



Overview of US life insurance sector

Presentation to the Federal Advisory Committee on Insurance

September 2023

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Agenda

1. Overview of US life insurance sector
2. Trends in cross-border life reinsurance
3. Appendix

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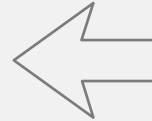
Overview of US life insurance sector

US life insurance outlook is stable

NEGATIVE

What could change outlook to negative

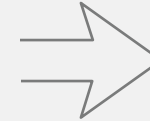
- » Weakening economic environment
- » Spike in interest or return to a prolonged low-rate environment
- » Downgrades & defaults that weaken asset quality, reducing capital
- » Sharp and sustained decline in the equity markets
- » Increased return of capital to shareholders



STABLE

Key drivers

- » Rising interest rates boost portfolio yields, sales
- » Investment portfolios remain in good shape, credit losses are moderate thus far
- » Strong balance sheets, solid capital levels, with focus on risk management
- » Excess mortality experience from pandemic has subsided



POSITIVE

What could change outlook to positive

- » Stronger economic growth. e.g. Moody's forecast of sustained GDP growth above 6% and unemployment ratio below 4%
- » Continued gradual increase in interest rates
- » Robust equity market growth with no signs of a recession
- » Balance sheet remains strong, including solid capital and focus on risk management

Key credit themes

M&A and divestitures

Investments

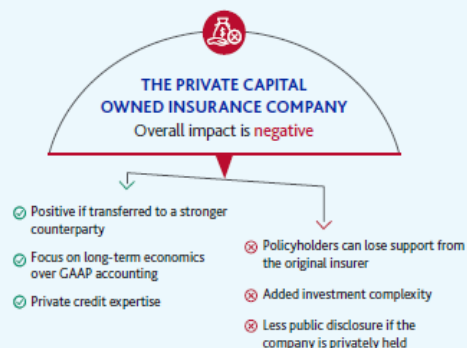
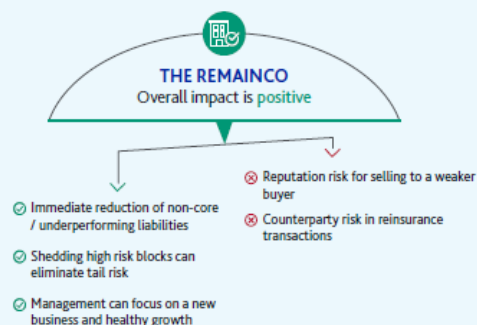
Capital and risk management

Interest rates

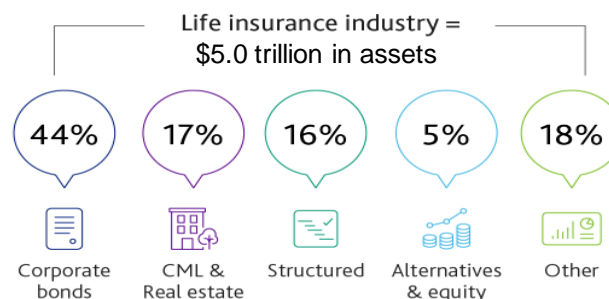
US life transform, creating winners and losers

Credit impact: Generally positive for insurers selling blocks, but negative for policyholders under new ownership

The credit impacts are transaction specific, but in general:

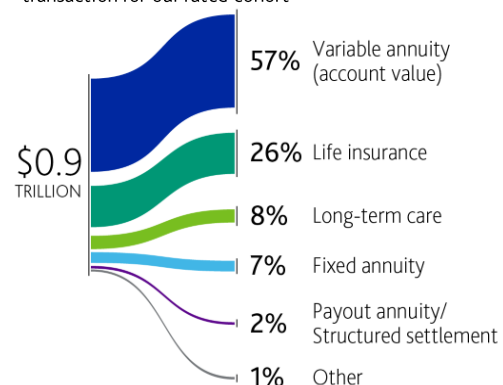


Why? Multi-trillion dollar opportunity to leverage private credit expertise and earn fees



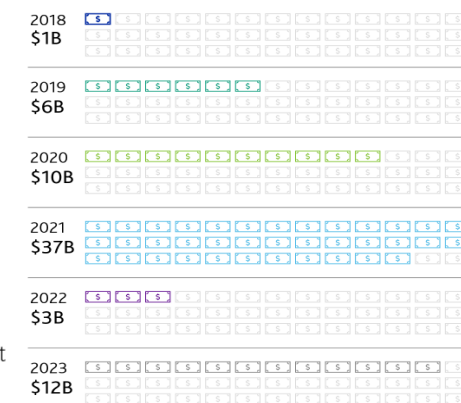
Long duration spread products with high guarantees most challenged by low rates

Interest sensitive blocks that could be subject to a transaction for our rated cohort



