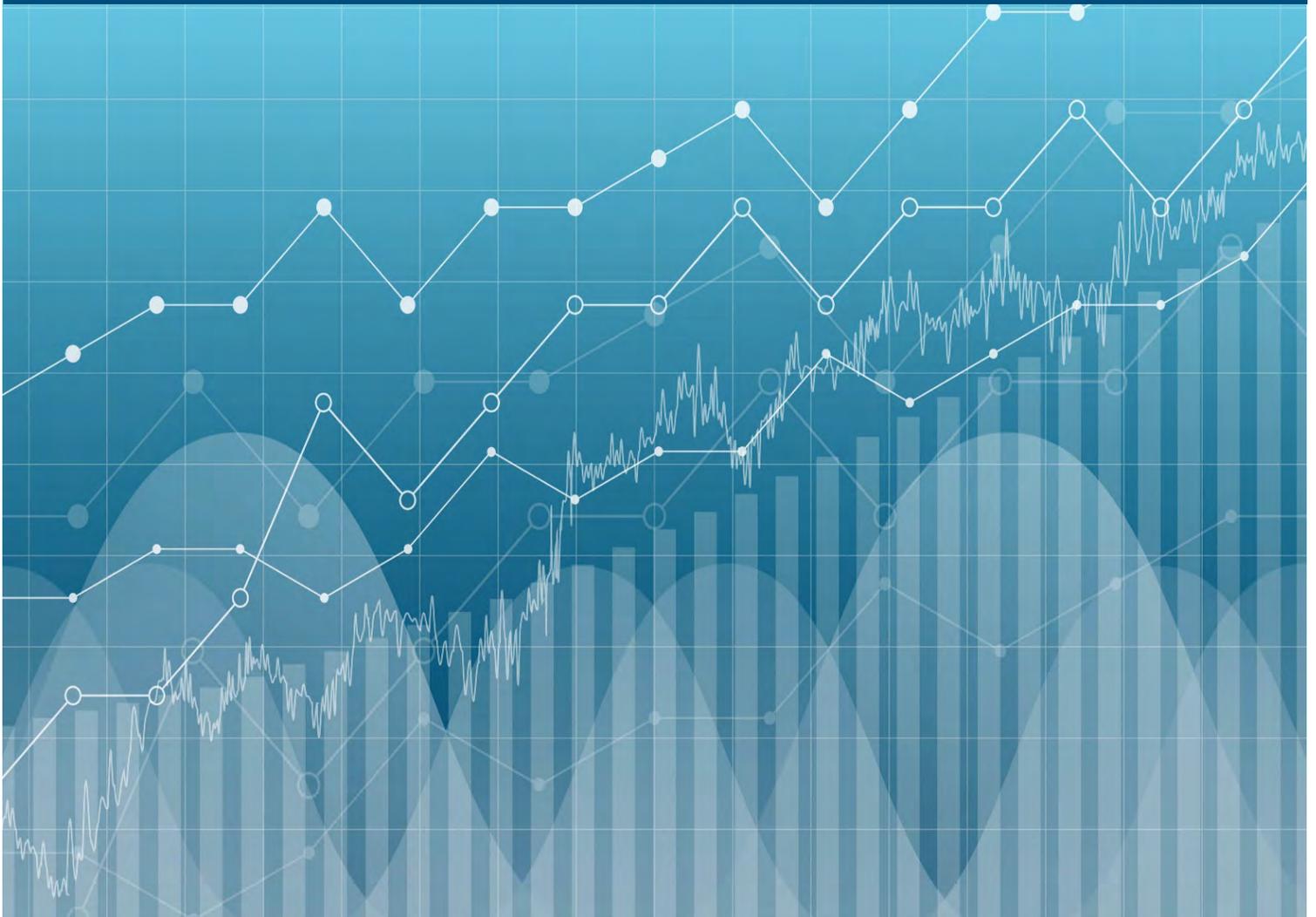


# COVID-19 Asset/Liability Management Survey Summary of Results May 8, 2020





# COVID-19 Asset/Liability Management (ALM) Survey

## Summary of Results

May 8, 2020

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# COVID-19 ALM Survey

## Summary of Results

### Section 1: Introduction

The Society of Actuaries (SOA) has partnered with LIMRA, Oliver Wyman, and the American Council of Life Insurers (ACLI) to conduct a series of 'sprint' surveys on the COVID-19 pandemic and its potential impacts on the insurance industry.

The COVID-19 pandemic infection has greatly affected the economy, resulting in volatile market conditions. Because market conditions greatly impact the value of insurance companies' assets and liabilities, the fourth survey in this series focused on best practices around asset and liability management (ALM). The survey was directed at actuaries, investment managers, and risk managers directly involved in assessing the impact of recent events on ALM. Responses to the survey were collected between April 22-28, 2020. Thirty-two companies responded to the survey. Highlights of the survey responses are found in Section 2 and a summary of results for each question in the survey is found in Section 3.

## Section 2: Survey Highlights

This survey covers topics related to the effect of COVID-19 on ALM.

**Top Concerns for ALM:** Two-thirds of the companies are concerned or very concerned about the impact of low interest rates on ALM for their company. Twice as many respondents are very concerned about the impact of low rates for the life insurance industry (~47%) vs. the impact of low rates for their company (~22%). When asked about the areas that low interest rates could impact, over half were either concerned or very concerned about new business margins (62%), Statutory earnings (59%), and new business sales (56%). When asked about ALM related challenges, most companies were concerned or very concerned about reinvestment yields (66%), new business yields (62%), credit migration (56%), and default risk (56%).

**ALM Scenarios:** About 85% of the companies use management scenarios to evaluate and set ALM strategies and over two-thirds use other deterministic and real-world stochastic scenarios. Management scenarios are defined as internal scenarios used for planning or other management decisions. About two-thirds of the companies anticipate the 10-year and 30-year treasury rates to be in the range of 0.5-1% and 1-1.5%, respectively, by year-end for their base case scenario. About one-third of companies expect a negative 10-year treasury rate at the end of 2020 in their worst case scenario and 19% expect a negative 30-year treasury rate. More than one-half of respondents take credit migration into account in their management scenarios. About 60% of respondents are considering running negative rate scenarios in sensitivity testing.

**ALM Strategy:** More than half of companies characterize their ALM in-force strategy as duration matched. For the 34% of companies that are not duration matched, inability to source long-duration assets and management position on interest rates were the most common contributing factors. Eighty-four percent of respondents use the same ALM strategy for new business as for in-force.

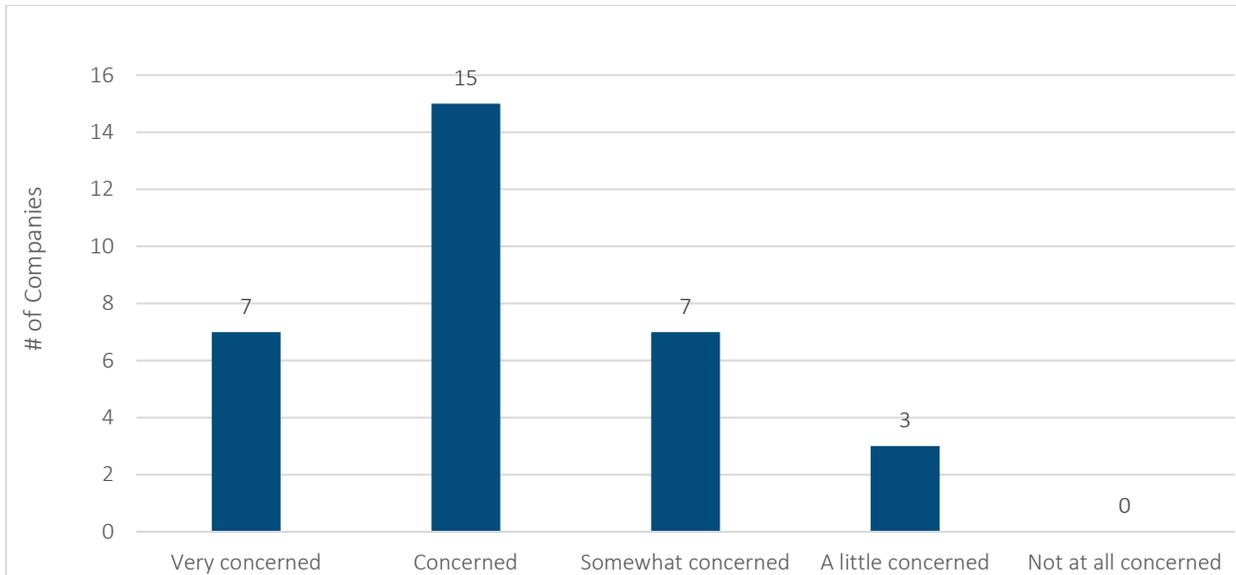
**Investment Strategy:** More than half of respondents have changed their investment strategy or are planning to change their investment strategy if recent conditions continue for the next several years. Of those who have changed or are planning to change, most cited higher-yielding assets classes and industry/sector allocations as areas to change.

**Communication and Monitoring:** Companies have not significantly changed their monitoring frequency for asset duration, liability duration and short-term cash balances. Companies have increased their monitoring frequency for policyholder behavior activities such as new premium deposits, policy loans, withdrawals and lapses. The majority of companies have received questions from senior management, the board of directors, rating agencies and regulators regarding their ALM position and strategy.

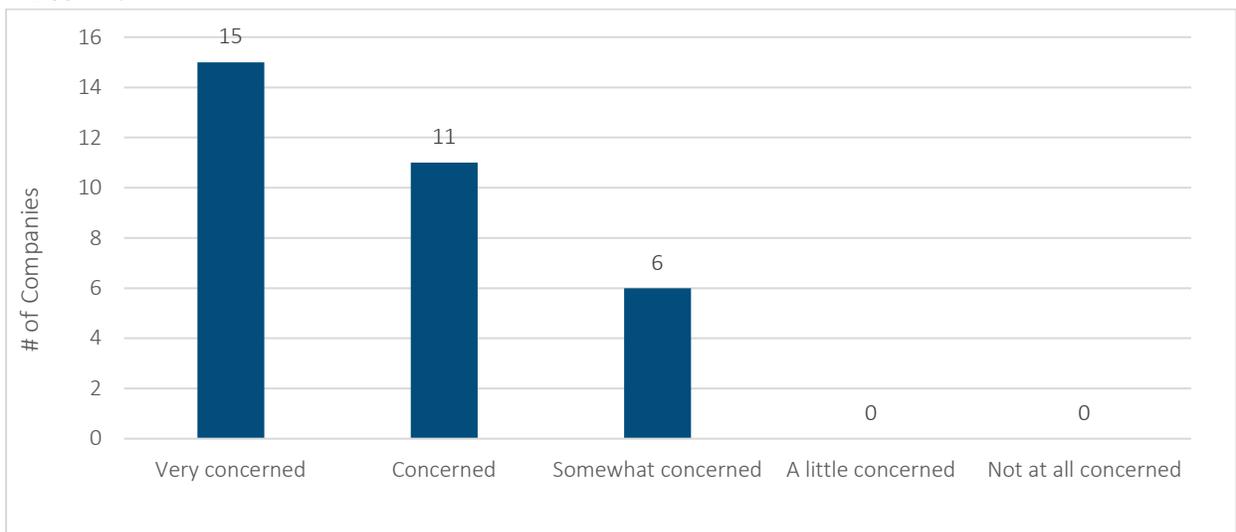
## Section 3: ALM Survey Questions and Response Detail

