COVID-19 Asset/Liability Management Survey Summary of Results

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COVID-19 Asset/Liability Management (ALM) Survey
Summary of Results

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Section 1: Introduction

The Society of Actuaries (SOA) has partnered with LIMRA 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, one of these “sprint” surveys focused on best practices around asset and liability management (ALM).

A first round of the surveys was conducted in April of 2020. This report provides results for the second round of surveys and focuses on asset and liability management (ALM) issues in order to gauge whether thinking is changing.

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 August 17-31, 2020. Twenty-six 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: Three-fourths of the companies are concerned or very concerned about the impact of low interest rates on ALM for their company. More companies are very concerned about the impact of low rates for the life insurance industry (46%) vs. the impact of low rates for their company (35%). When asked about the areas that low interest rates could impact their company, sixty-two percent were either concerned or very concerned about new business sales, Statutory earnings, and new business margins. When asked about ALM related challenges, most companies were concerned or very concerned about reinvestment rates (81%), new business yields (77%), and ability to support in-force guarantees/inforce margins (65%).

ALM Scenarios: About 88% of the companies use management scenarios to evaluate and set ALM strategies, 77% use other deterministic scenarios, and over two-thirds use real-world stochastic scenarios. Nearly 90 percent of the companies revised their management scenarios for this year to address recent market conditions. Management scenarios are defined as internal scenarios used for planning or other management decisions. Most companies anticipate the 10-year (88%), 20-year (96%), and 30-year (73%) treasury rates to be in the range of 0.5-1.5% for their "base case scenario". For their "worst case scenario" 96% of the companies anticipate 10-year, 20-year, and 30-year treasury rates to be in the range of 0-1.5%. More than half of respondents take credit migration into account in their management scenarios. About 73% of respondents use a market long-term interest rate expectation in their management scenarios. Of these, 79% have a long-term rate less than 4%. More than half of respondents use a 10-year treasury as the basis.

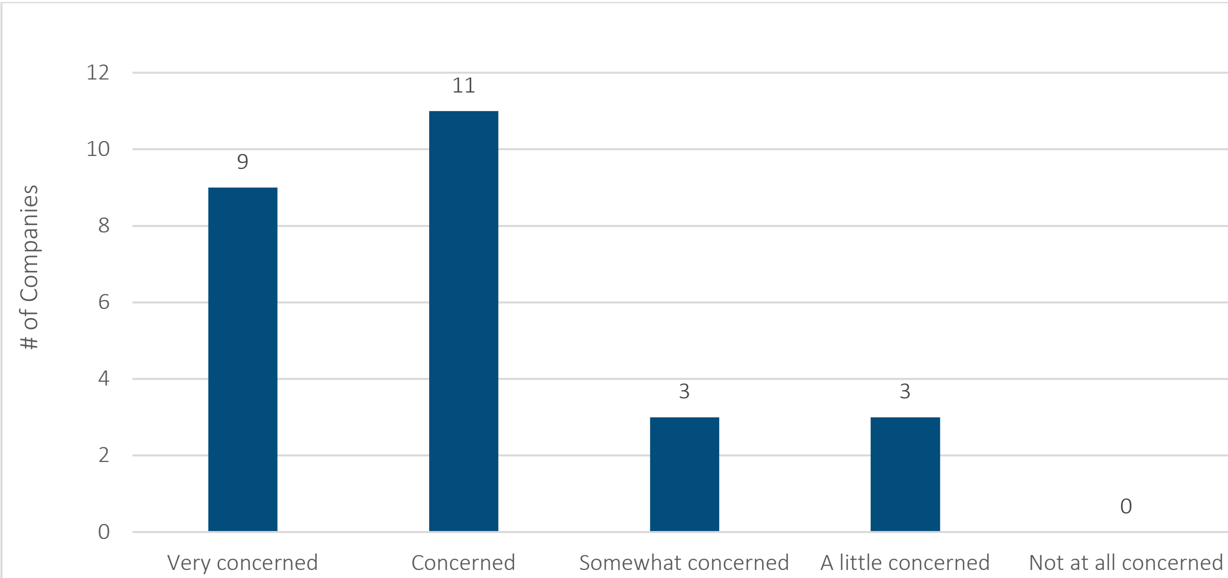
ALM Strategy: More than half of companies characterize their ALM in-force strategy as not duration matched. For these companies that are not duration matched, inability to source long-duration assets and management position on interest rates were the most common contributing factors. Half of the respondents are not planning on changing their ALM strategy for in-force. About 88% percent of respondents use the same ALM strategy for new business as for in-force.

Investment Strategy: Half of the 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 change to industry/sector allocations as areas to change.

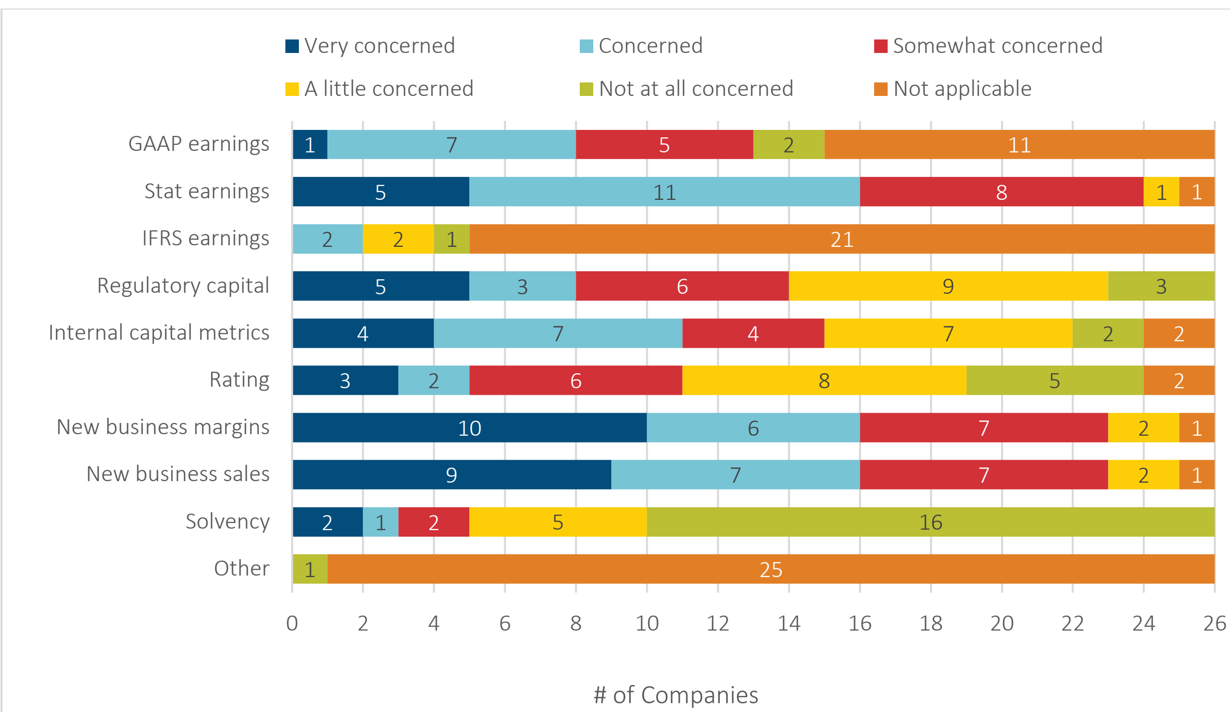
Section 3: ALM Survey Questions and Response Detail

3.1 TOP CONCERNS FOR ALM

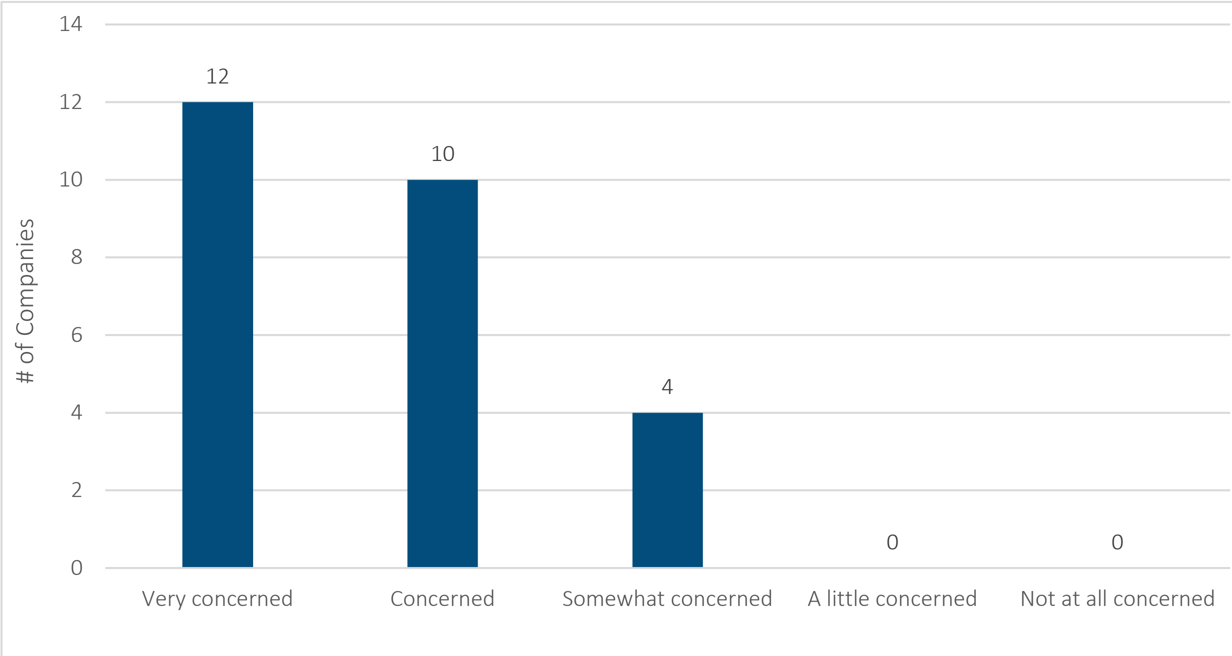
3.1.1 HOW CONCERNED ARE YOU ABOUT THE IMPACT OF LOW INTEREST RATES ON ALM FOR YOUR COMPANY?