Private capital entering the sector *

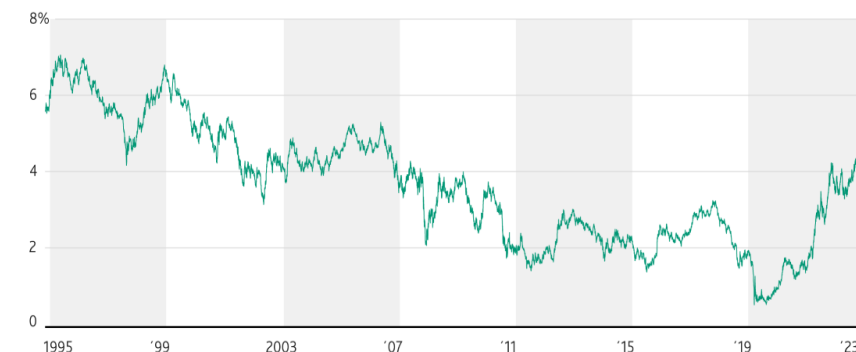
Focus on long term cash flows of legacy business; not concerned about short-term accounting volatility



* Based upon an estimated amount of capital invested

The driver of the transformation is low rates

Rising interest rates boost portfolio yields, but increase accounting volatility



Equity market penalizes traditional insurers with legacy spread business; values recurring fees and capital-light business

Equity market investors value more stable cash flows

— Total (less interest sensitive companies)

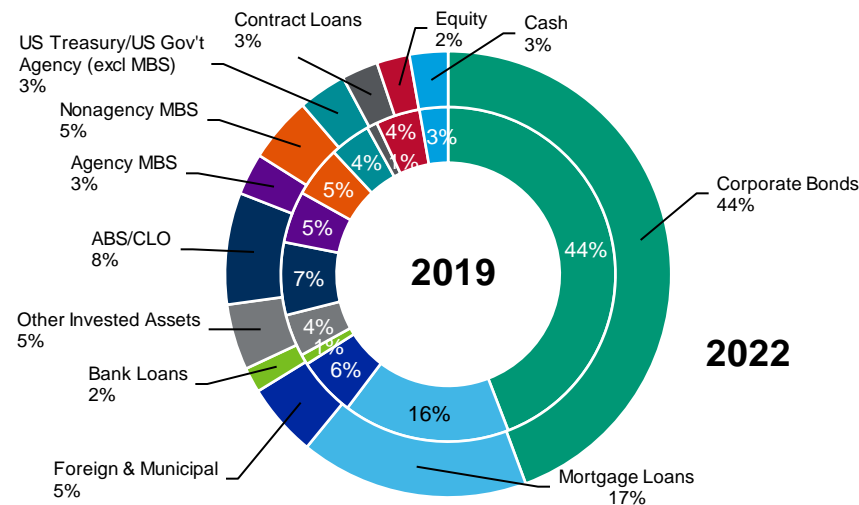
— Total (traditional companies)



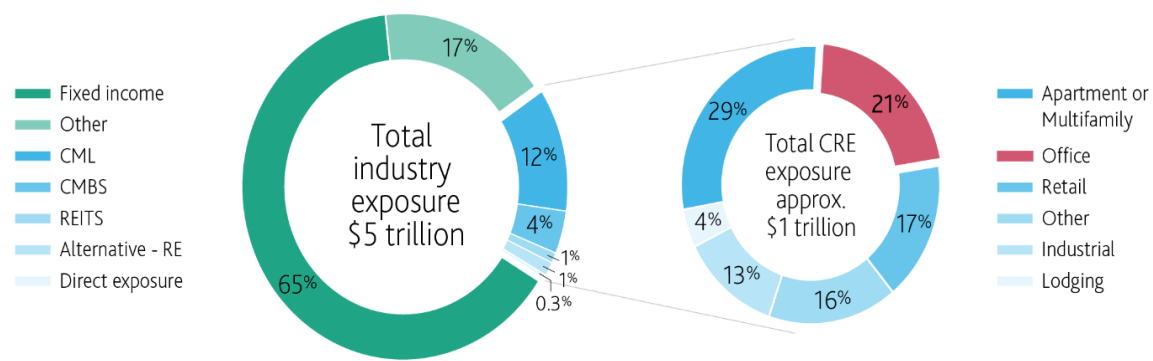
Source: Moody's Investors Service, S&P Capital IQ (contains copyrighted and trade secret materials distributed under license from S&P Capital IQ. For recipient's internal use only)