### 3.1 TOP CONCERNS FOR ALM

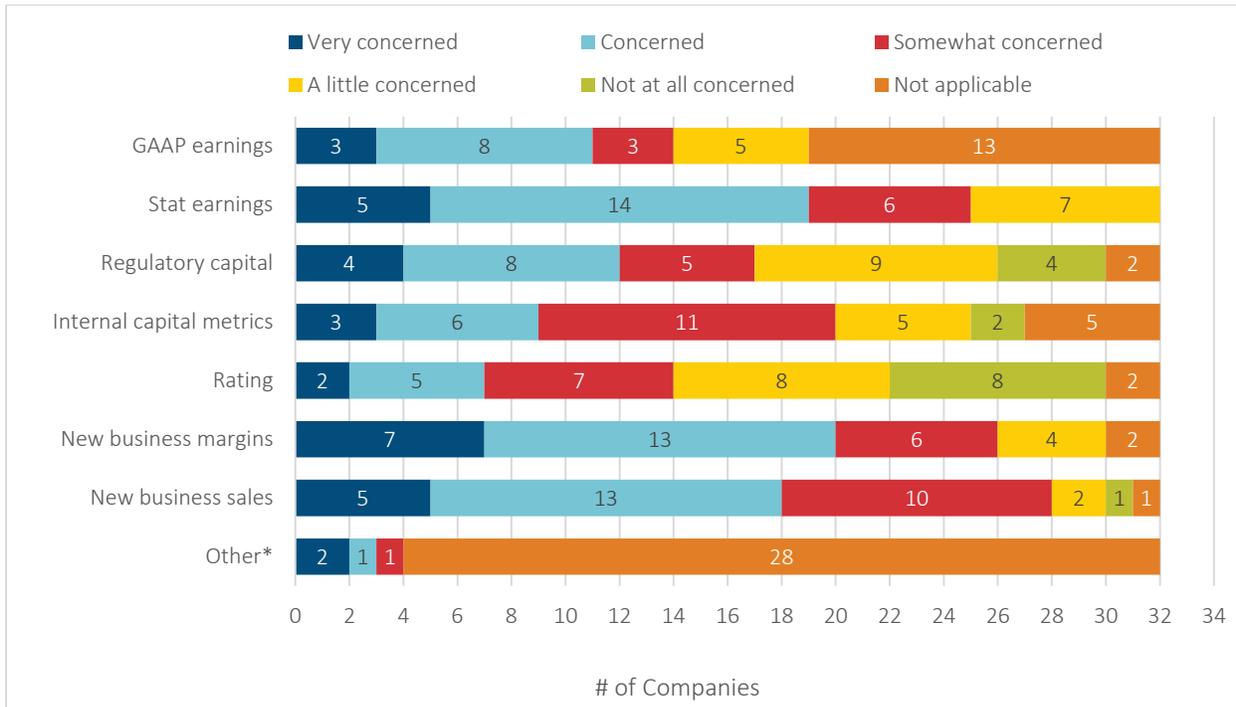
#### 3.1.1 HOW CONCERNED ARE YOU ABOUT THE IMPACT OF LOW INTEREST RATES ON ALM FOR YOUR COMPANY?



#### 3.1.2 HOW CONCERNED ARE YOU ABOUT THE IMPACT OF LOW INTEREST RATES ON ALM FOR THE LIFE INSURANCE INDUSTRY?

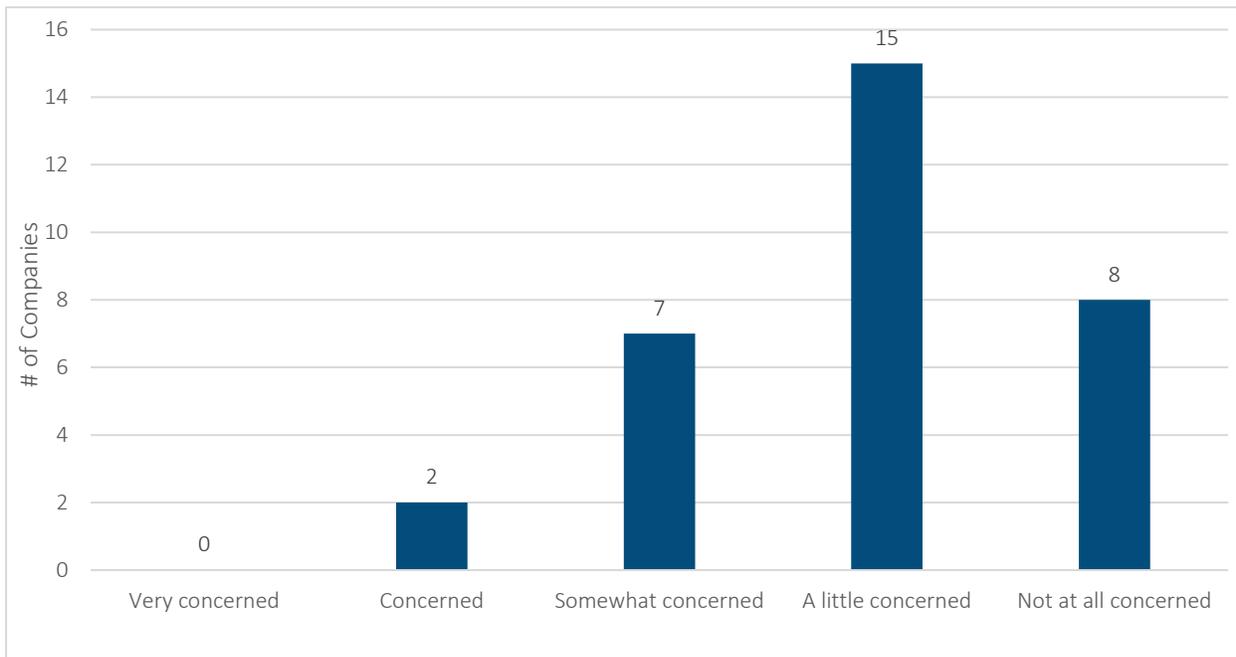


### 3.1.3 WHAT ARE YOU CONCERNED ABOUT RELATED TO THE IMPACT OF LOW INTEREST RATES ON ALM FOR YOUR COMPANY?

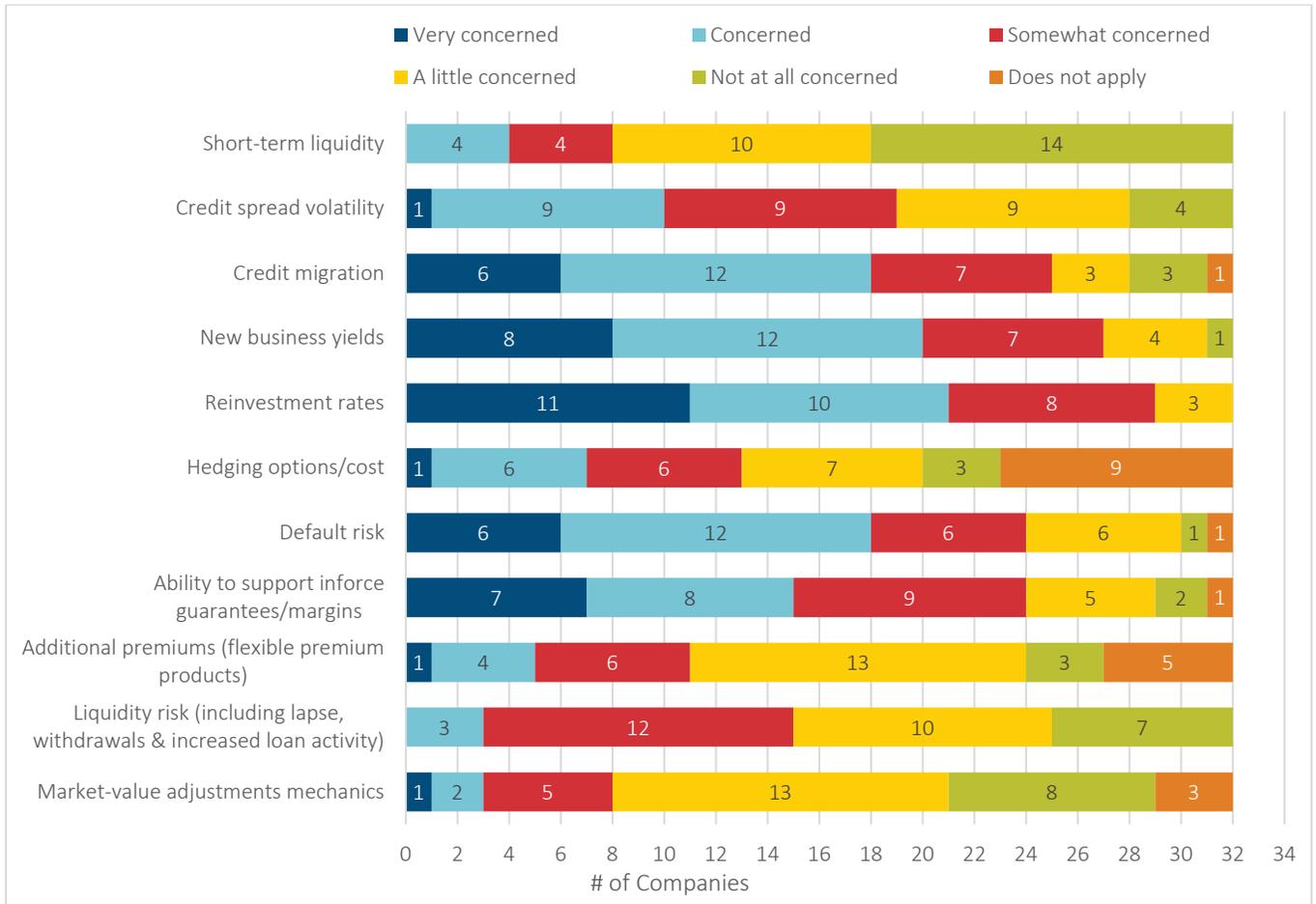


\* Other category includes default risk, intrinsic value, strategic issues, liquidity, and capital markets volatility