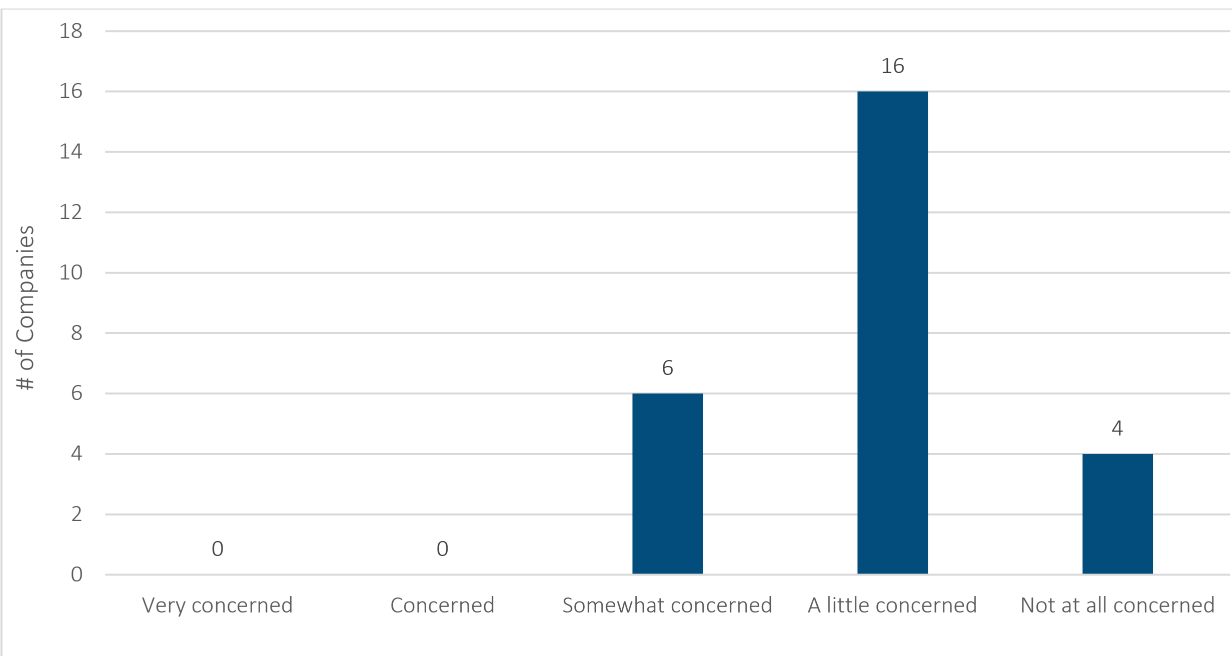
3.1.2 WHAT ARE YOU CONCERNED ABOUT RELATED TO THE IMPACT OF LOW INTEREST RATES ON ALM FOR YOUR COMPANY?



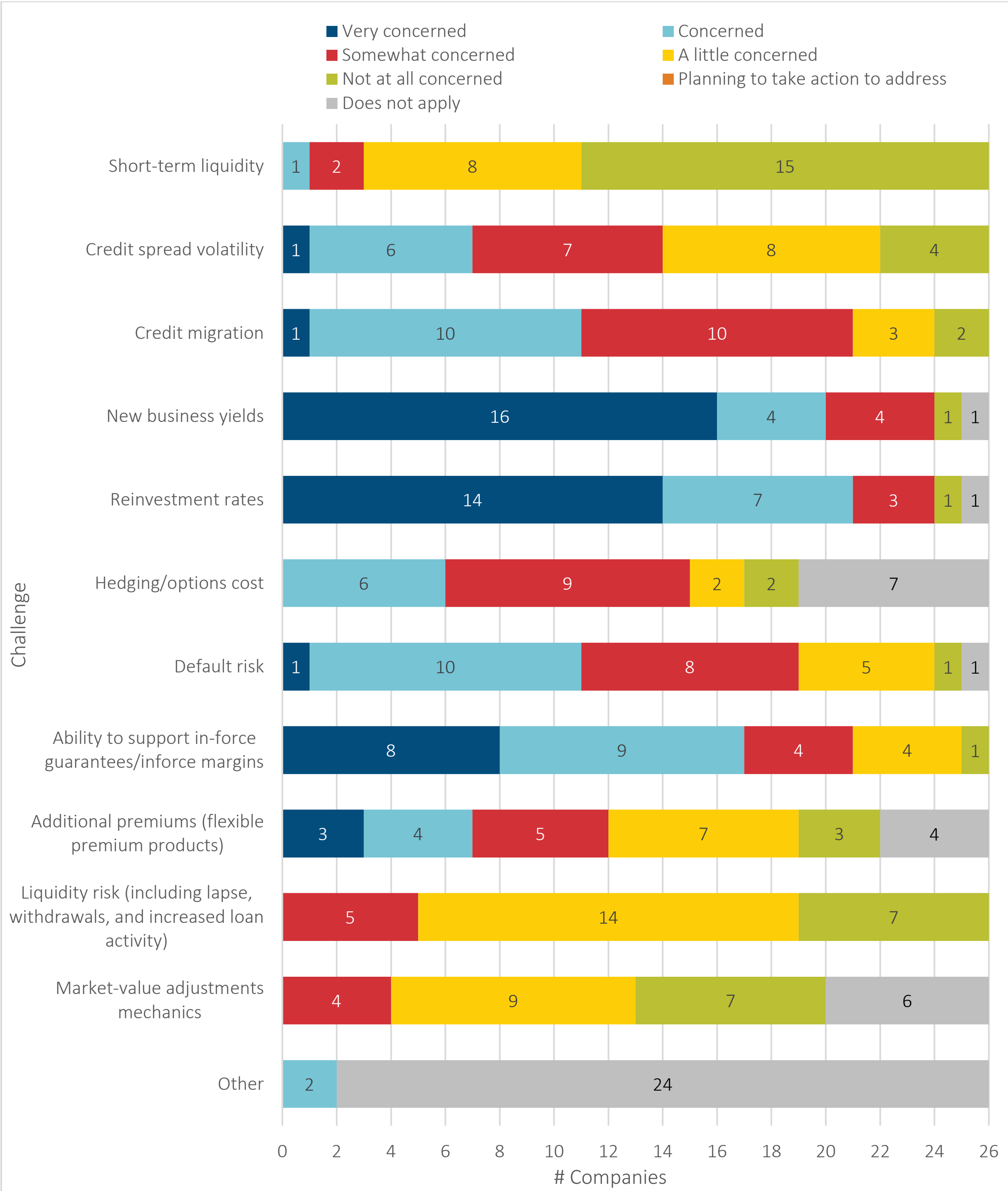
3.1.3 HOW CONCERNED ARE YOU ABOUT THE IMPACT OF LOW INTEREST RATES ON ALM FOR THE LIFE INSURANCE INDUSTRY?



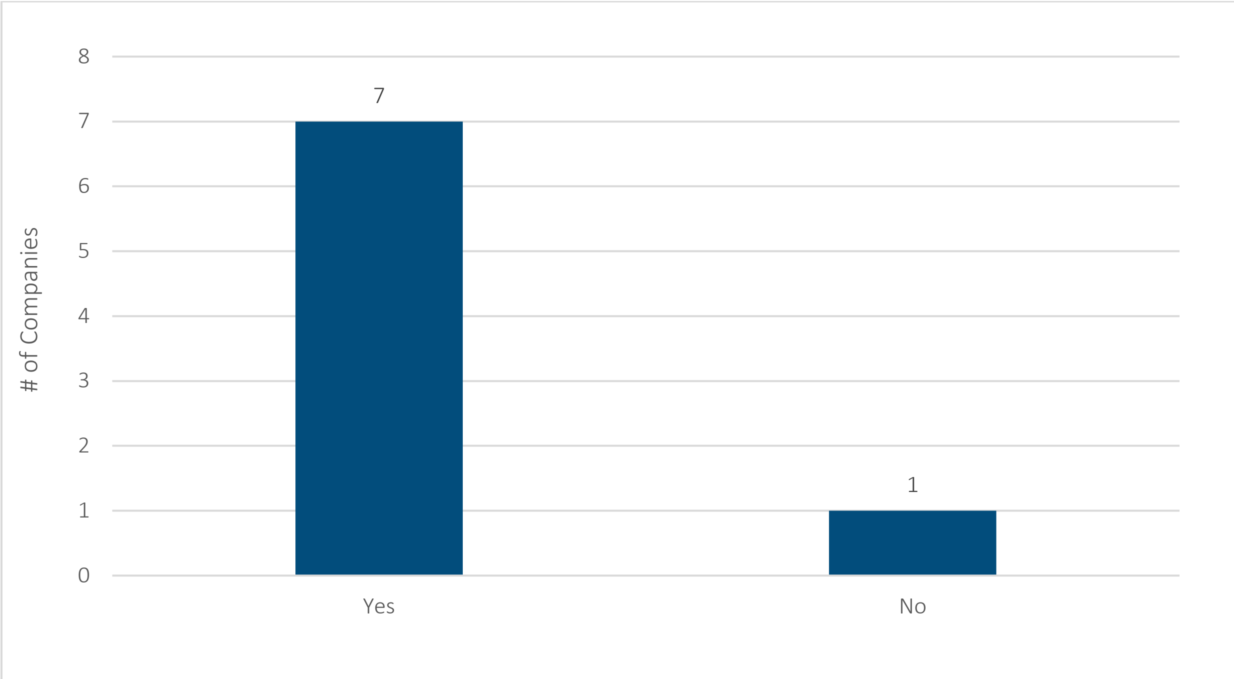
3.1.4 HOW CONCERNED IS YOUR COMPANY ABOUT INFLATION RISK OVER THE NEXT 2-3 YEARS?