Asset quality remains solid, expected rise in defaults in 2023

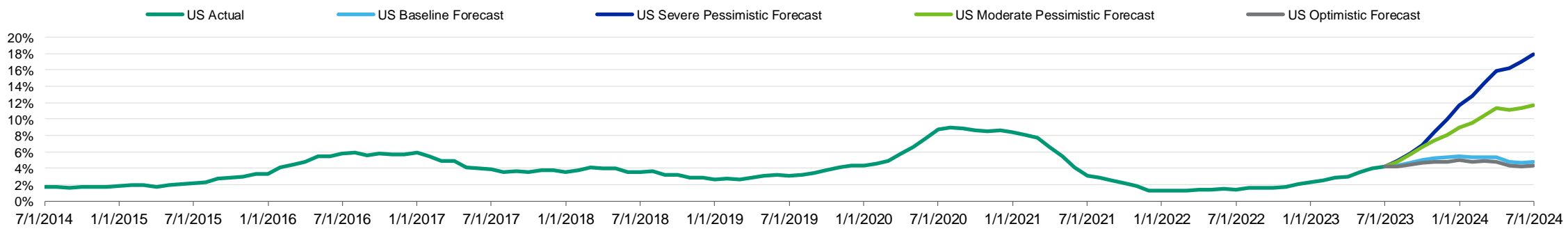
Investment portfolio



Commercial real estate exposure to office type properties is 21%



US speculative-grade default rate expected to rise modestly

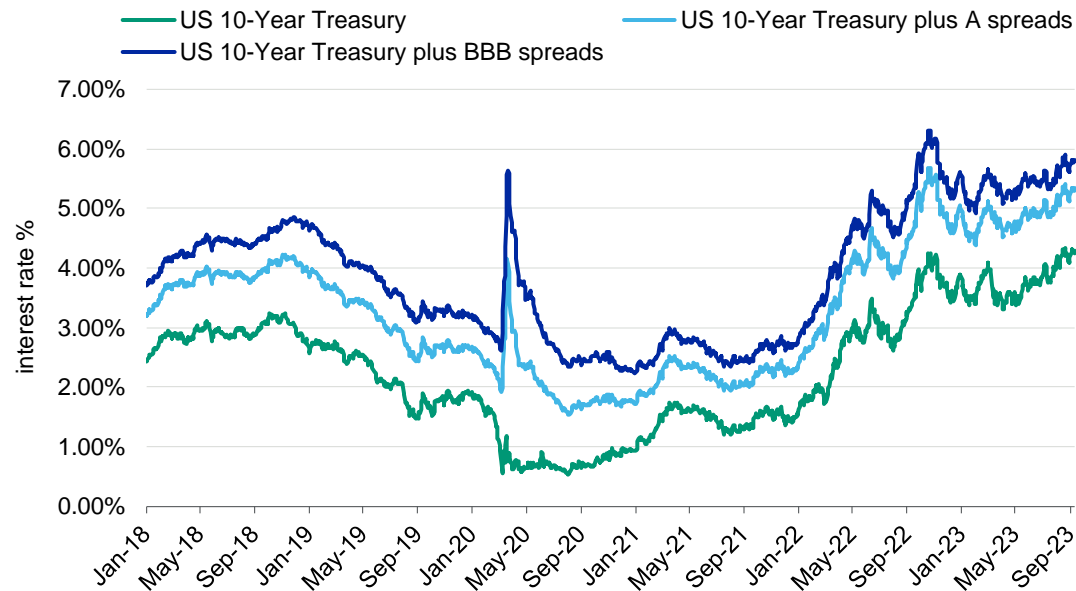


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Impacts of higher interest rates and inflation

Gradually rising interest rates generally positive

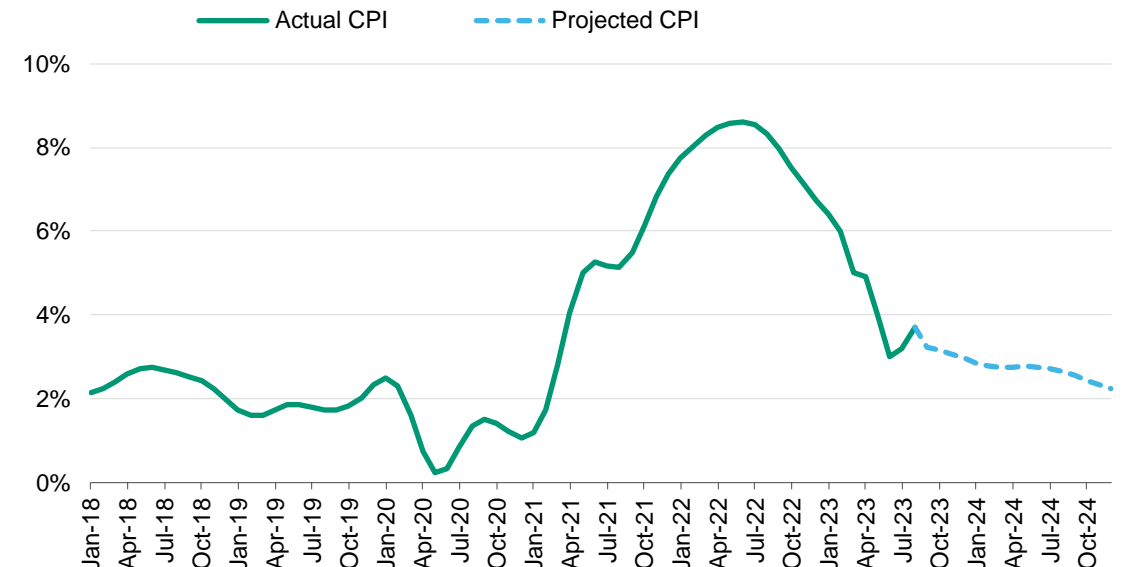
- » Benefits for the life industry
 - » Relieves pressure on minimum guarantees
 - » Helps reduce spread compression
- » However, rapid spike in rates can lead to disintermediation