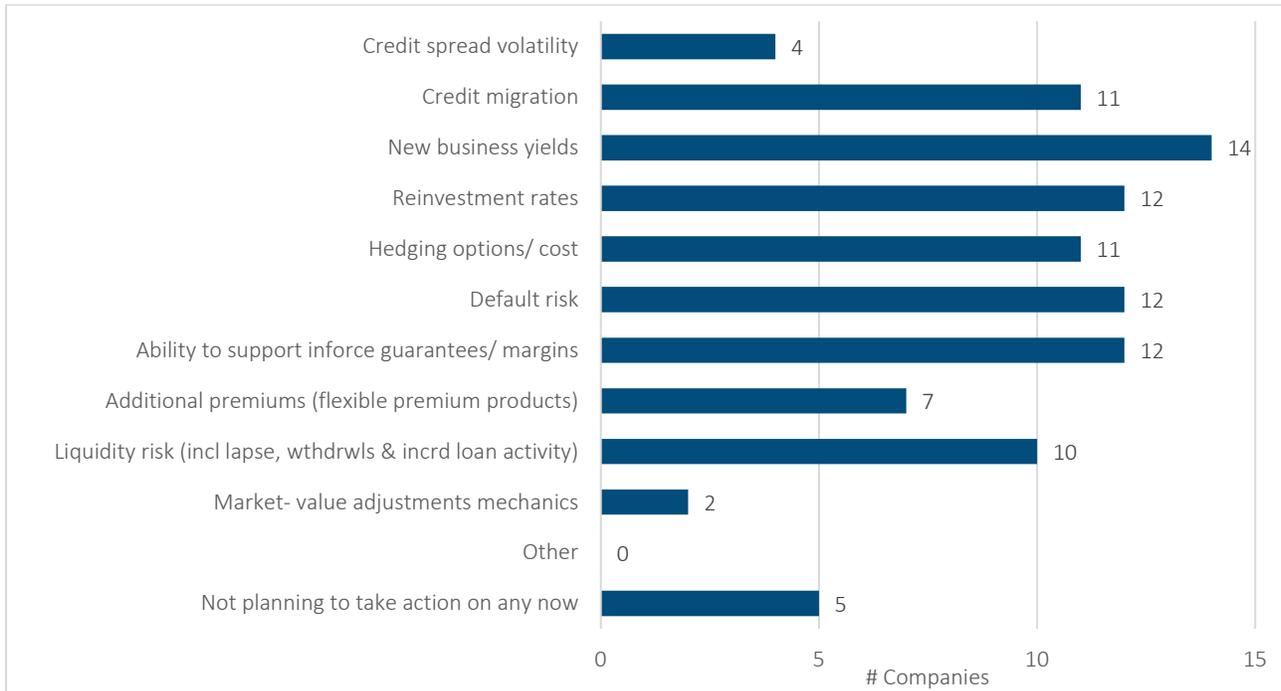
### 3.1.4 HOW CONCERNED IS YOUR COMPANY ABOUT INFLATION RISK OVER THE NEXT 2-3 YEARS?



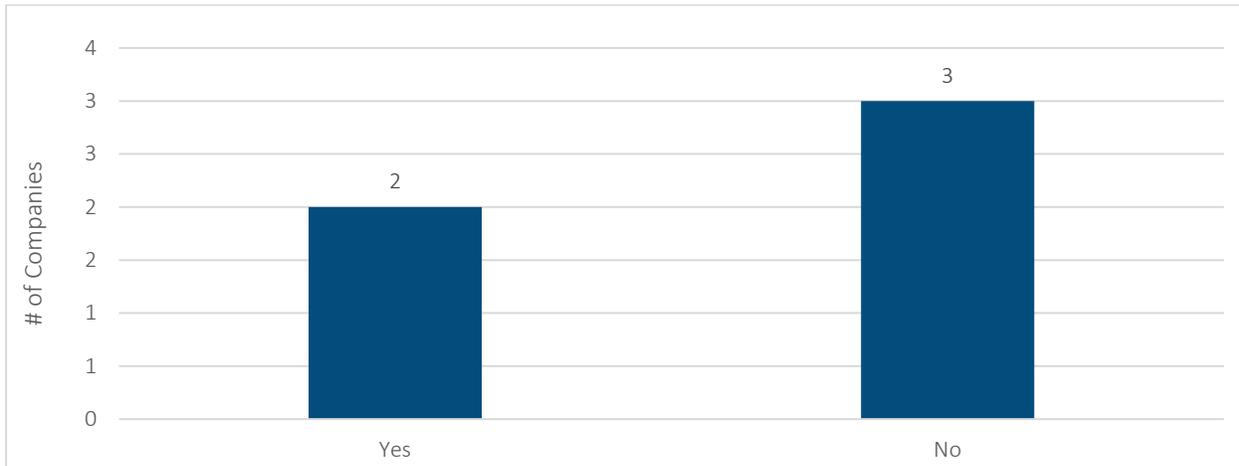
### 3.1.5 HOW CONCERNED ARE YOU ABOUT THE FOLLOWING ASSET AND LIABILITY-RELATED CHALLENGES FOR YOUR COMPANY?



3.1.6 IN QUESTION 3.1.5, YOU INDICATED YOUR COMPANY HAS SOME LEVEL OF CONCERN REGARDING THE FOLLOWING ITEMS. WHICH ITEMS ARE YOU PLANNING TO TAKE ACTION TO ADDRESS? PLEASE SELECT ALL THAT APPLY.



3.1.7 IN QUESTION 3.1.5, YOU SAID THAT YOUR COMPANY IS CONCERNED ABOUT ADDITIONAL PREMIUMS FOR FLEXIBLE PREMIUM PRODUCTS. HAS YOUR COMPANY ENFORCED CONTRACTUAL LIMITS ON NEW PREMIUMS IN THE PAST WHERE APPLICABLE?

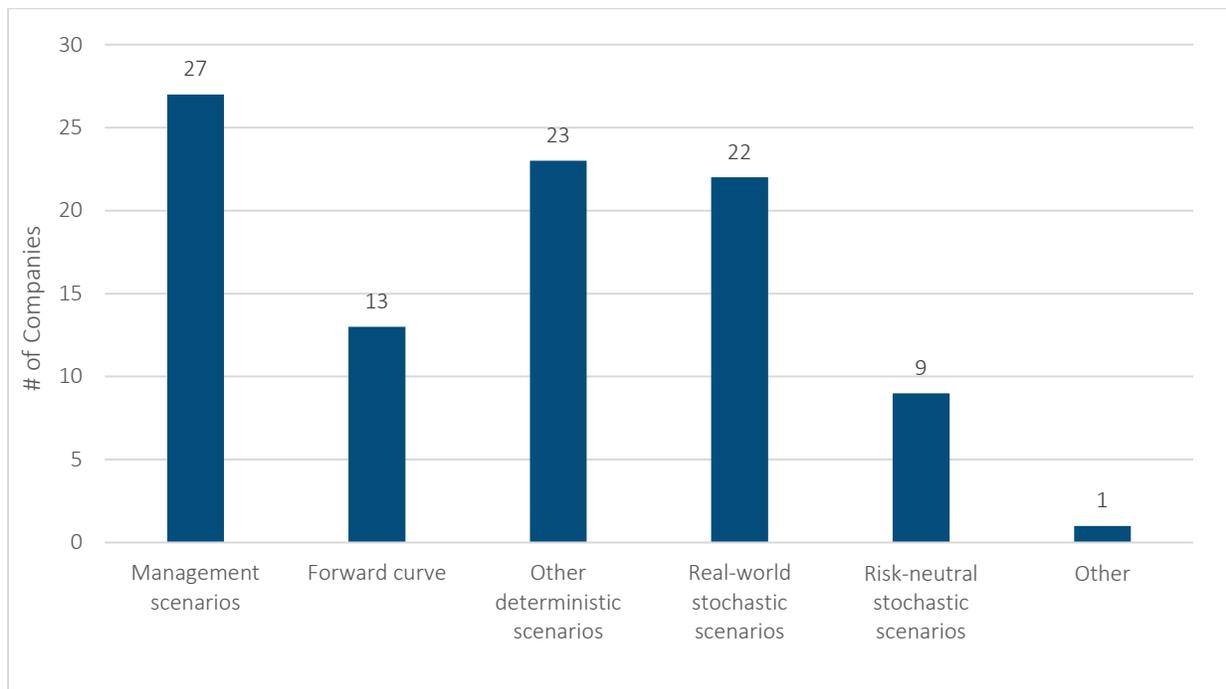


3.1.8 IN QUESTION 3.1.5, YOU SAID THAT YOUR COMPANY IS CONCERNED ABOUT ADDITIONAL PREMIUMS FOR FLEXIBLE PREMIUM PRODUCTS. HOW OFTEN IS YOUR COMPANY REVIEWING NEW PREMIUM DEPOSIT ACTIVITY IN THE CURRENT ENVIRONMENT?

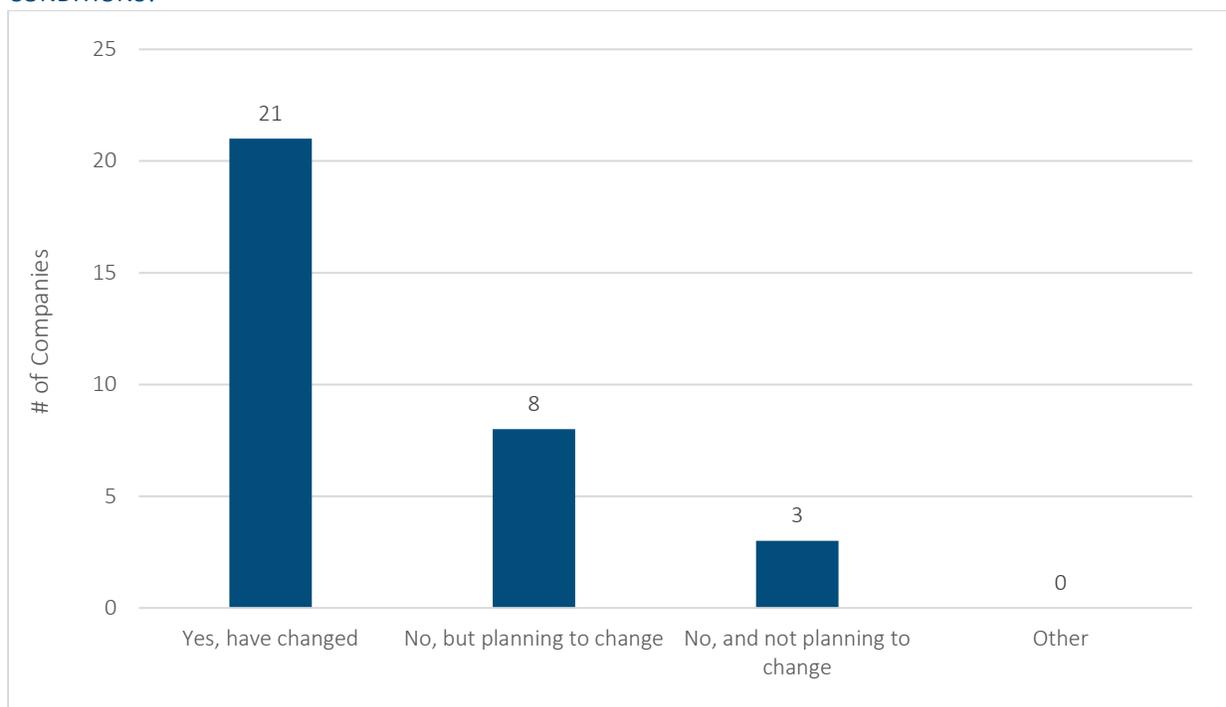
Response Categories: Most common response was weekly.