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

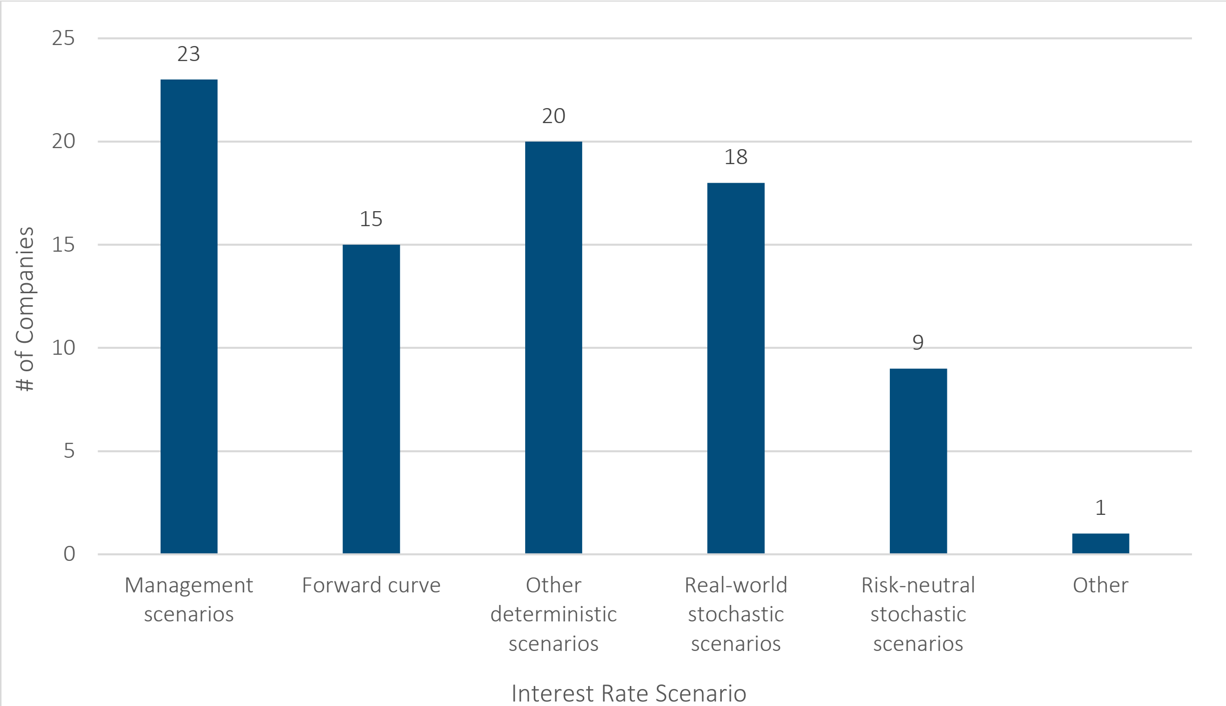


3.1.6 YOU SAID THAT YOUR COMPANY IS CONCERNED ABOUT ADDITIONAL PREMIUMS FOR FLEXIBLE PREMIUM PRODUCTS. HAS YOUR COMPANY ENFORCED CONTRACTUAL LIMITS ON NEW PREMIUMS IN THE PAST WHERE APPLICABLE?

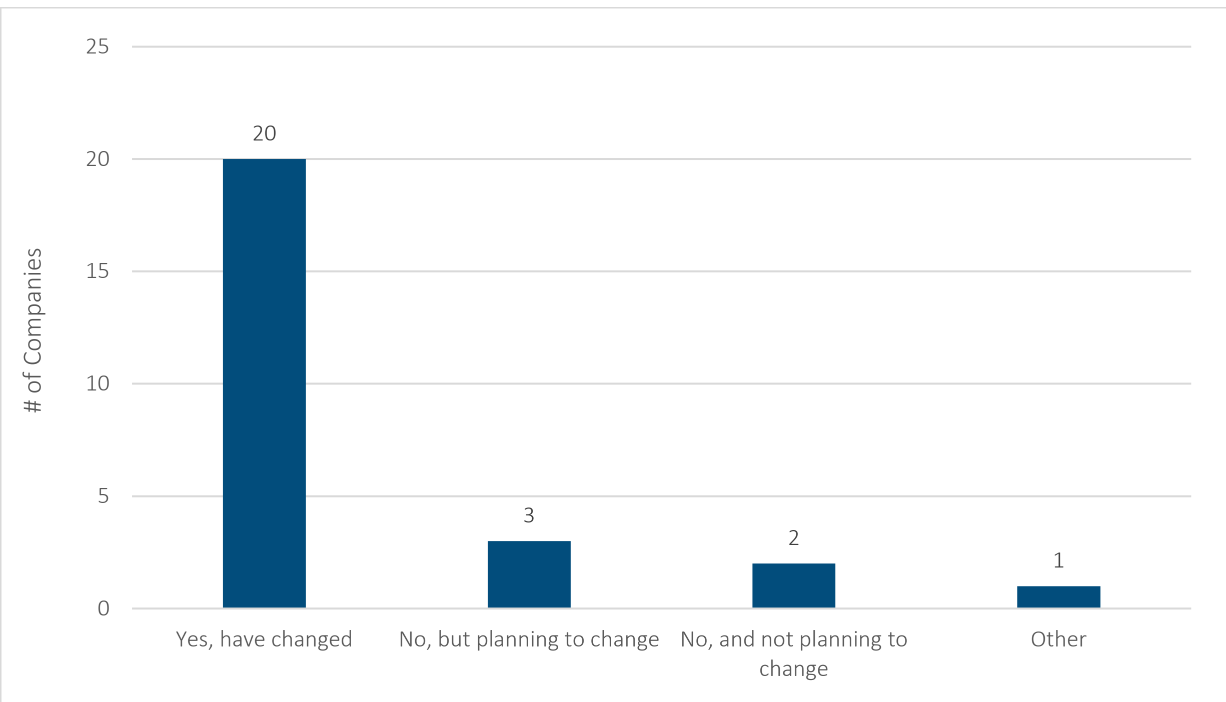


3.2 ALM SCENARIOS

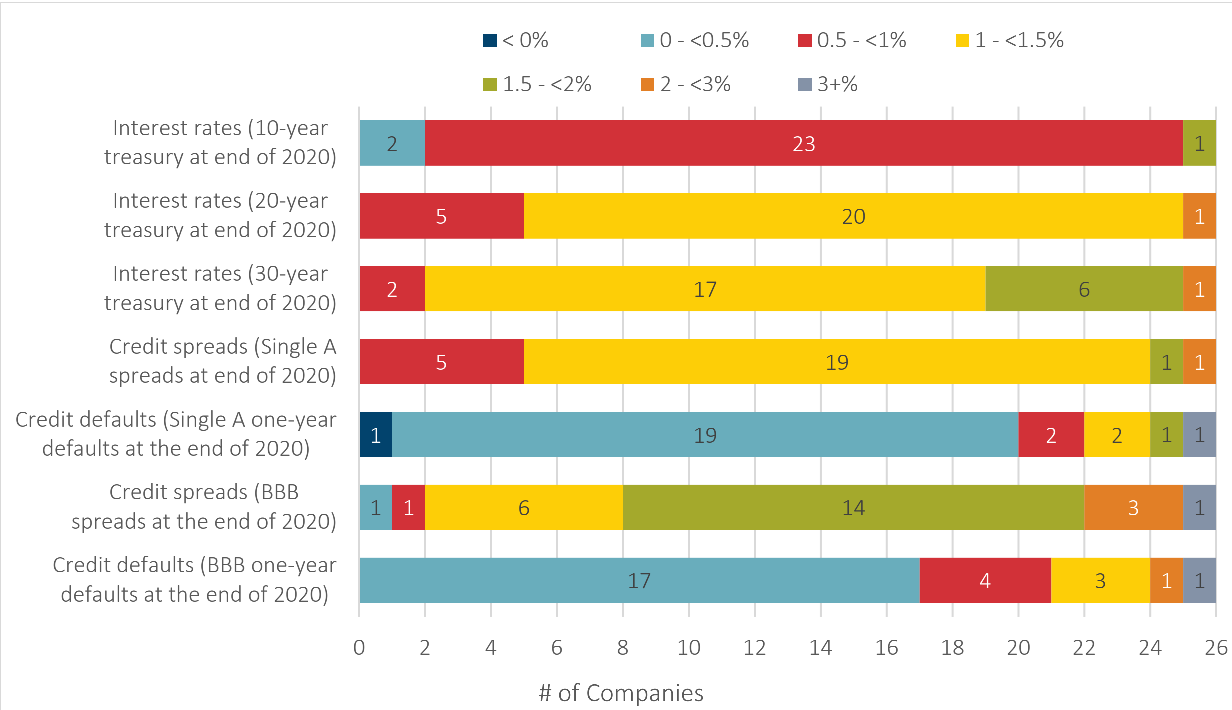
3.2.1 WHAT TYPES OF INTEREST RATE SCENARIOS DOES YOUR COMPANY USE TO EVALUATE AND SET ALM STRATEGIES? PLEASE SELECT ALL THAT APPLY.



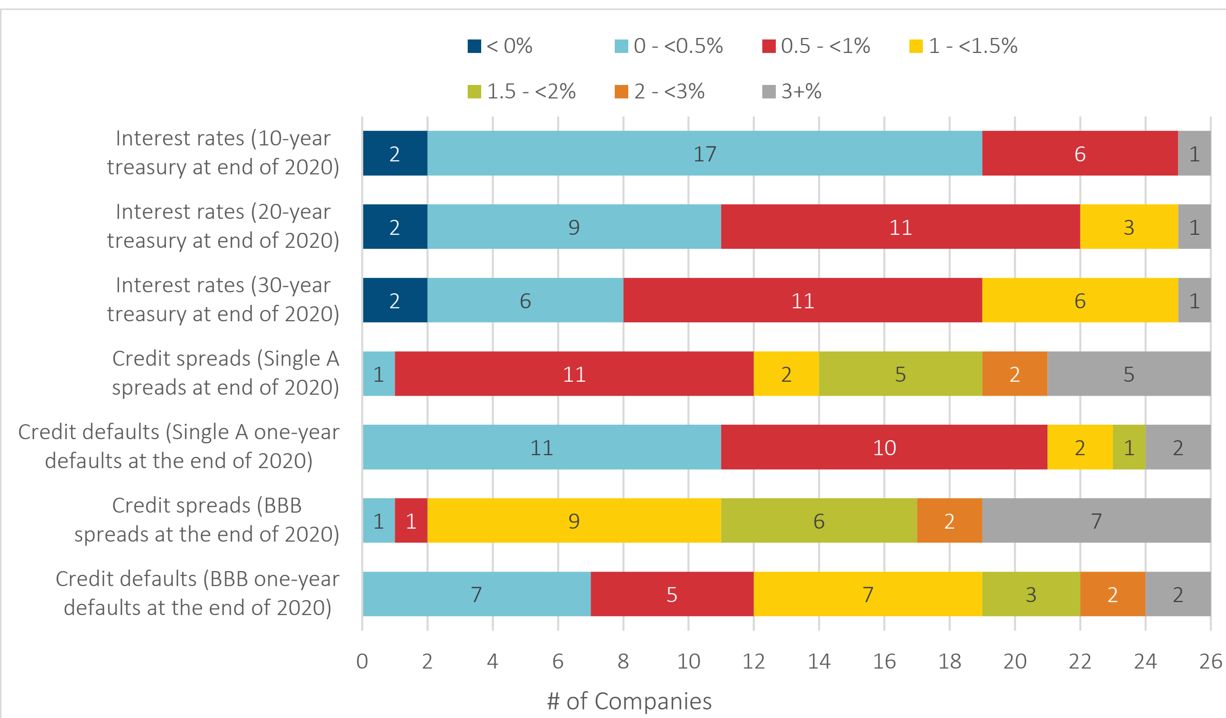
3.2.2 HAS YOUR COMPANY REVISED ITS MANAGEMENT SCENARIOS FOR THIS YEAR TO ADDRESS RECENT MARKET CONDITIONS?