Source: Moody's Investors Service, Federal Reserve Economic Data

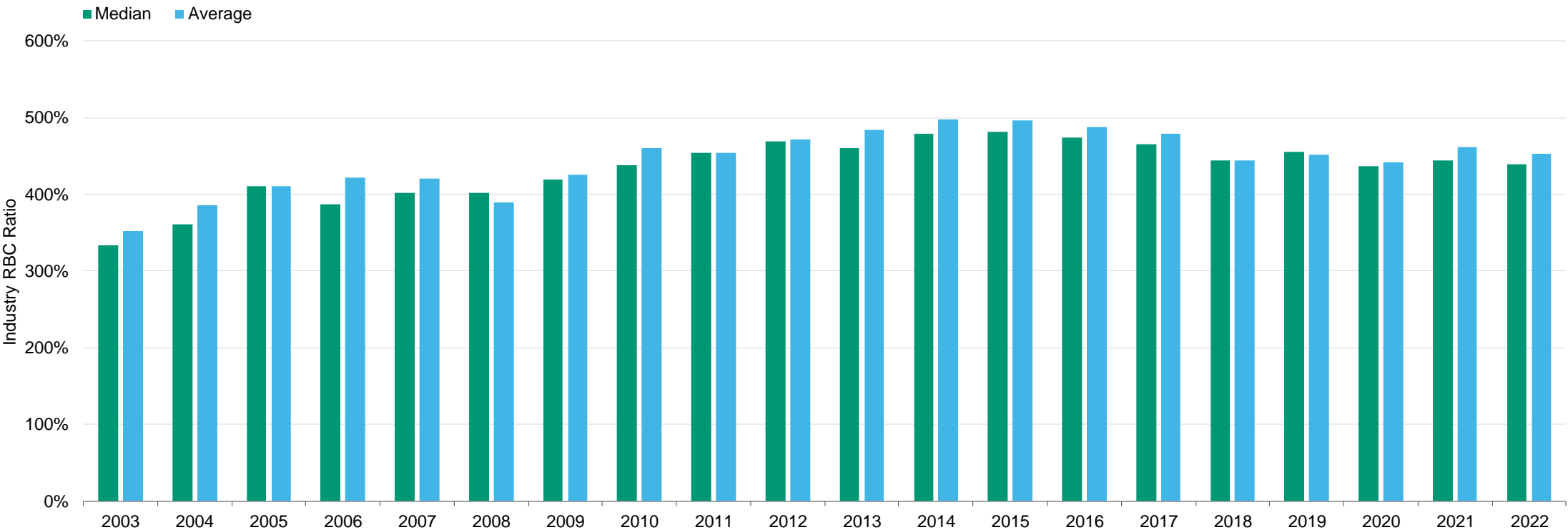
Inflation has mixed credit effects

- » Positive for the top line of Retirement and Group businesses
- » Can adversely affect LTC as cost of care (wage inflation) increases in response
- » Similar negative impact for business expenses across all lines (G&A, etc.)