### 3.2 ALM SCENARIOS

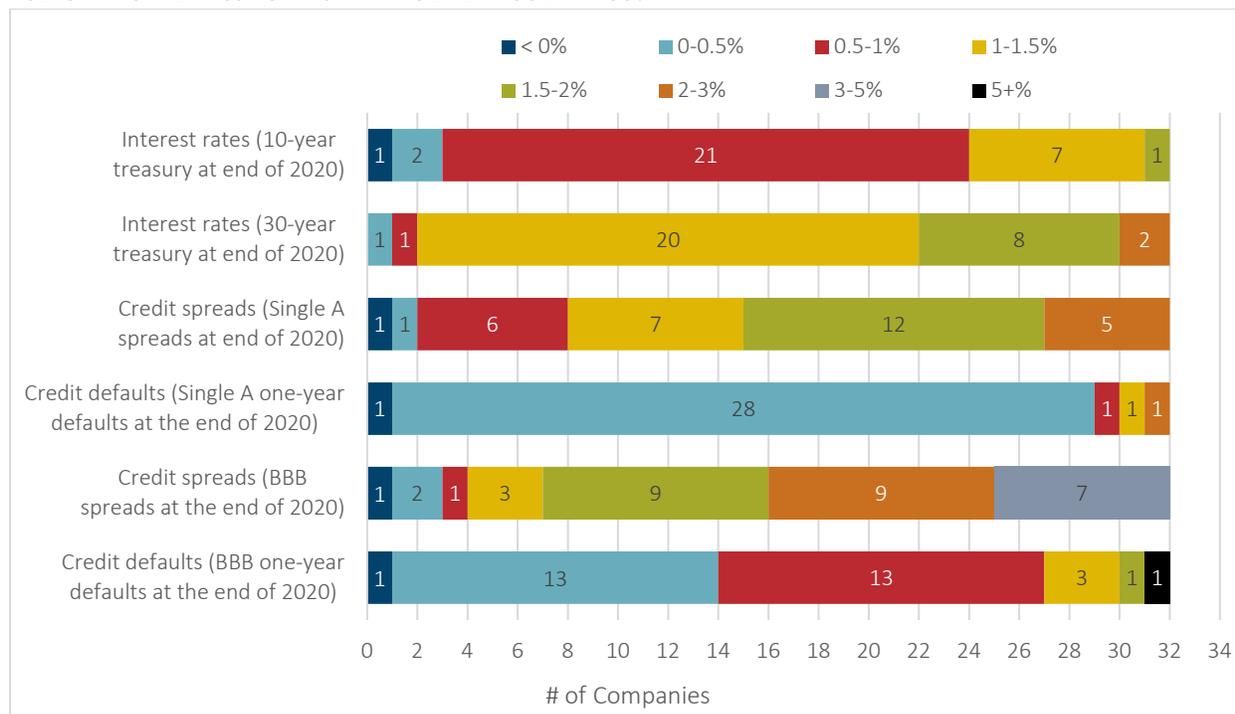
3.2.1 WHAT TYPES OF INTEREST RATE SCENARIOS DOES YOUR COMPANY USE TO EVALUATE AND SET ALM STRATEGIES? PLEASE SELECT ALL THAT APPLY.



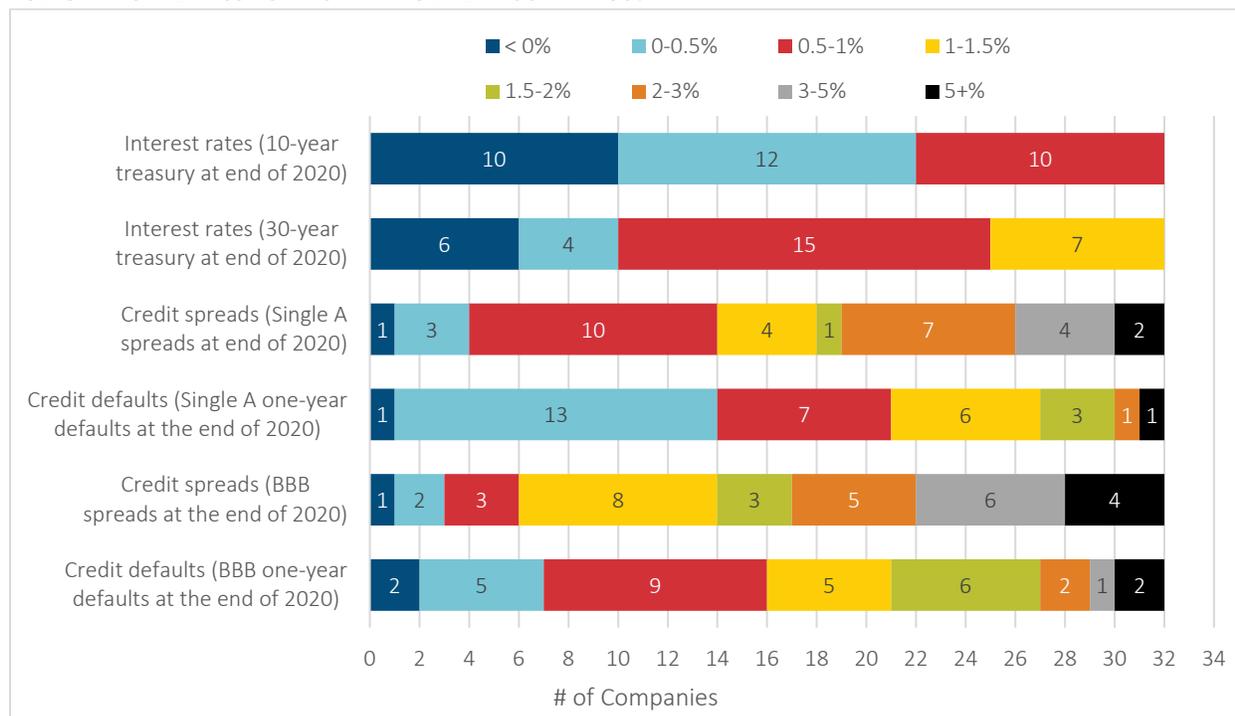
3.2.2 HAS YOUR COMPANY REVISED ITS MANAGEMENT SCENARIOS FOR THIS YEAR TO ADDRESS RECENT MARKET CONDITIONS?



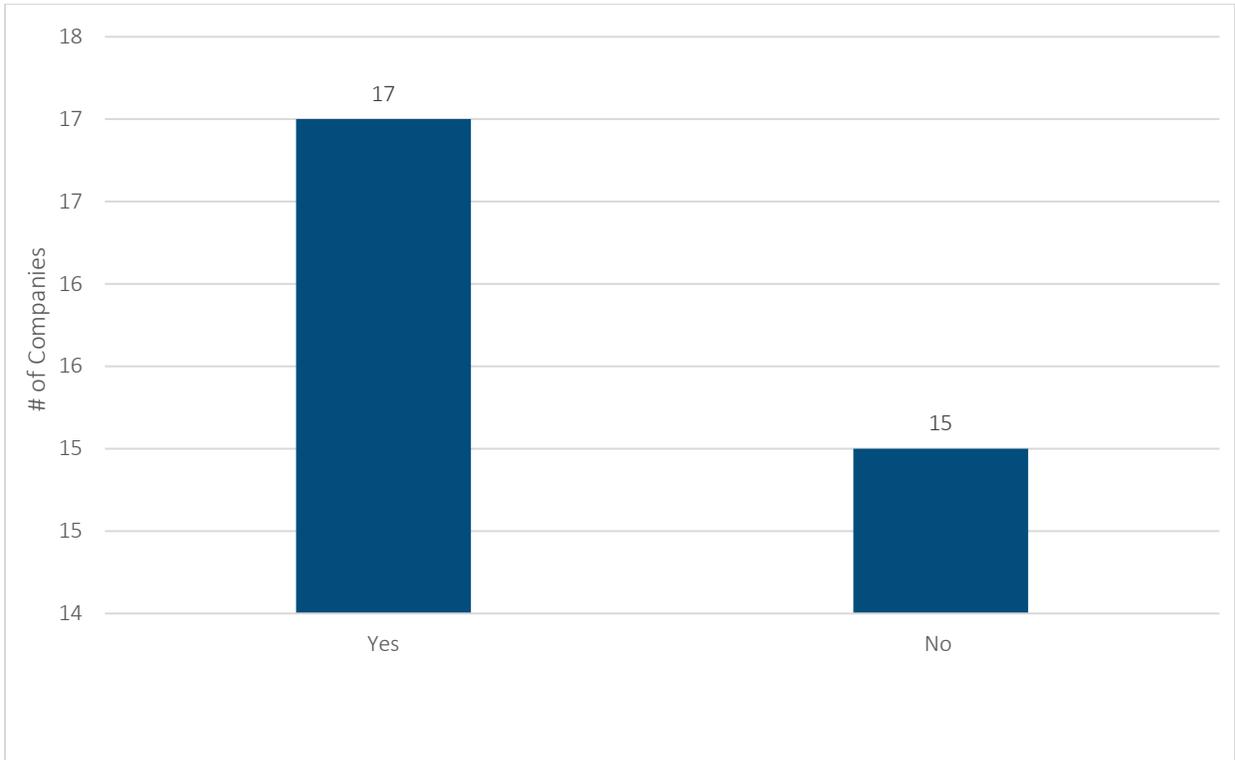
**3.2.3 FOR YOUR COMPANY’S “BASE CASE SCENARIO”, WHAT IS YOUR COMPANY ANTICIPATING FOR THE FOLLOWING METRICS FOR ITS MANAGEMENT SCENARIOS?**