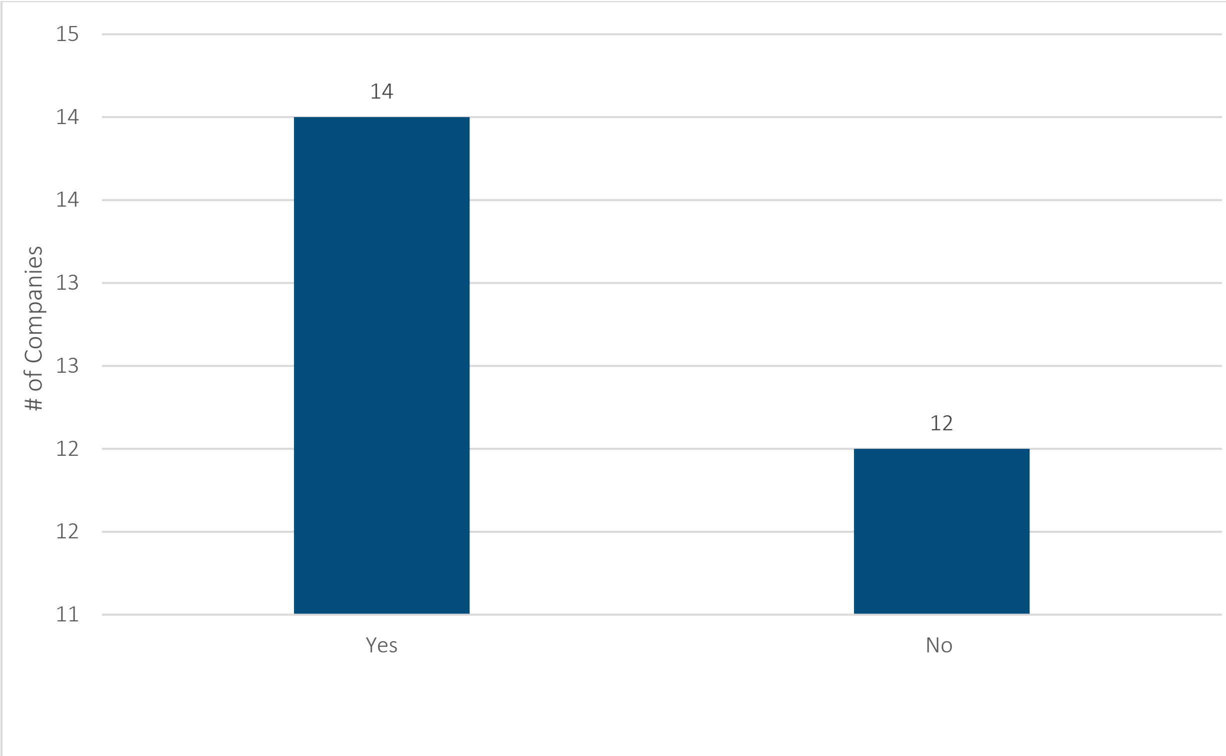
3.2.3 FOR YOUR COMPANY'S "BASE CASE SCENARIO", WHAT IS YOUR COMPANY ANTICIPATING FOR THE FOLLOWING METRICS FOR ITS MANAGEMENT SCENARIOS?



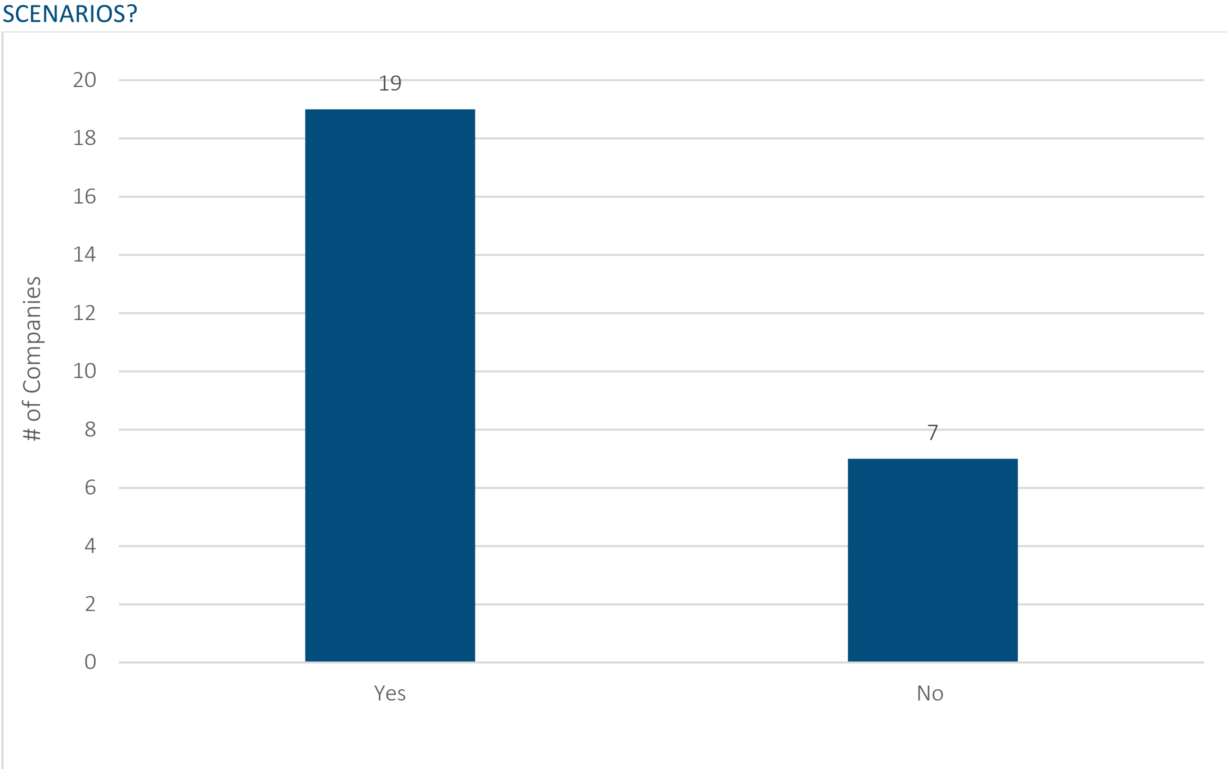
3.2.4 FOR YOUR COMPANY'S "WORST CASE SCENARIO", WHAT IS YOUR COMPANY ANTICIPATING FOR THE FOLLOWING METRICS FOR ITS MANAGEMENT SCENARIOS?



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?

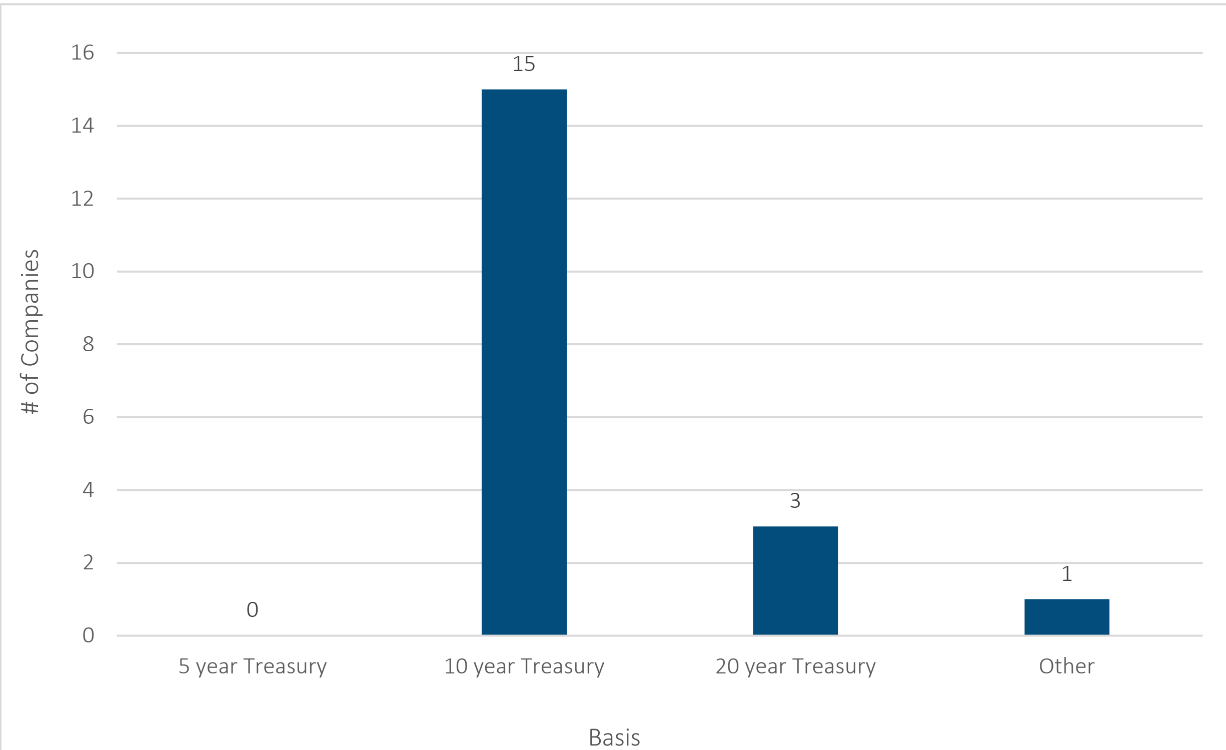


3.2.7 IN QUESTION 3.2.6, YOU SAID THAT YOUR COMPANY USES A MARKET LONG-TERM INTEREST RATE EXPECTATION IN ITS MANAGEMENT SCENARIOS. WHAT IS YOUR COMPANY'S LONG-TERM RATE ASSUMPTION?

Response Categories:

- Under 3%: 5 companies
- 3% but less than 4%: 10 companies
- 4% but less than 5%: 1 company
- 5% or greater: 3 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. WHAT IS THE BASIS FOR YOUR COMPANY'S LONG-TERM INTEREST RATE ASSUMPTION?.