RBC remains solid, but more business moves offshore

Strong capital, but capital market pressures rising



Source: Moody's Investors Service, Company filings

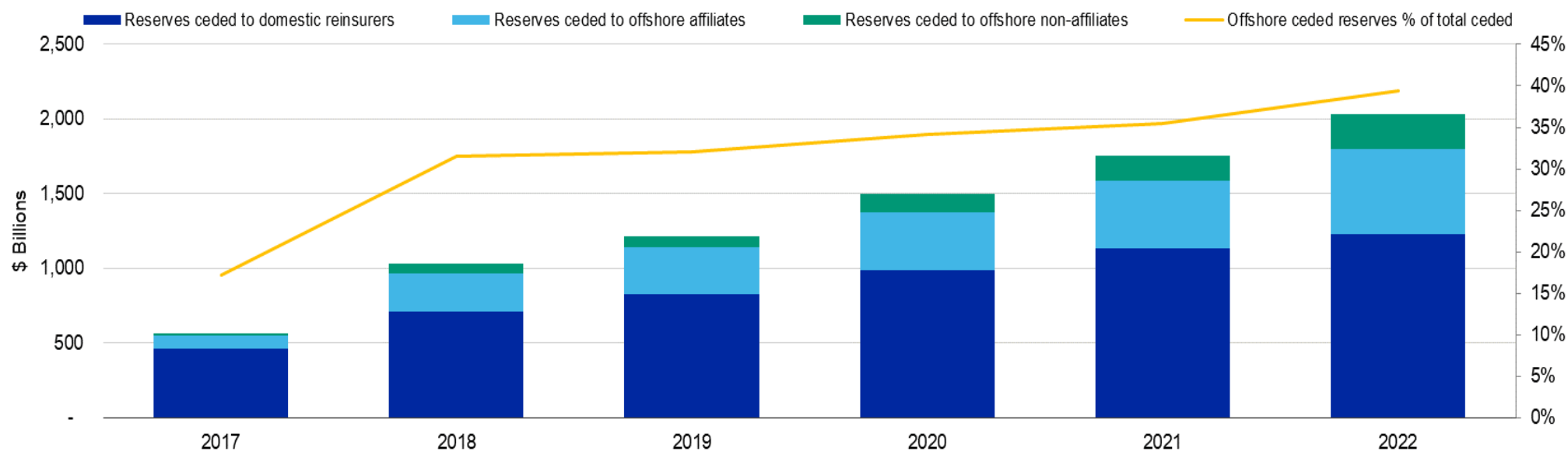
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Trends in cross-border life reinsurance

More US life insurance reserves are moving offshore

An increasing amount of business – mostly annuities, including contracts supporting pension risk transfer liabilities – is being reinsured into international markets

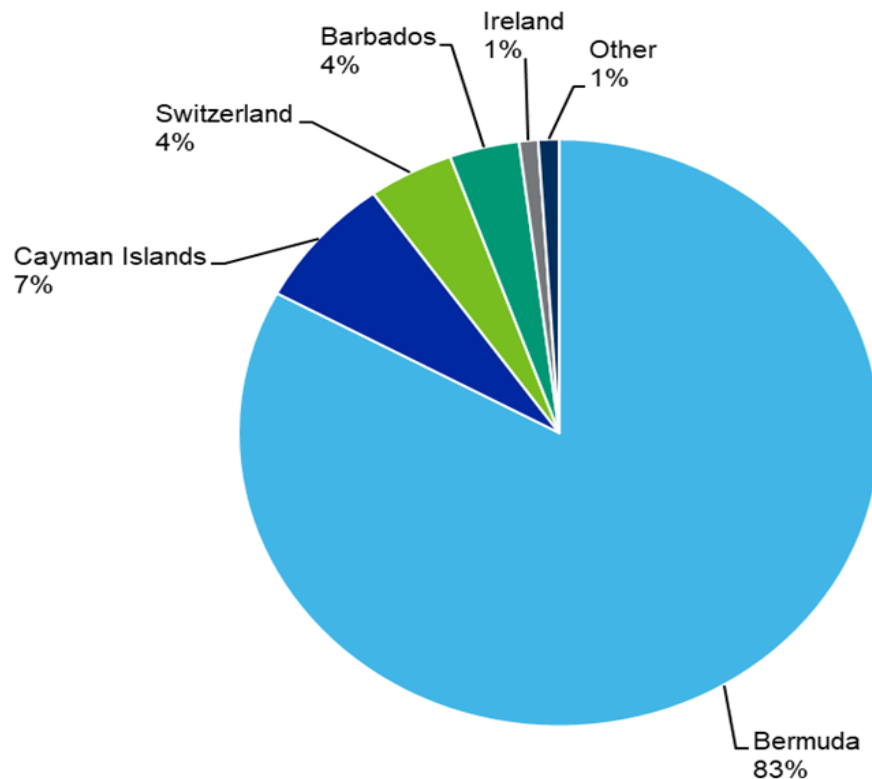
» These arrangements or structures support sales initiatives, and inforce blocks providing private capital insurers a key source of funds for their asset management businesses.



Source: Moody's Investors Service, S&P Capital IQ (contains copyrighted and trade secret materials distributed under license from S&P Capital IQ. For recipient's internal use only)

The primary offshore destination for US reinsurance reserve credit is Bermuda

Ceded reserves destination country



Several reasons for the recent growth in the Bermuda market

- » Significant resources invested building and maintaining an international regulatory regime and infrastructure
- » An offshore jurisdiction that has sophisticated regulation, but has listened to industry concerns as well
- » Focus on economic capital and ALM
- » Solvency II equivalence
- » An NAIC qualified and reciprocal jurisdiction
- » Access to capital that includes expertise to set up sidecars

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Why are insurers moving business offshore?