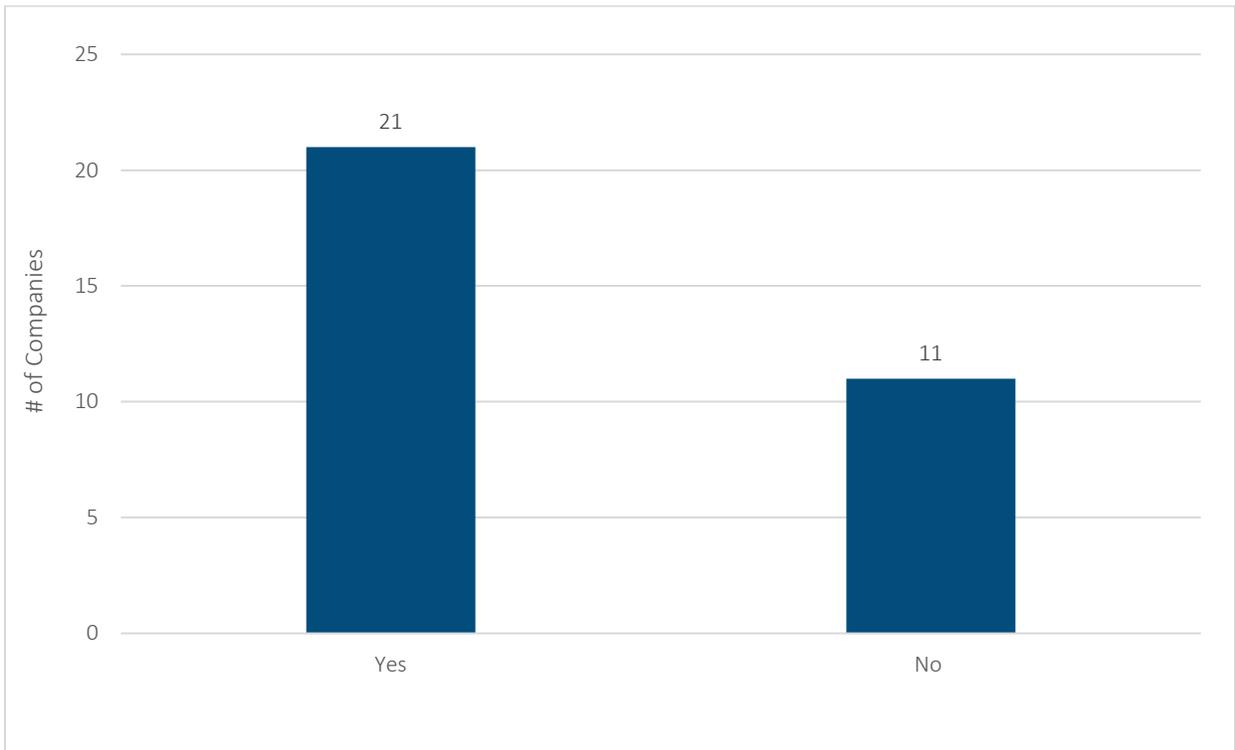
**3.2.4 FOR YOUR COMPANY’S “WORST CASE SCENARIO”, WHAT IS YOUR COMPANY ANTICIPATING FOR THE FOLLOWING METRICS FOR ITS MANAGEMENT SCENARIOS?**



3.2.5 DOES YOUR COMPANY ACCOUNT FOR CREDIT MIGRATION IN ITS MANAGEMENT SCENARIOS?



3.2.6 DOES YOUR COMPANY USE A MARKET LONG-TERM INTEREST RATE EXPECTATION IN ITS MANAGEMENT SCENARIOS?



3.2.7 IN QUESTION 3.2.6, YOU SAID THAT YOUR COMPANY USES A MARKET LONG-TERM INTEREST RATE EXPECTATION IN ITS MANAGEMENT SCENARIOS. WHAT IS YOUR COMPANY'S LONG-TERM RATE ASSUMPTION FOR TREASURIES?

Response Categories:

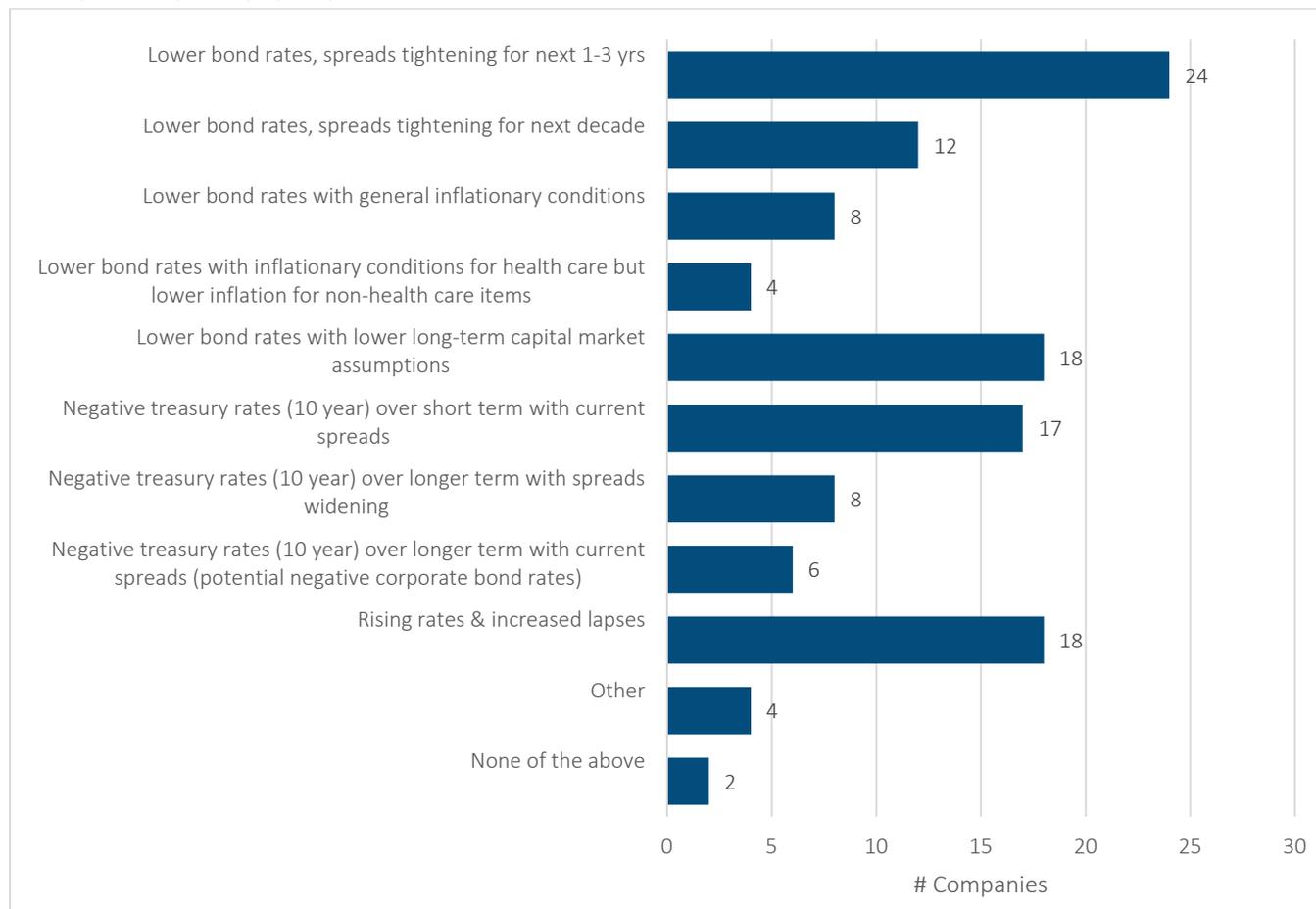
- Under 3%: 5 companies
- 3% but less than 4%: 6 companies
- 4% but less than 5%: 4 companies
- 5% or greater: 6 companies

3.2.8 IN QUESTION 3.2.6, YOU SAID THAT YOUR COMPANY USES A MARKET LONG-TERM INTEREST RATE EXPECTATION IN ITS MANAGEMENT SCENARIOS. OVER WHAT TIME PERIOD DO RATES REVERT TO THIS LEVEL? PLEASE PROVIDE RESPONSE IN WHOLE YEARS.

Response Categories:

- Under 10 years: 4 companies
- 10 years but less than 15 years: 10 companies
- 15 years or more: 7 companies

**3.2.9 MANY COMPANIES ARE RUNNING MORE SENSITIVITIES IN THE CURRENT ENVIRONMENT THAN IN PAST YEARS. WHAT SCENARIOS IS YOUR COMPANY CONSIDERING IN ITS SENSITIVITY TESTING IN THE CURRENT ENVIRONMENT? PLEASE SELECT ALL THAT APPLY.**



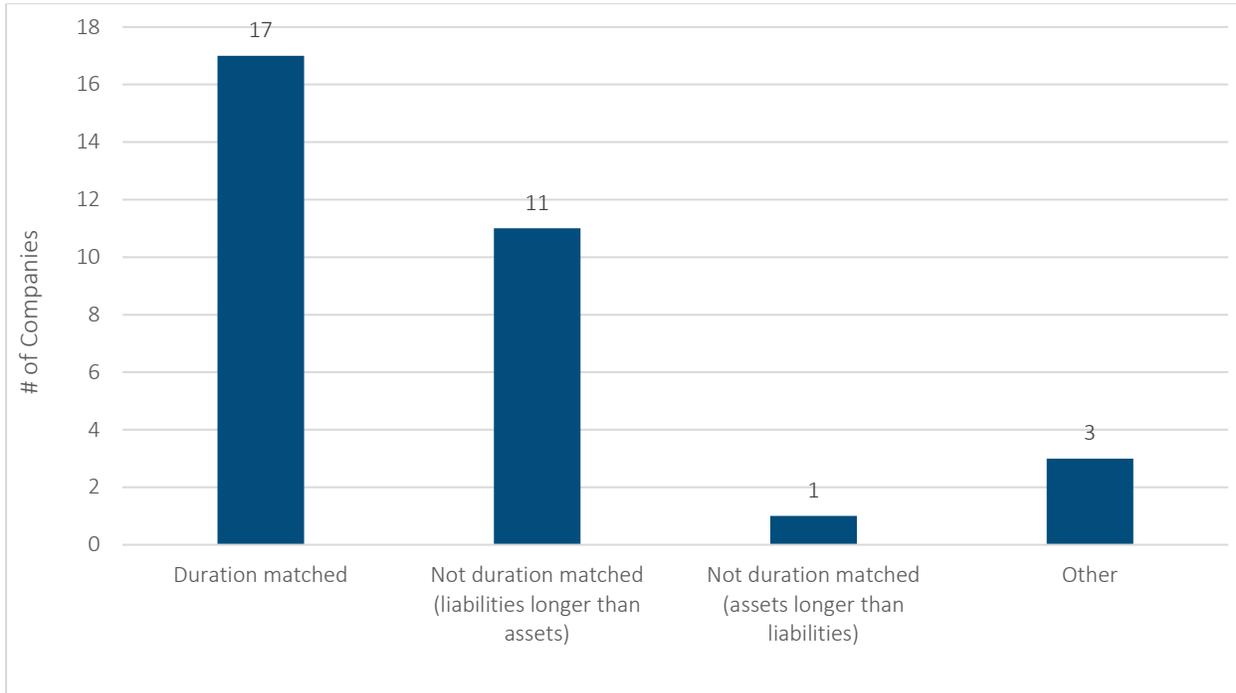
**3.2.10 IF YOUR COMPANY IS NOT CONSIDERING NEGATIVE TREASURY RATE (10 YEAR) SCENARIOS FOR MANAGEMENT SCENARIOS, WHY NOT?**

Response Categories:

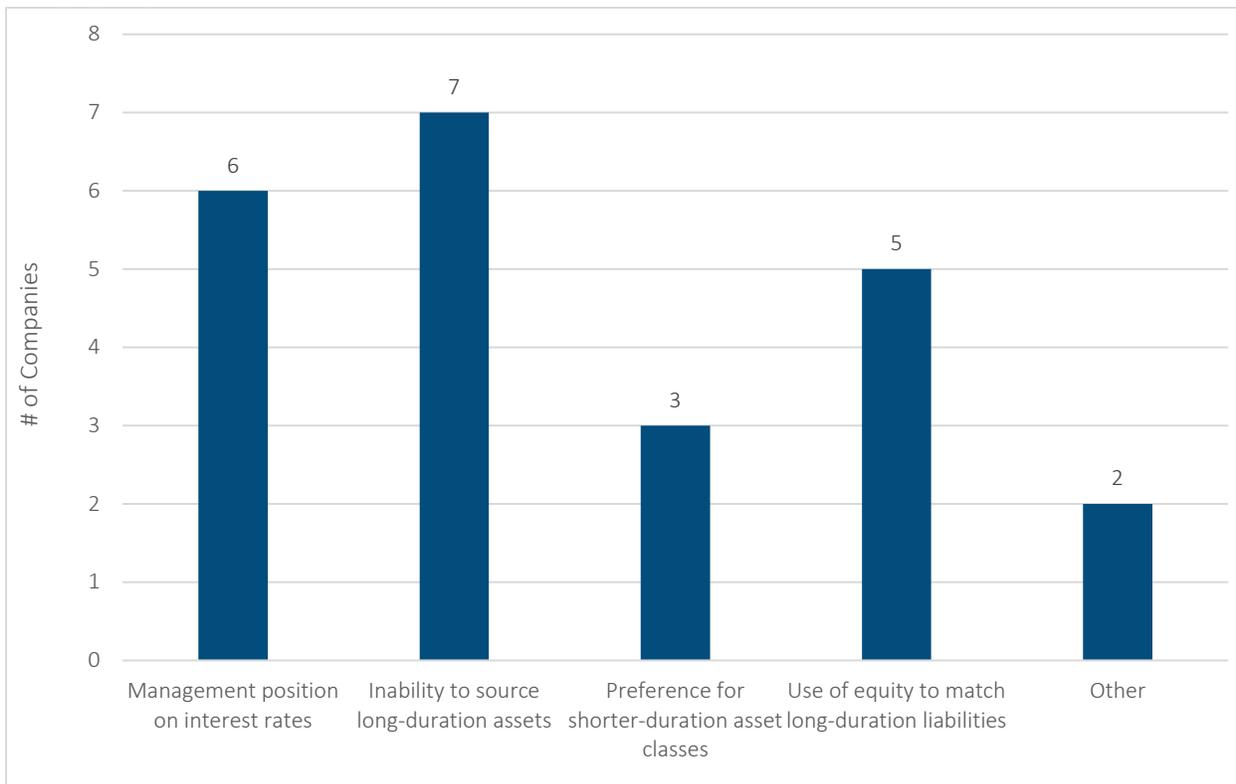
- Believe it is unrealistic for the long-term: 6 companies
- Under consideration/reviewing system capabilities: 8 companies
- Fed view is that 0 percent is the floor: 5 companies

### 3.3 ALM STRATEGY

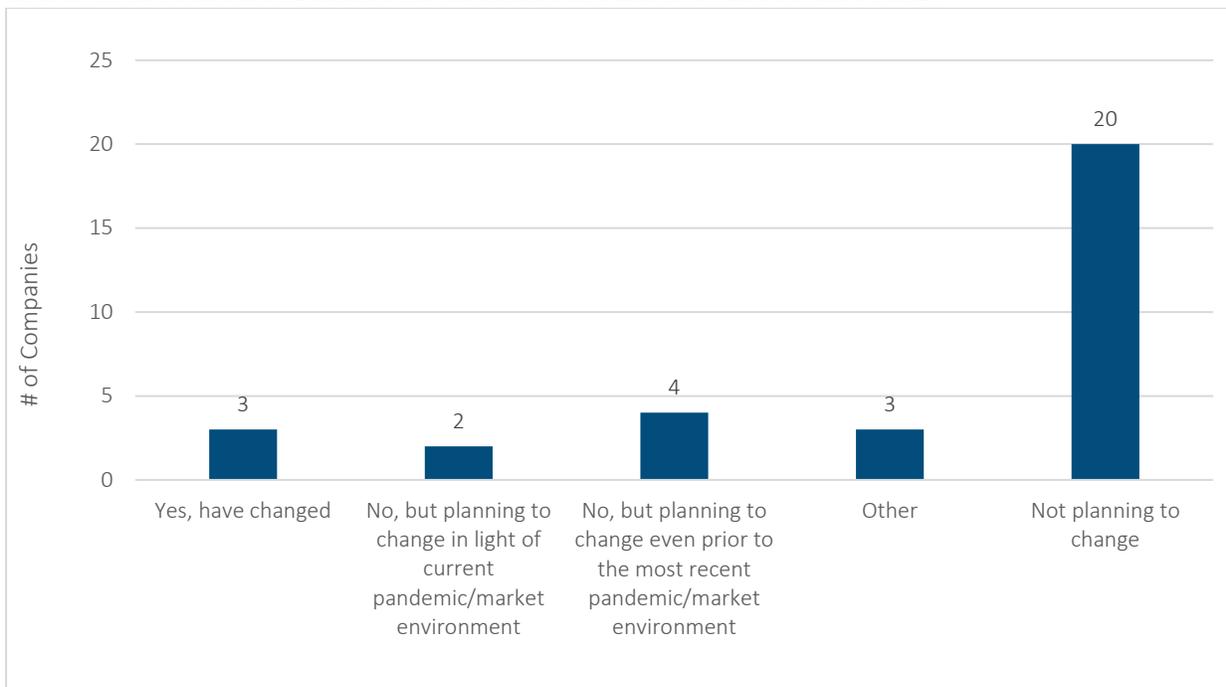
#### 3.3.1 HOW WOULD YOU CHARACTERIZE YOUR COMPANY'S CURRENT ALM STRATEGY FOR IN-FORCE?



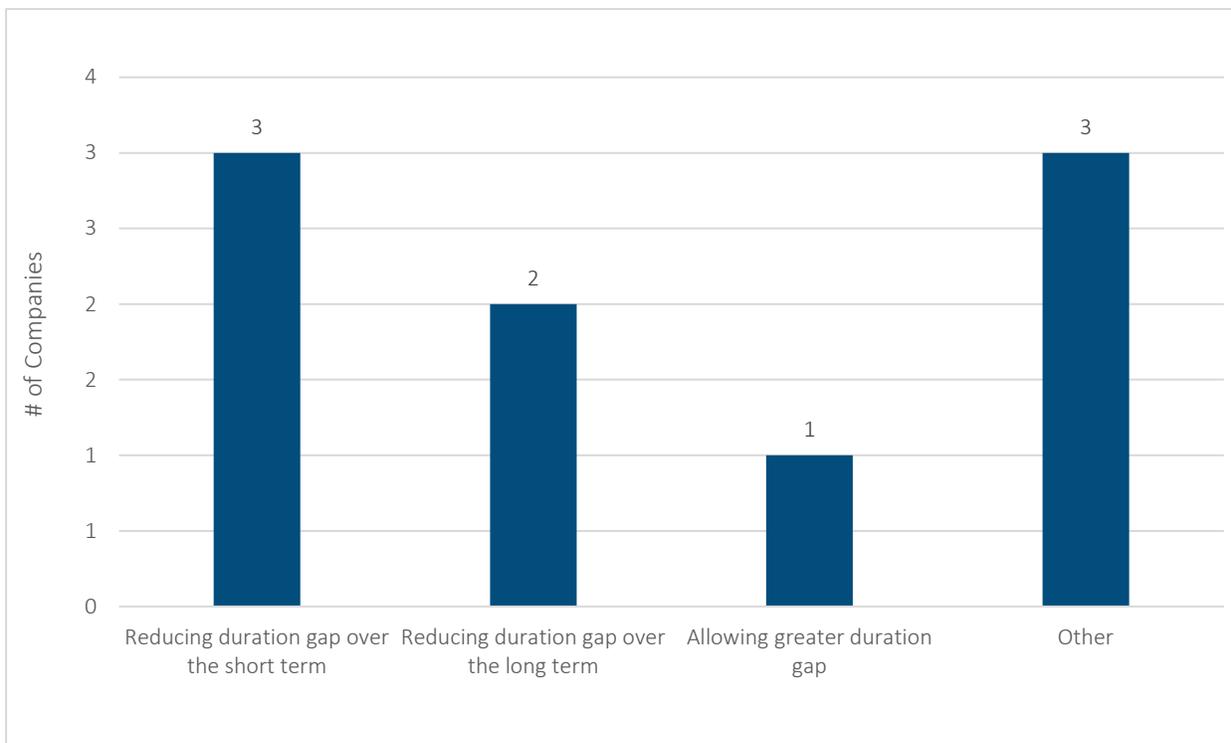
#### 3.3.2 IF YOUR COMPANY IS NOT DURATION MATCHED FOR IN-FORCE, WHAT FACTORS CONTRIBUTE TO THIS? PLEASE SELECT ALL THAT APPLY.



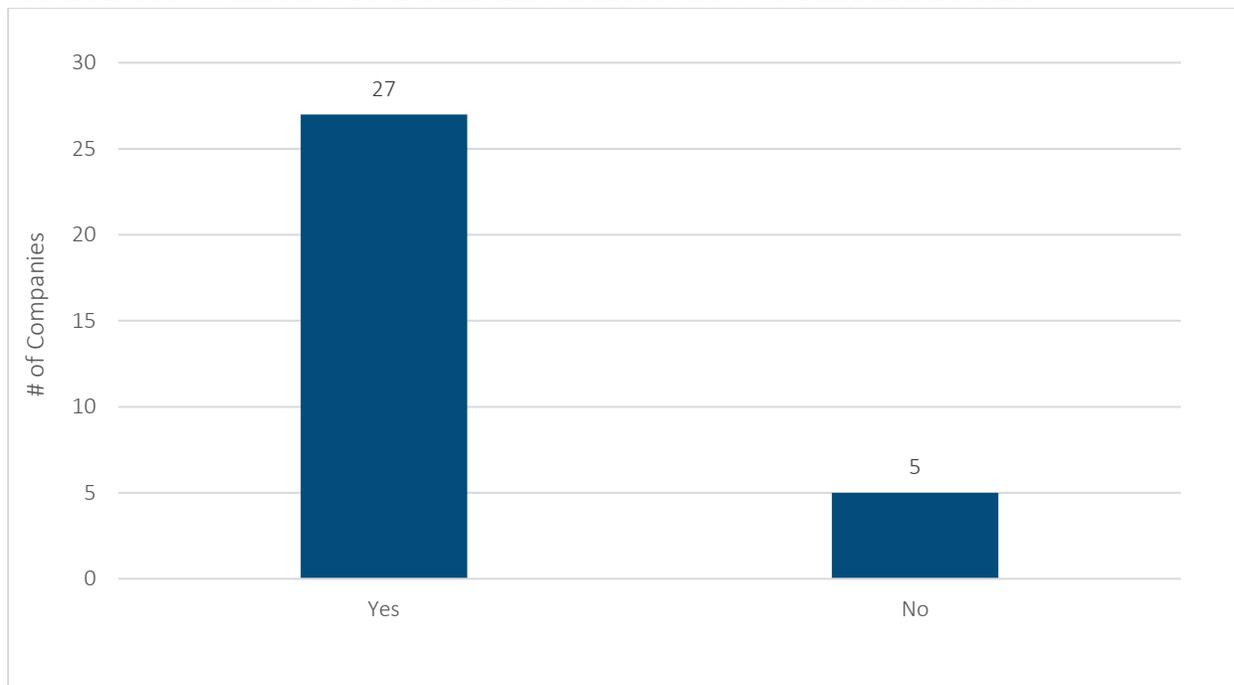
### 3.3.3 IS YOUR COMPANY PLANNING ON CHANGING ITS ALM STRATEGY FOR IN-FORCE?