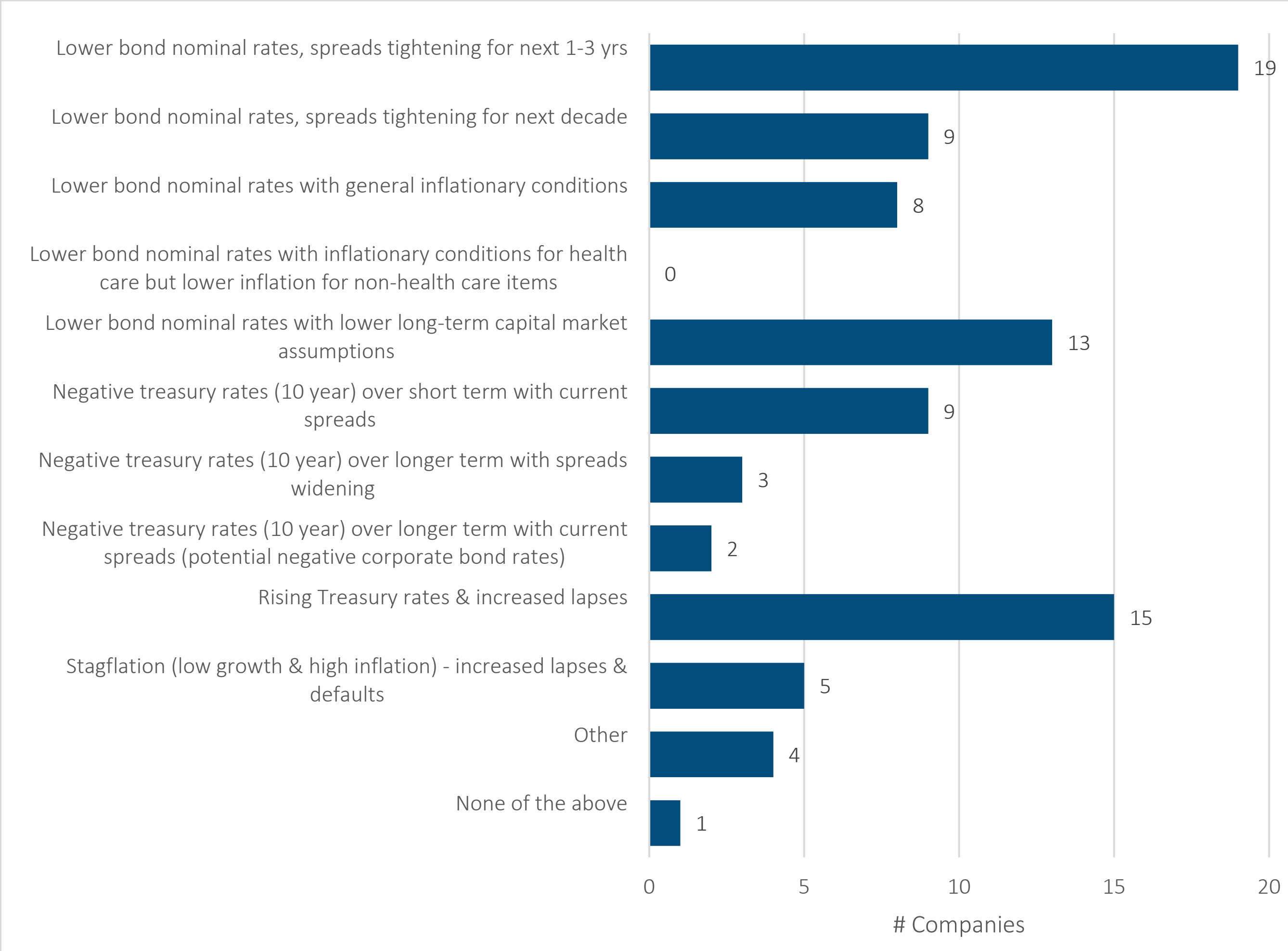


3.2.9 IN QUESTION 3.2.6, YOU SAID THAT YOUR COMPANY USES A MARKET LONG-TERM INTEREST RATE EXPECTATION IN ITS MANAGEMENT SCENARIOS. OVER WHAT TIME PERIOD DO RATES REVERT TO THIS LEVEL? PLEASE PROVIDE RESPONSE IN WHOLE YEARS.

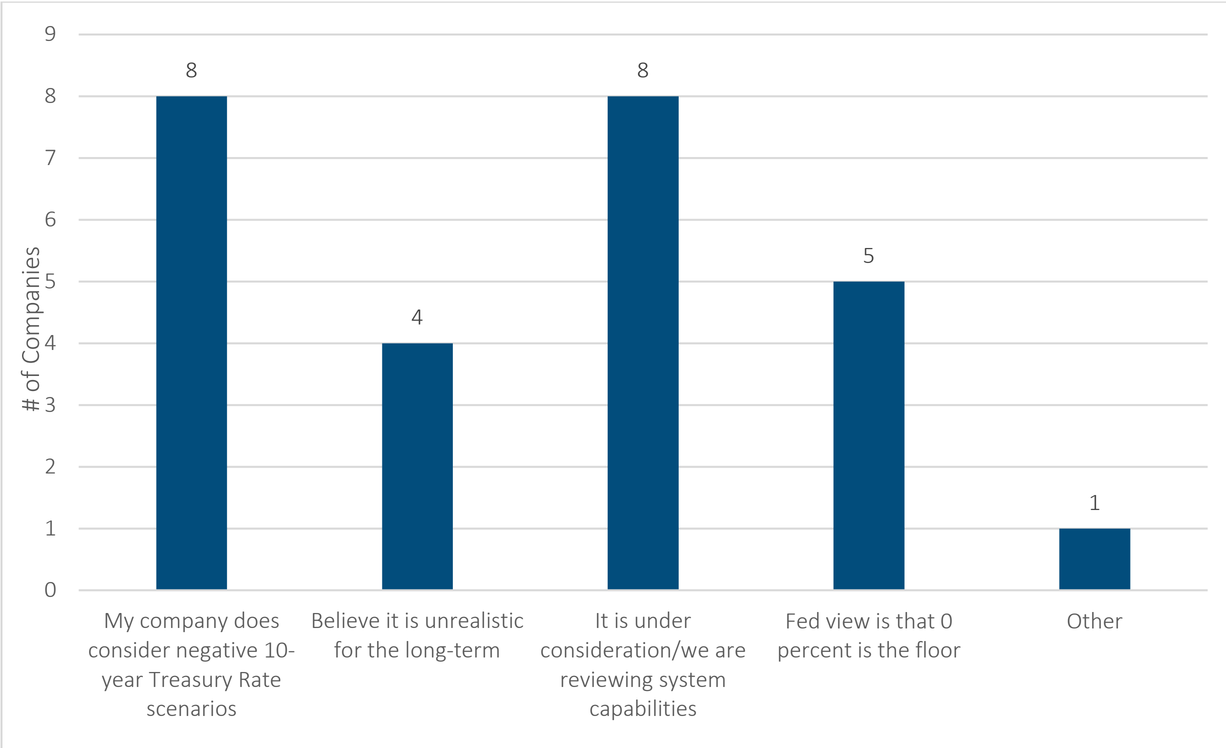
Response Categories:

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

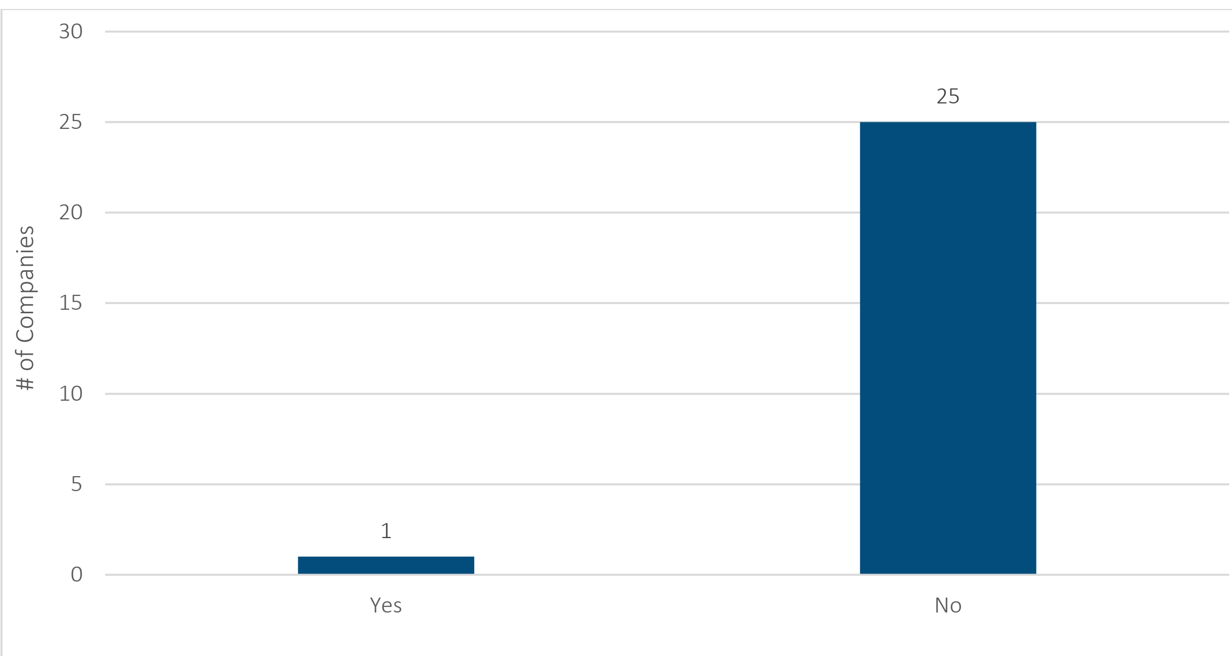
3.2.10 MANY COMPANIES ARE RUNNING MORE SENSITIVITIES IN THE CURRENT ENVIRONMENT THAN IN PAST YEARS. WHAT SCENARIOS IS YOUR COMPANY CONSIDERING IN ITS SENSITIVITY TESTING IN THE CURRENT ENVIRONMENT? PLEASE SELECT ALL THAT APPLY.