Each insurer has tailor-made motivations

Capital

- » Potential for more capital efficiency; i.e. higher ROE
- » Companies lacking offshore presence find it challenging hard to compete in certain product lines like fixed annuities
- » Non-economic liability reserving drives some capital offshore
- » More recognition of ALM in capital calculation in some regimes



Investments

- » Total reserves and capital may be less for some insurers with riskier investment portfolios
- » Greater concentration of private / risky investments tend to be in offshore jurisdictions



Financial reporting / taxes

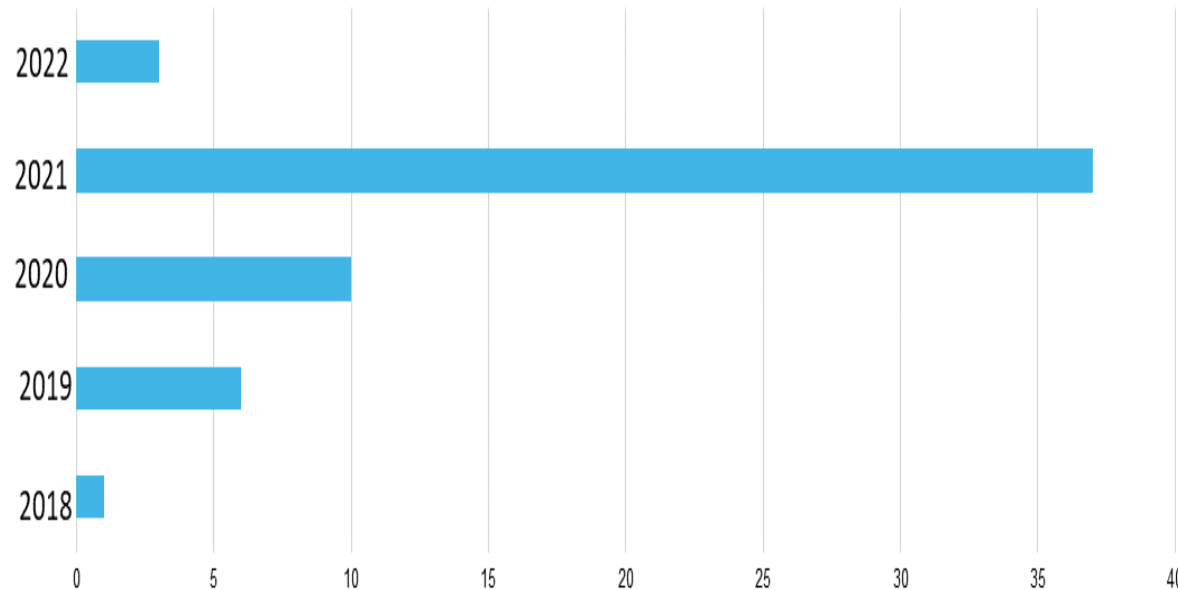
- » Generally, less transparency than US; however, some good public disclosures in certain jurisdictions.
- » Tax benefits; sidecar investors could benefit from reduced taxes



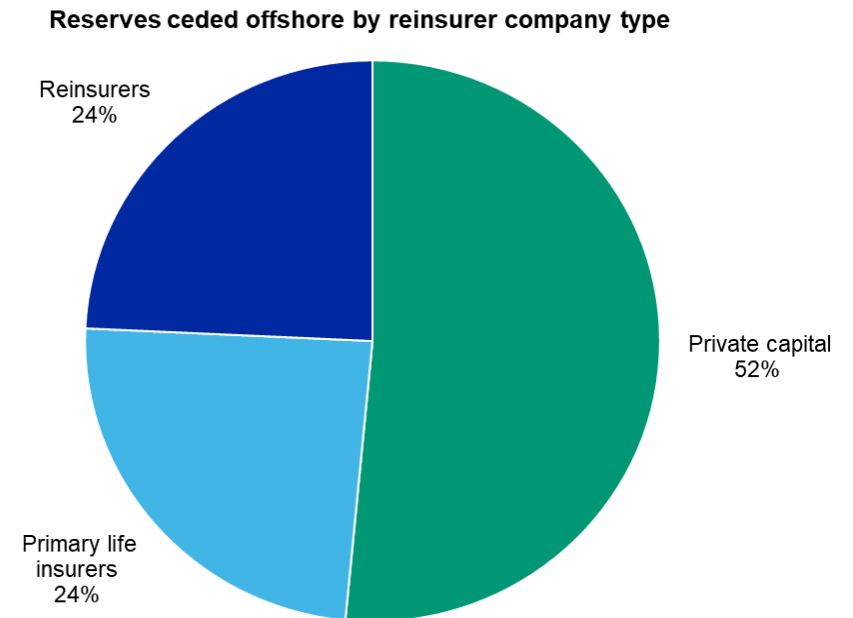
Private capital's investment in life insurance sector seeks to improve cash flow and build scale