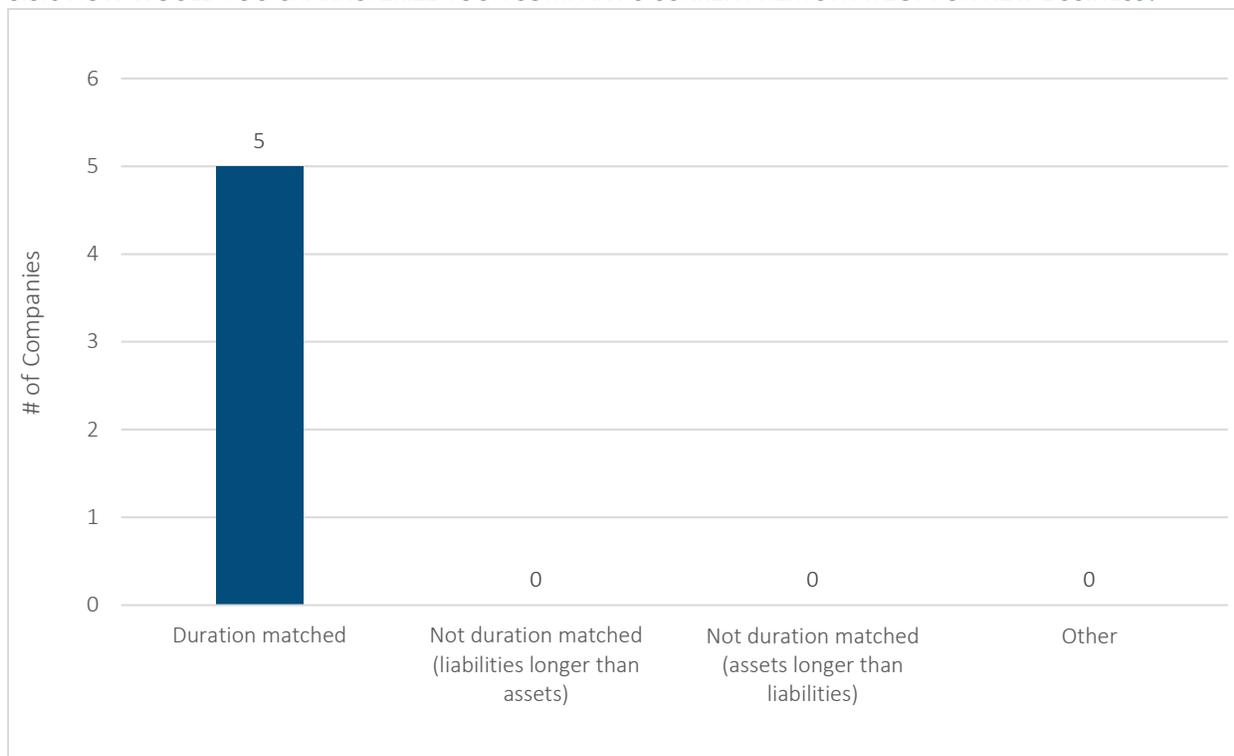
### 3.3.4 HOW IS YOUR COMPANY CHANGING / PLANNING TO CHANGE ITS ALM STRATEGY FOR IN-FORCE?



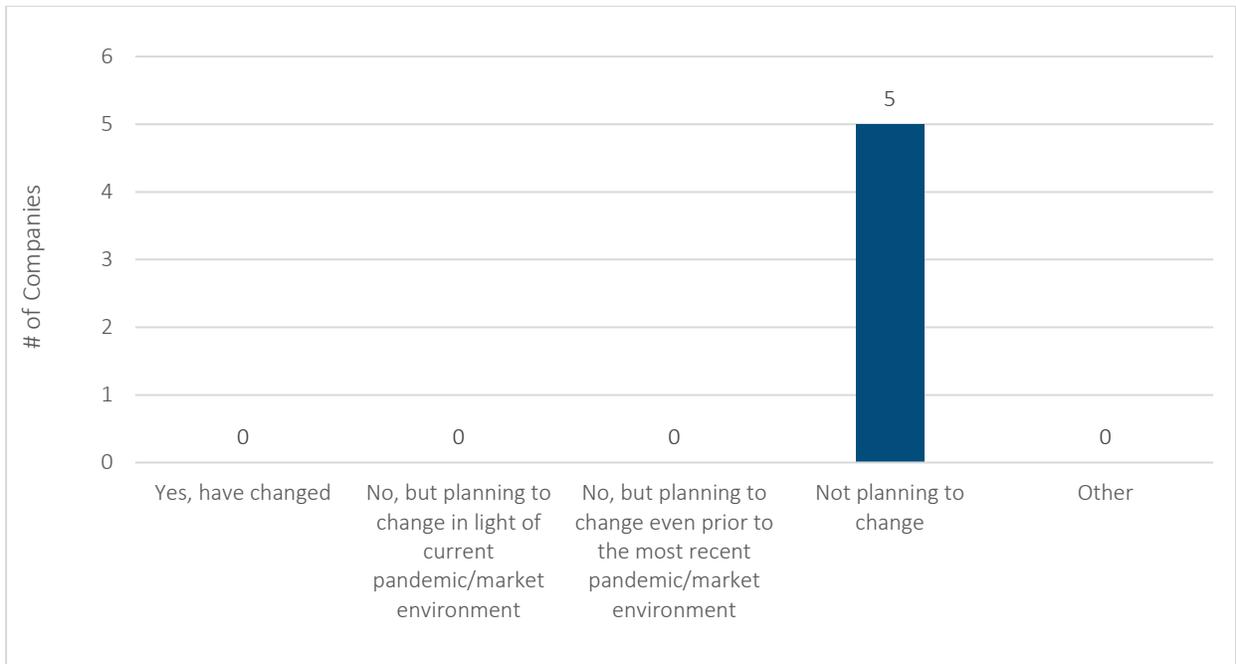
3.3.5 DOES YOUR COMPANY USE THE SAME ALM STRATEGY FOR IN-FORCE AND NEW BUSINESS?