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

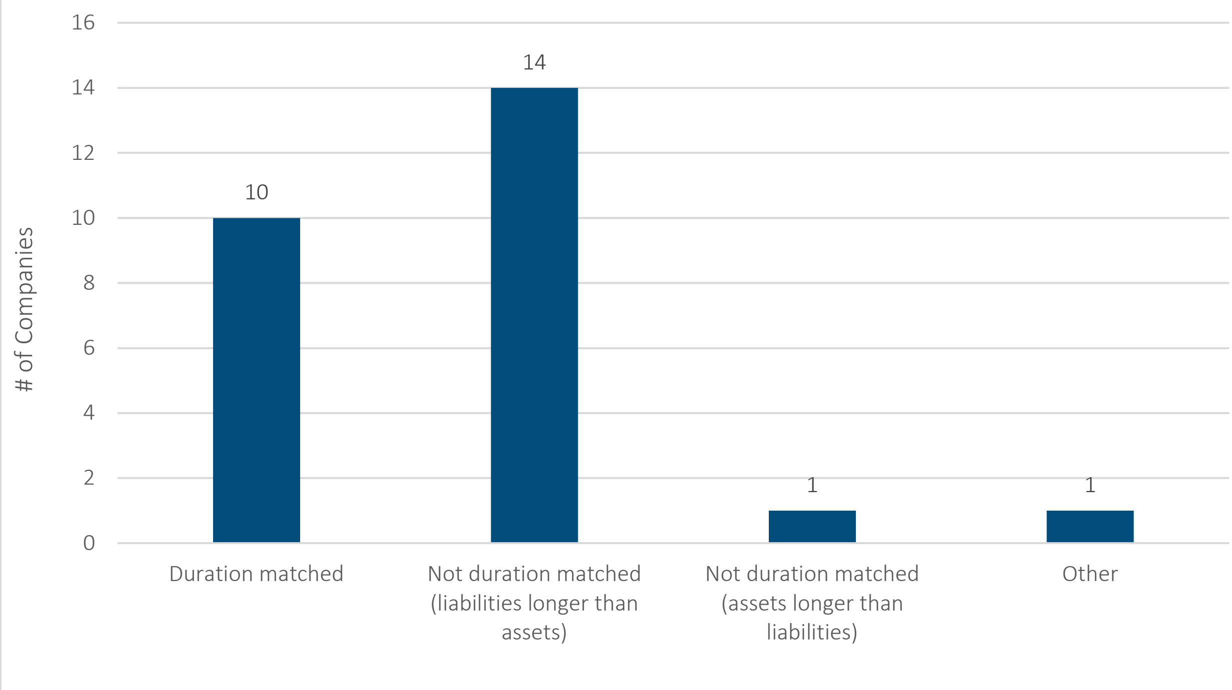


3.2.12 DO YOU HAVE MANAGEMENT SCENARIOS THAT VARY BASED ON THE RESULTS OF THE NOVEMBER 2020 US ELECTIONS?

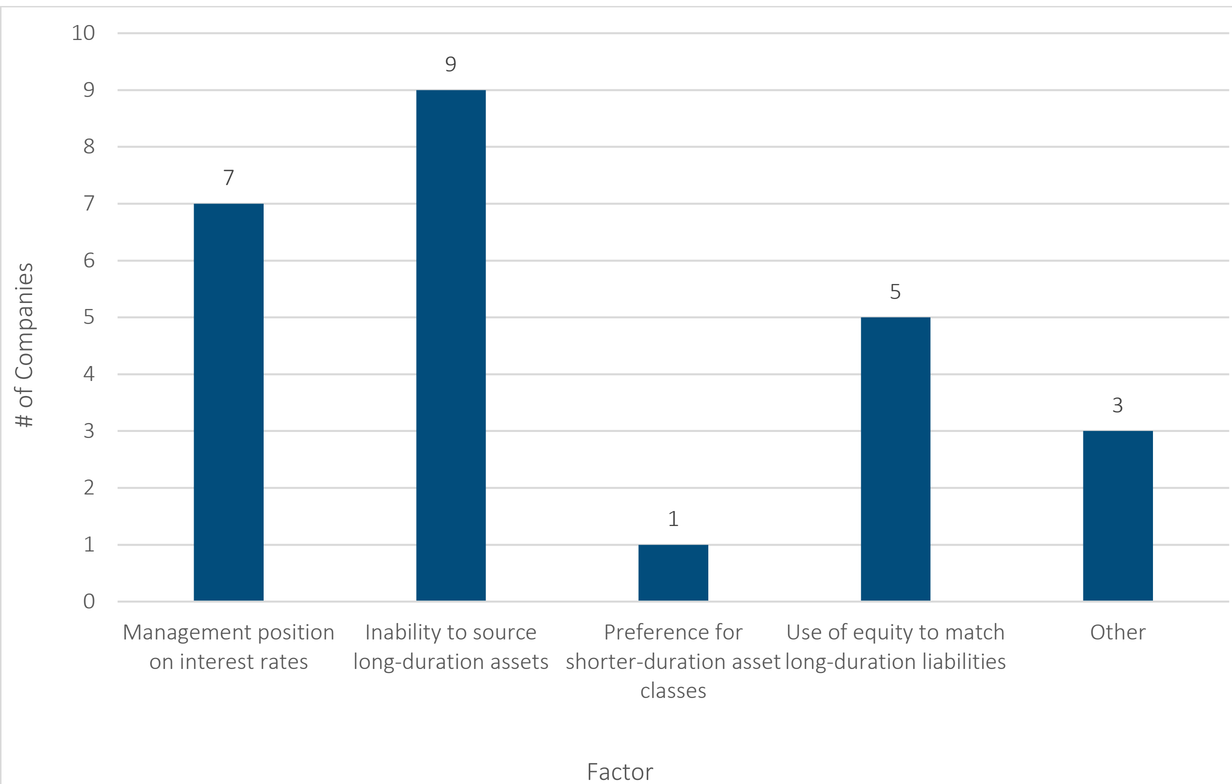


3.3 ALM STRATEGY

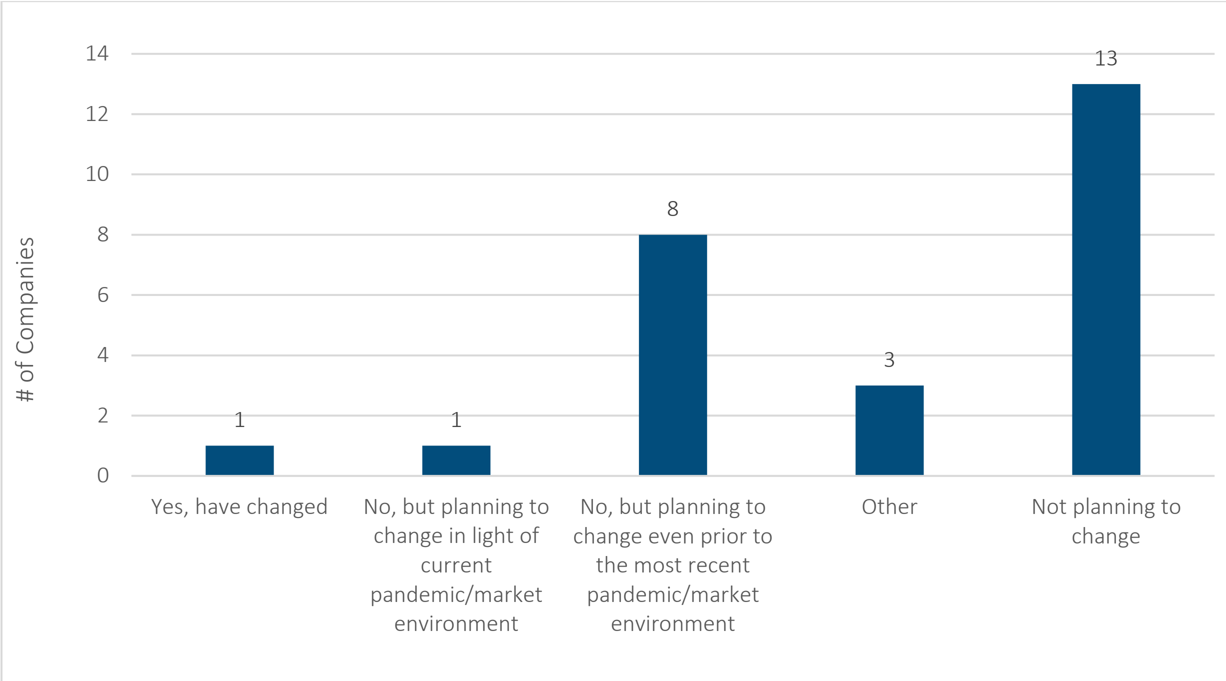
3.3.1 HOW WOULD YOU CHARACTERIZE YOUR COMPANY'S CURRENT ALM STRATEGY FOR IN-FORCE?



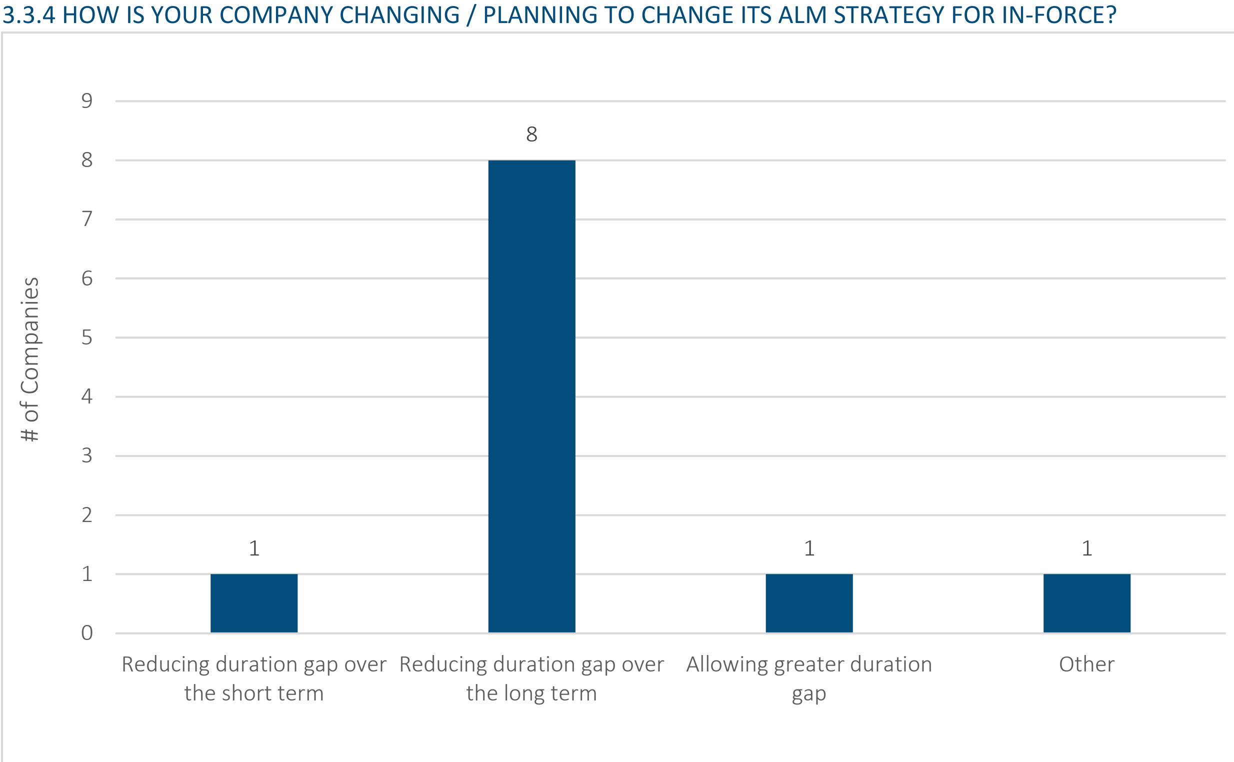
3.3.2 IF YOUR COMPANY IS NOT DURATION MATCHED FOR IN-FORCE, WHAT FACTORS CONTRIBUTE TO THIS? PLEASE SELECT ALL THAT APPLY.