Plentiful resources from private capital firms in recent years has accelerated M&A activity

» This has provided life insurers a way out of capital-intensive businesses and into capital light businesses



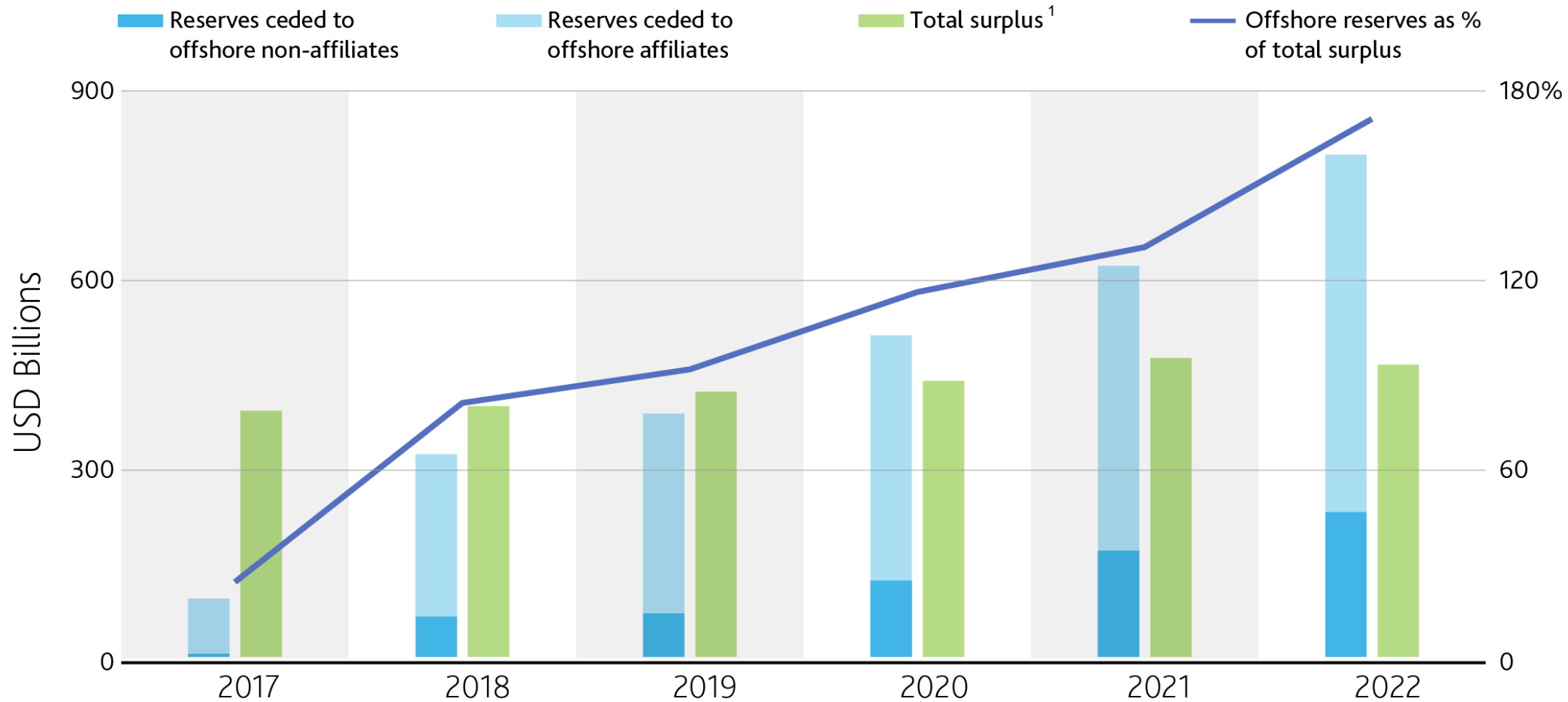
Private capital (re)insurers gather majority of offshore reinsurance activity