3.3.6 HOW WOULD YOU CHARACTERIZE YOUR COMPANY'S CURRENT ALM STRATEGY FOR NEW BUSINESS?

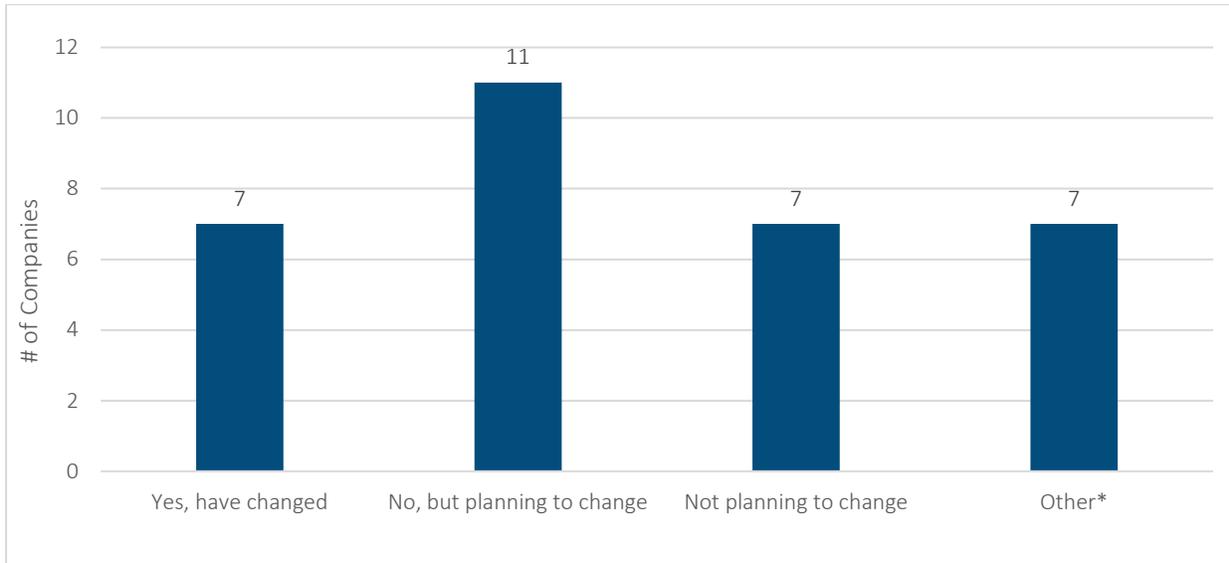


3.3.7 IS YOUR COMPANY PLANNING ON CHANGING ITS ALM STRATEGY FOR NEW BUSINESS?



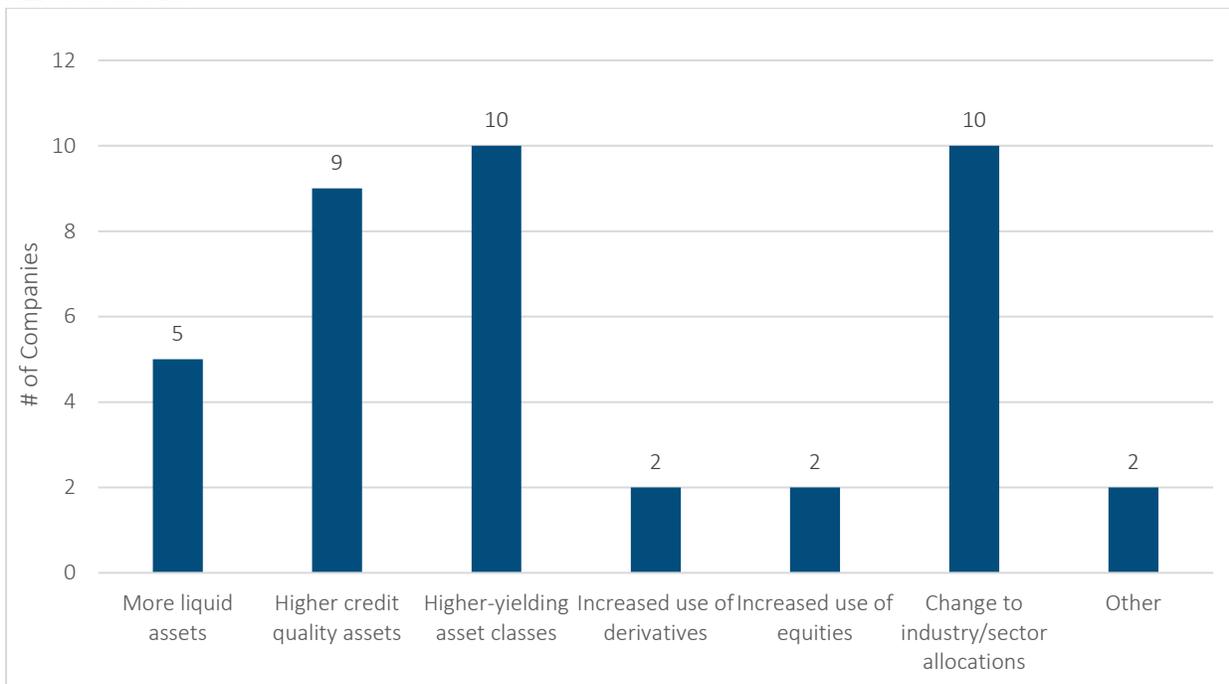
### 3.4 INVESTMENT STRATEGY

#### 3.4.1 IS YOUR COMPANY CHANGING ITS INVESTMENT STRATEGY IF RECENT CONDITIONS CONTINUE FOR THE NEXT SEVERAL YEARS?



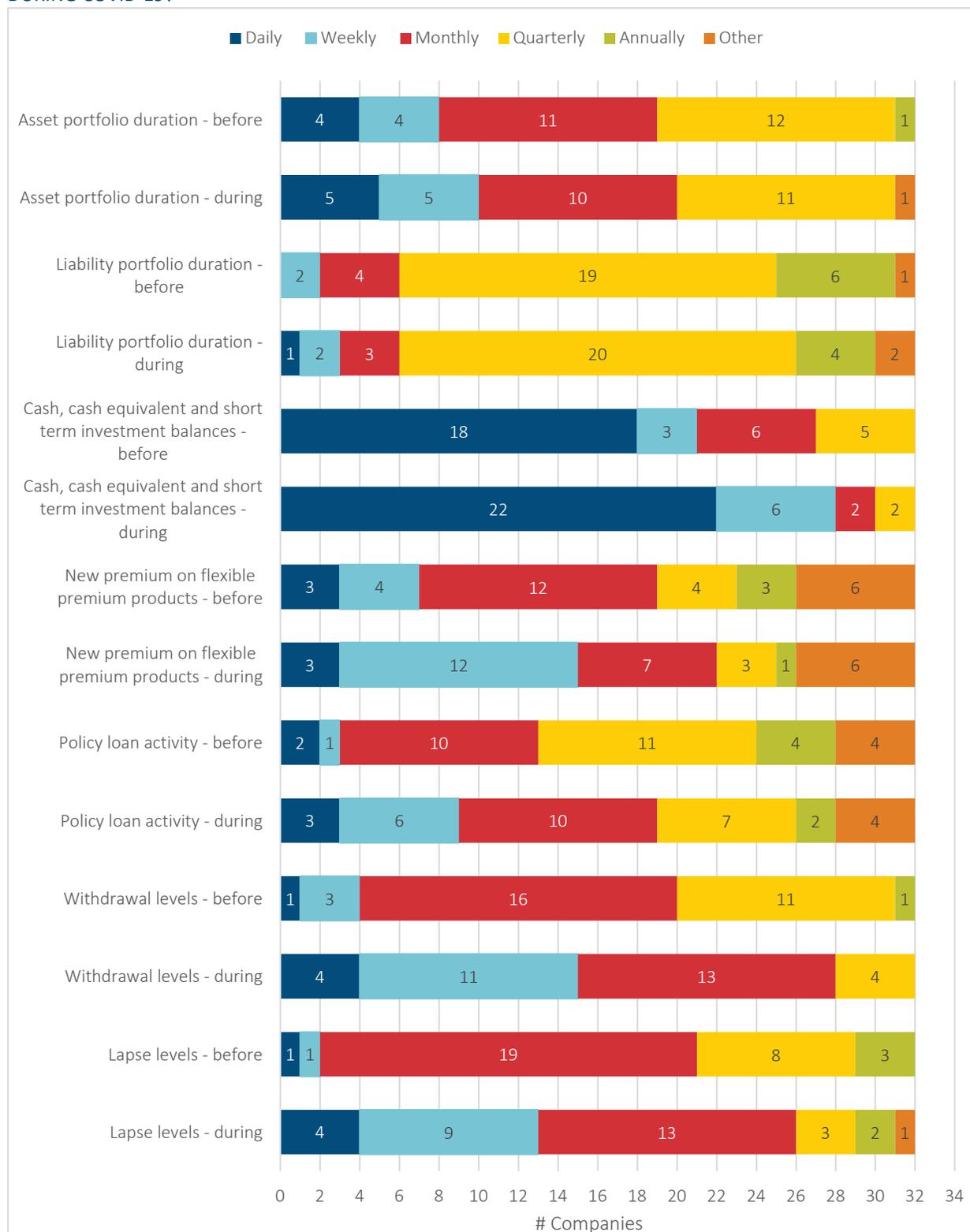
\*Other is companies where this is still under consideration or the company is unsure.

#### 3.4.2 HOW IS YOUR COMPANY CHANGING / PLANNING TO CHANGE ITS INVESTMENT STRATEGY? PLEASE SELECT ALL THAT APPLY.

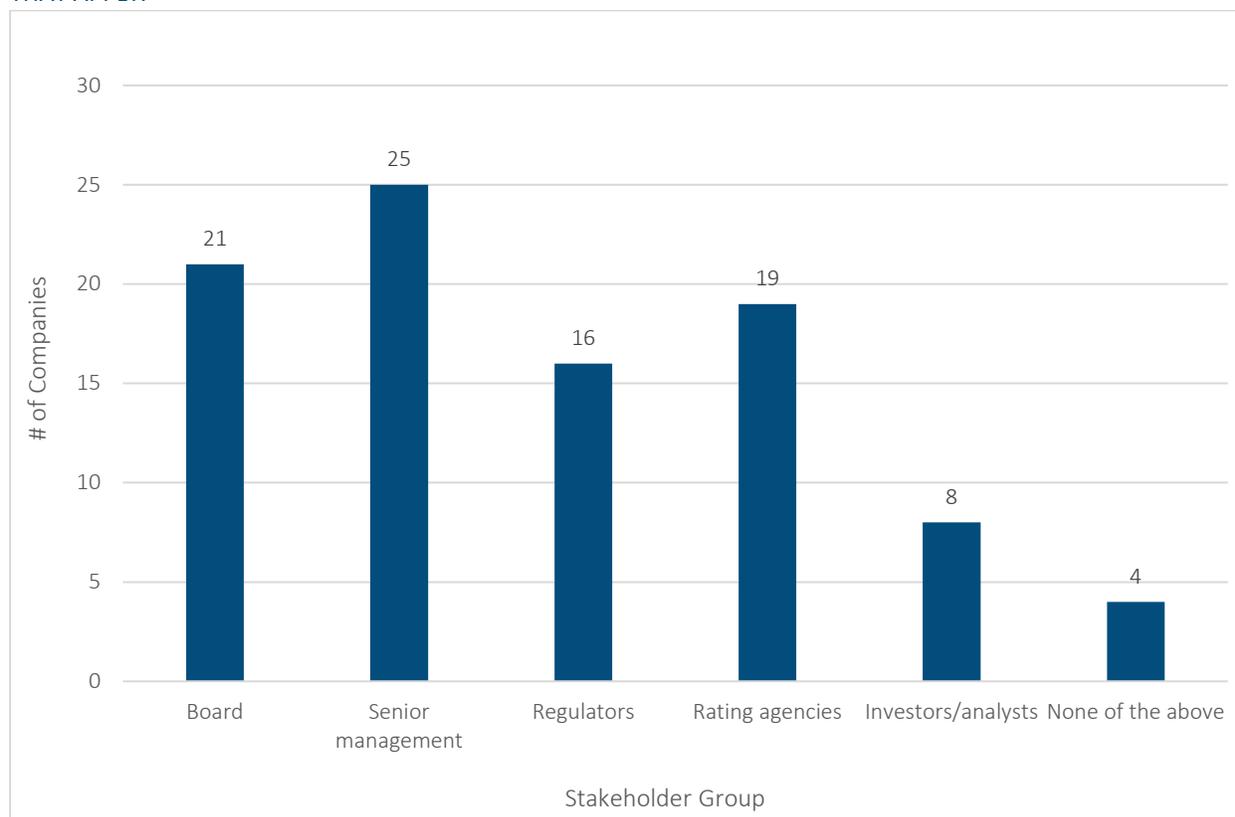


### 3.5 COMMUNICATION AND MONITORING

#### 3.5.1 WHAT HAS BEEN YOUR COMPANY'S MONITORING FREQUENCY FOR THE FOLLOWING FACTORS BEFORE AND DURING COVID-19?



**3.5.2 HAS YOUR COMPANY RECEIVED QUESTIONS ON THE IMPACT OF THE CURRENT MARKET ENVIRONMENT ON ITS ALM POSITION AND STRATEGY FROM ANY OF THE FOLLOWING STAKEHOLDER GROUPS? PLEASE SELECT ALL THAT APPLY.**



**3.5.3 WHAT QUESTIONS IS YOUR COMPANY BEING ASKED REGARDING THE IMPACT OF THE CURRENT MARKET ENVIRONMENT ON ITS ALM POSITION AND STRATEGY FROM THESE STAKEHOLDER GROUPS?**

- Impact of low interest rates
- Degree of duration mismatch and plans to mitigate
- Liquidity
- New asset classes
- Policy changes for new business
- Stress scenarios
- Exposure to various risk classes
- Investment strategy questions in general
- Estimated capital impacts in current environment
- Earning implications

## Section 4: Acknowledgments

The SOA, LIMRA, and Oliver Wyman would like to thank the industry Low Interest Rate Task Force (established in January 2020 by LIMRA, Oliver Wyman and ACLI), as well as the following individuals for their support in the design and development of the survey.

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Allianz Life North America	Northwestern Mutual
Allstate	Oxford Life Insurance Company
American Equity	Principal Financial Group
American Family Life Insurance Company	RGA
Ameritas	Sammons Financial Group
Boston Mutual Life Insurance Company	SBLI
Country Financial	Securian Financial
CUNA Mutual Group	State Farm
Erie Family Life Insurance	Talcott Resolution
Global Atlantic Financial Company	Texas Service Life Insurance Company
Great American	Transamerica
Guardian Life	Union Labor Life
MetLife	Vantis Life Insurance Company
National Western Life Insurance	WAEP A
Nationwide Financial	Western & Southern Financial Group
New York Life	WoodmenLife

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With roots dating back to 1889, the [Society of Actuaries](#) (SOA) is the world's largest actuarial professional organizations with more than 31,000 members. Through research and education, the SOA's mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal challenges. The SOA's vision is for actuaries to be the leading professionals in the measurement and management of risk.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

**Objectivity:** The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

**Quality:** The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and nonactuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

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**Quantification:** The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

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Established in 1916, LIMRA is a research and professional development not-for-profit trade association for the financial services industry. More than 600 insurance and financial services organizations around the world rely on LIMRA's research and educational solutions to help them make bottom-line decisions with greater confidence. Companies look to LIMRA for its unique ability to help them understand their customers, markets, distribution channels and competitors and leverage that knowledge to develop realistic business solutions.

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