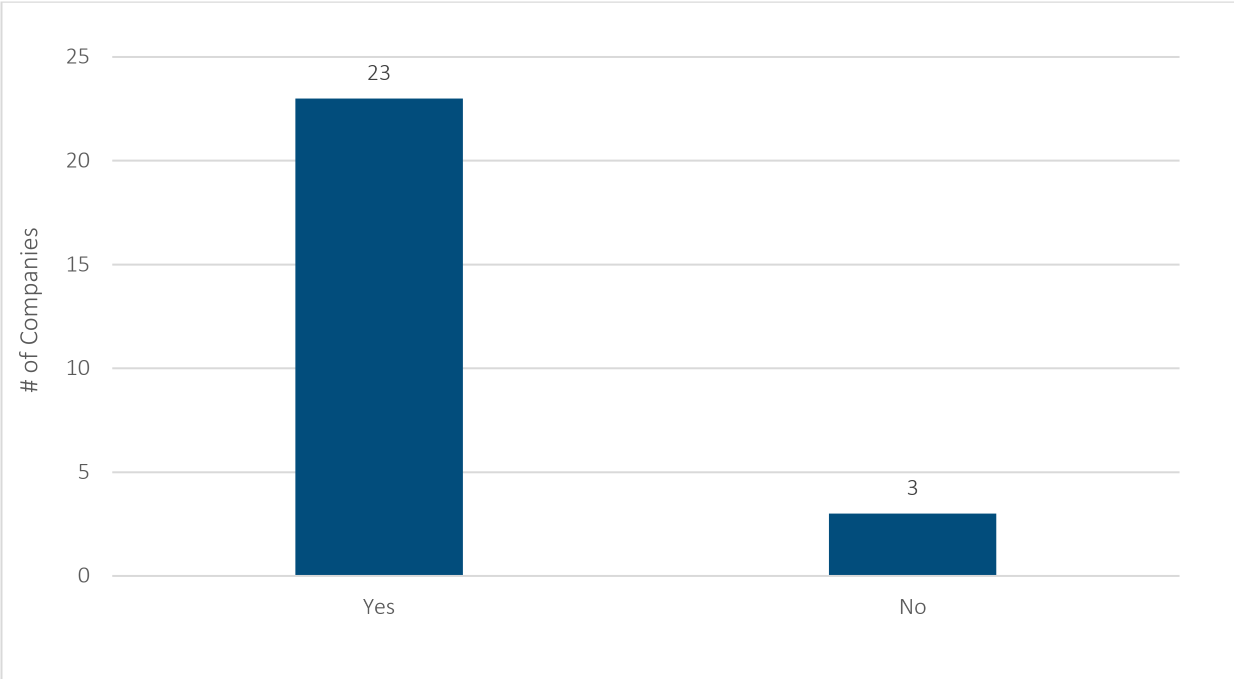
3.3.3 IS YOUR COMPANY PLANNING ON CHANGING ITS ALM STRATEGY FOR IN-FORCE?



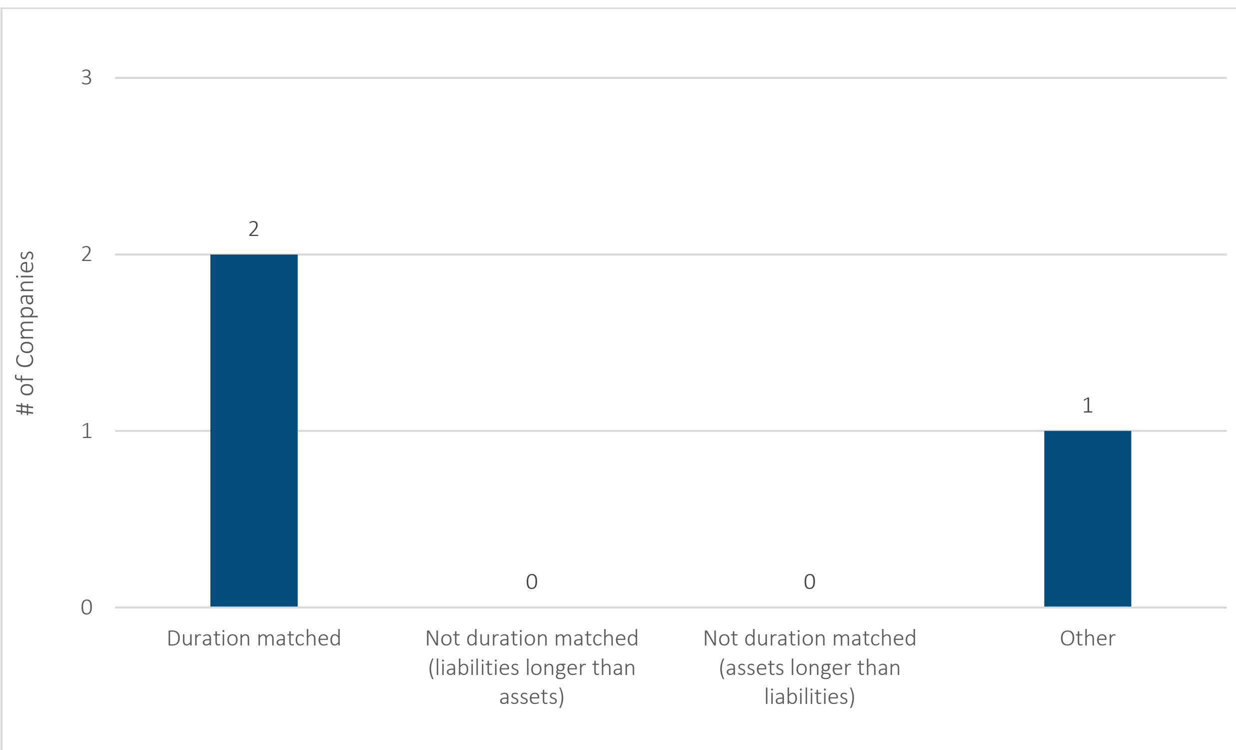
3.3.4 HOW IS YOUR COMPANY CHANGING / PLANNING TO CHANGE ITS ALM STRATEGY FOR IN-FORCE?



3.3.5 DOES YOUR COMPANY USE THE SAME ALM STRATEGY FOR IN-FORCE AND NEW BUSINESS (WHEN DEVELOPING NEW PRODUCTS)?

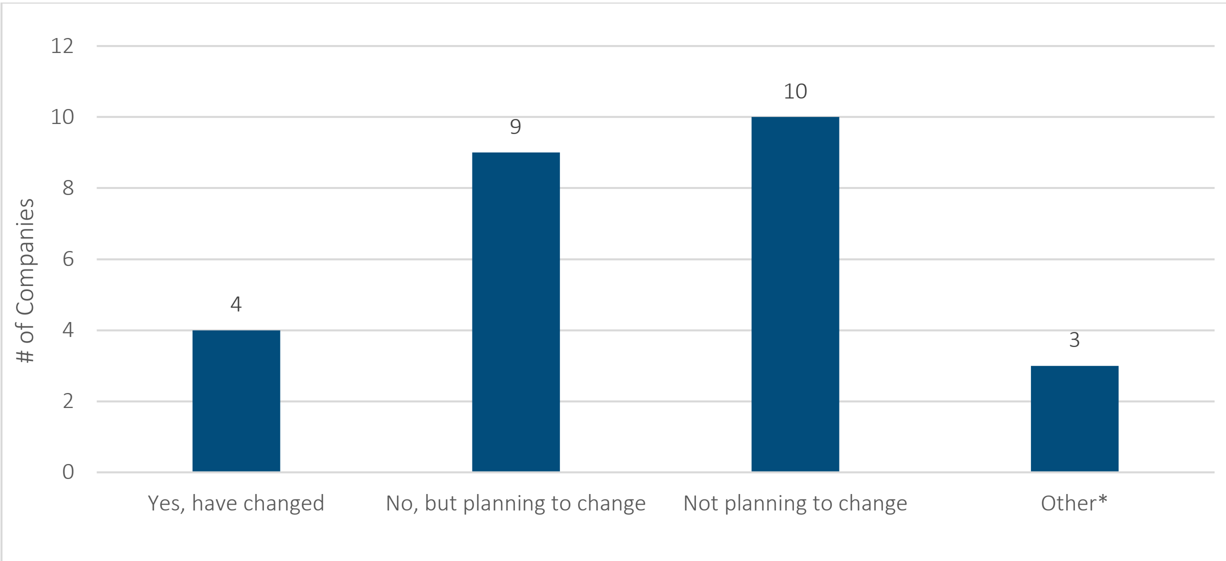


3.3.6 HOW WOULD YOU CHARACTERIZE YOUR COMPANY'S CURRENT ALM STRATEGY FOR NEW BUSINESS?



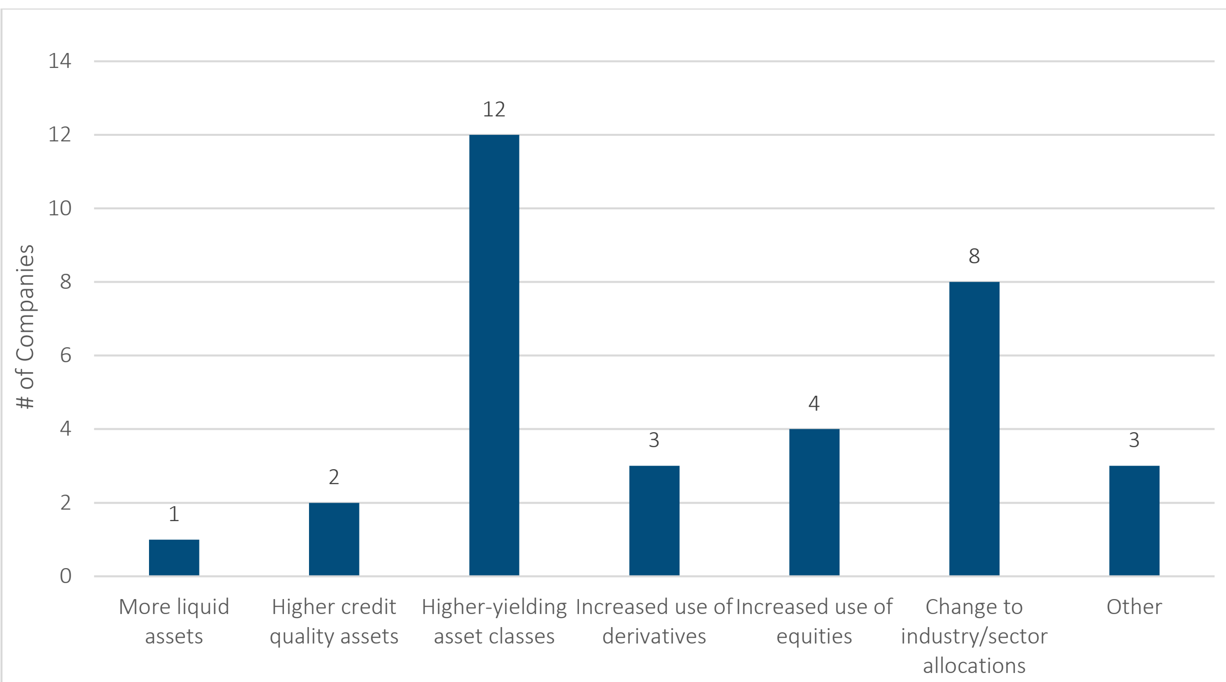
3.4 INVESTMENT STRATEGY

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



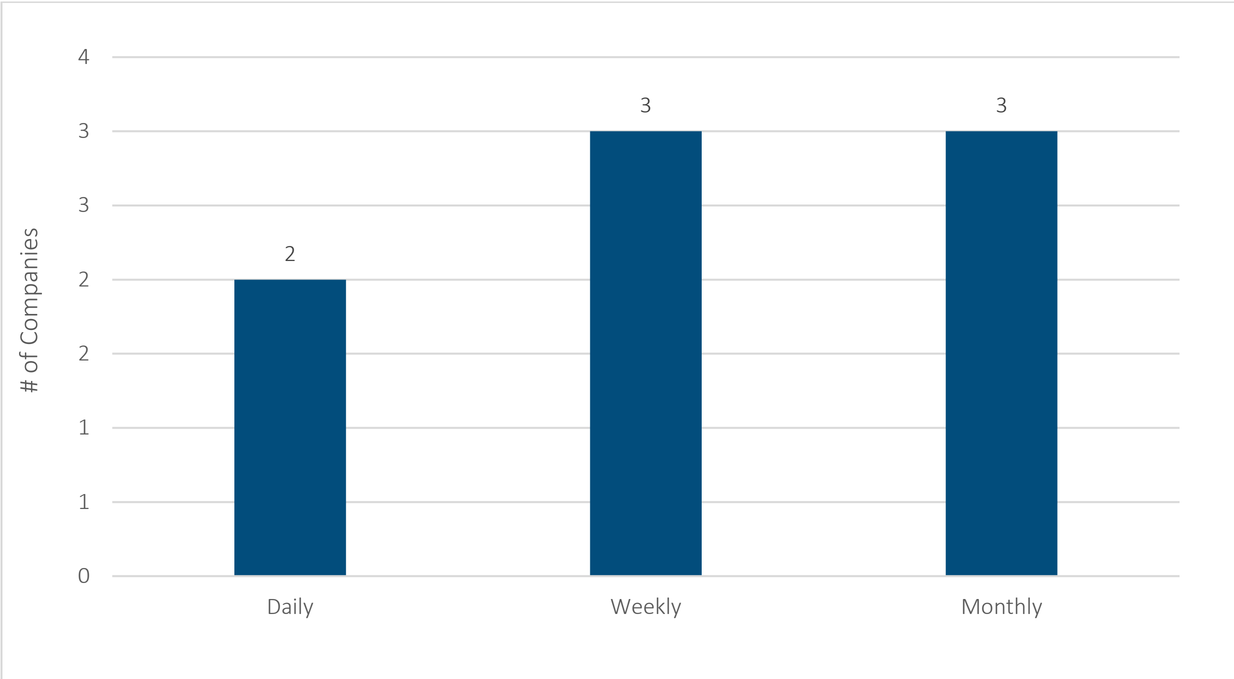
*Other is companies considering or planning to consider potential changes.

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

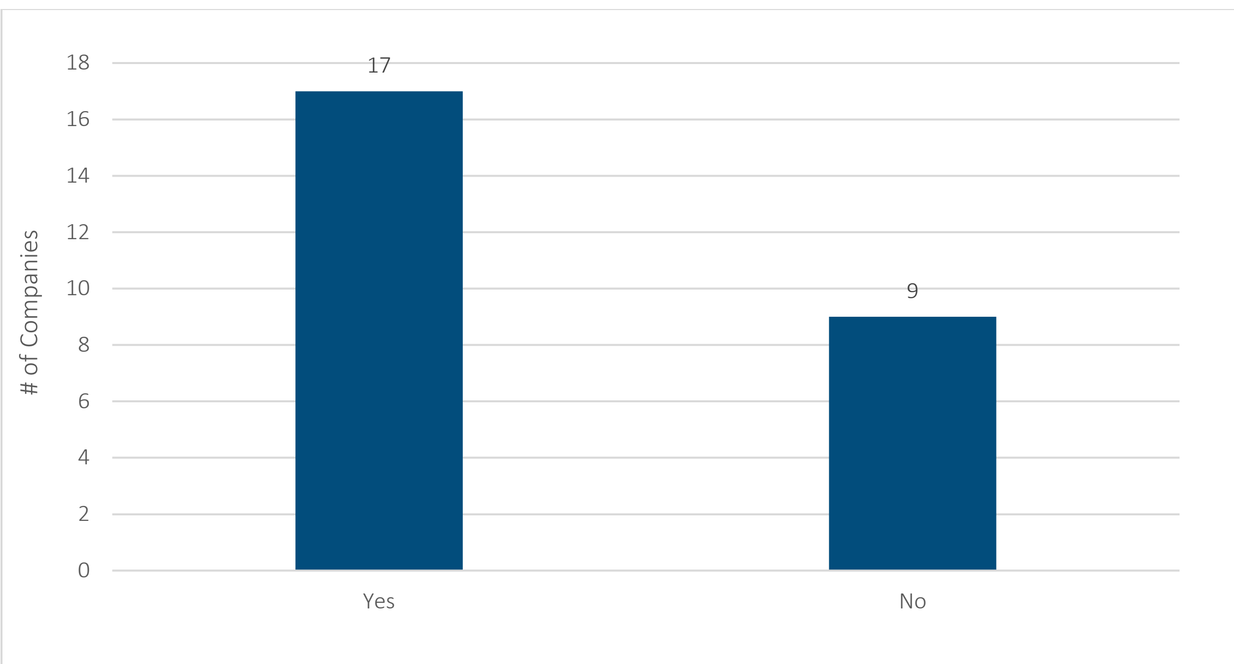


3.5 POLICYHOLDER BEHAVIOR MONITORING

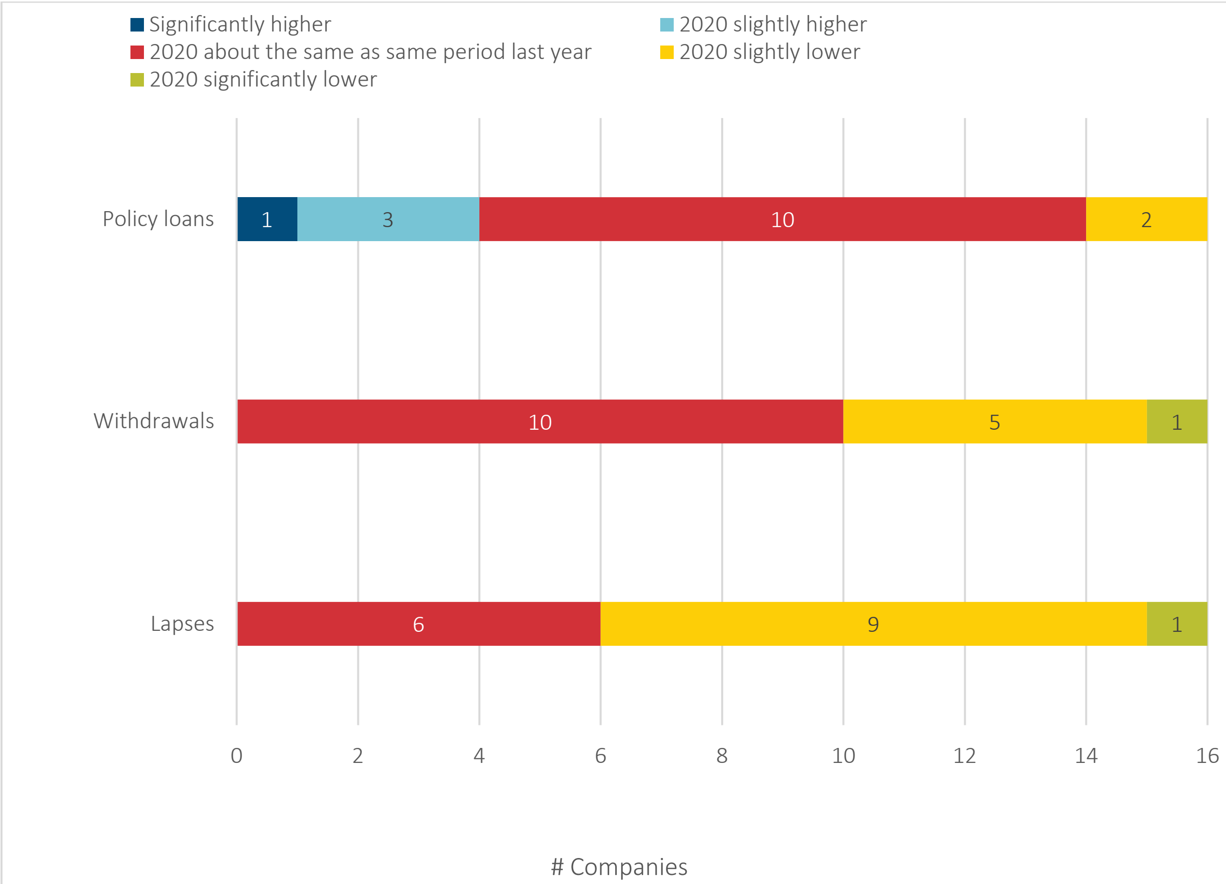
3.5.1 HOW OFTEN IS YOUR COMPANY REVIEWING NEW PREMIUM DEPOSIT ACTIVITY IN THE CURRENT ENVIRONMENT?



3.5.2 IS YOUR COMPANY TRACKING LAPSE, WITHDRAWAL AND POLICY LOAN ACTIVITY MORE FREQUENTLY IN THE CURRENT ENVIRONMENT?



3.5.3 HOW DOES THE FIRST QUARTER 2020 YEAR TO DATE LEVEL OF LAPSE, WITHDRAWAL AND POLICY LOAN ACTIVITY COMPARE TO THE SAME PERIOD LAST YEAR?



Section 4: Acknowledgments

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David Seidel, FSA, MAAA, Securian
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Allstate	Prudential Financial
American Family Life Insurance Company	Sammons Financial Group
Catholic United Financial	SBLI
CFG	Securian Financial
Country Financial	State Farm
Equitable	Talcott Resolution
Great West Life & Annuity	The Hartford
MassMutual	Thrivent Financial
Modern Woodmen of America	Unum Group
Nationwide Life Insurance	WAEPA
New York Life	Western & Southern Financial Group
OneAmerica	Western & Southern Life
Pacific Life Insurance Company	Woodmen Life

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