Based upon an estimated amount of capital invested in USD billions

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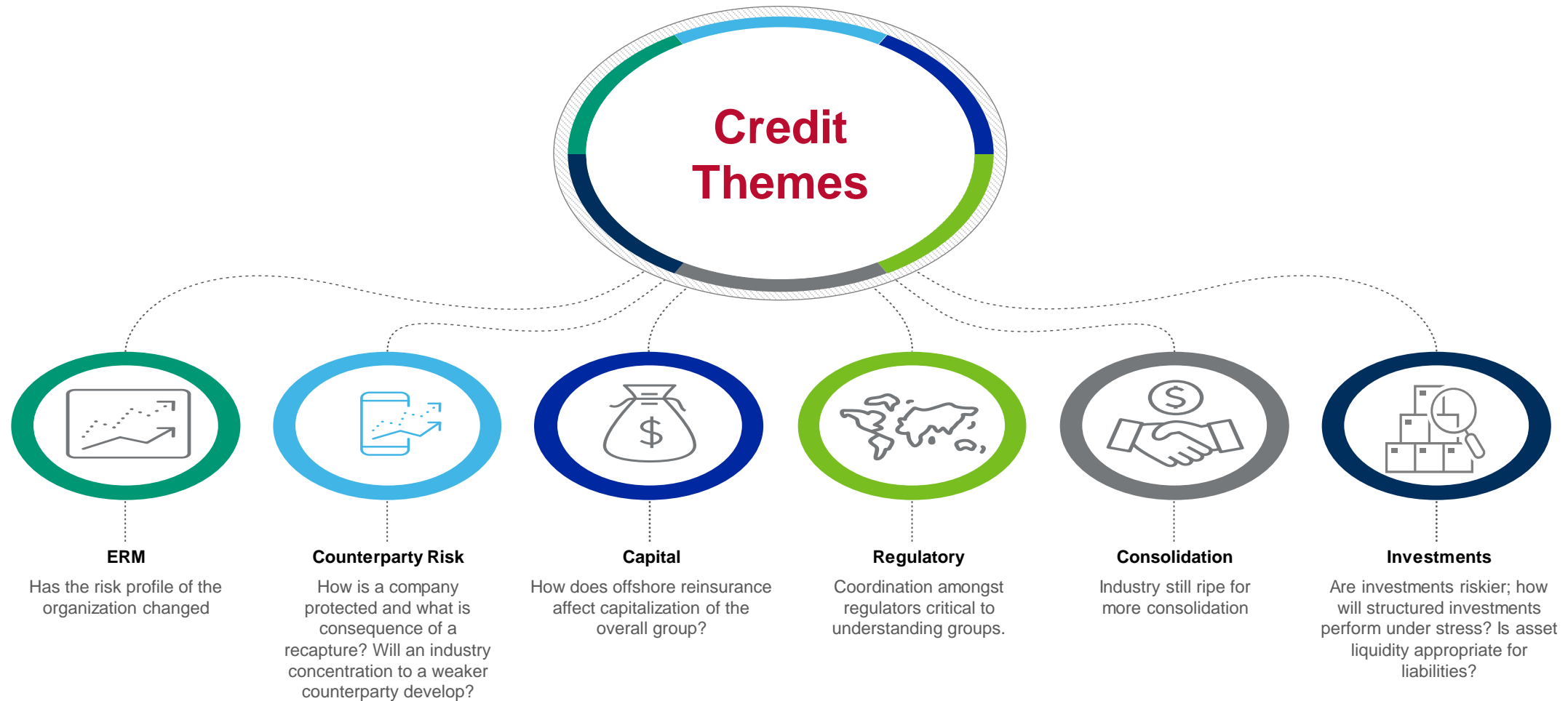
Offshore life reinsurance reserve credits exceed industry capital and surplus



1. Excludes capital and surplus retained in offshore (re)insurers

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Key credit themes to watch on offshore reinsurance



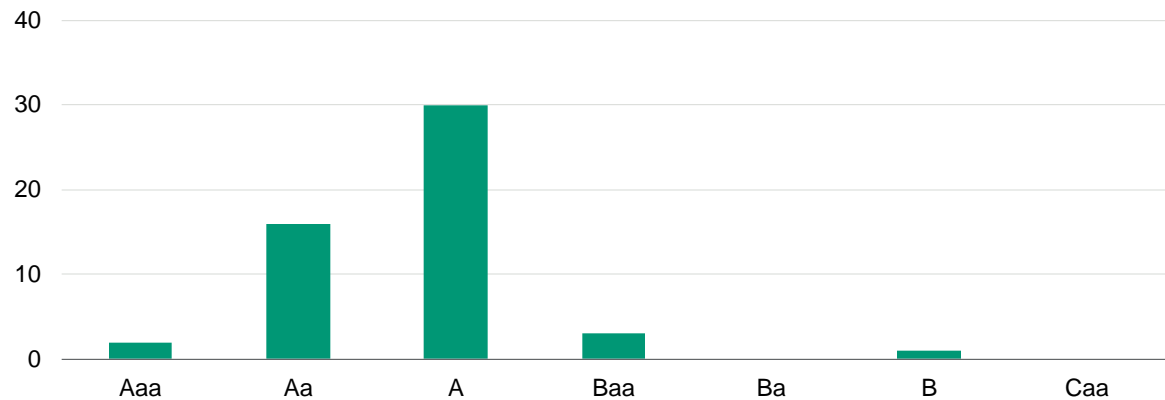
Source: Moody's Investors Service

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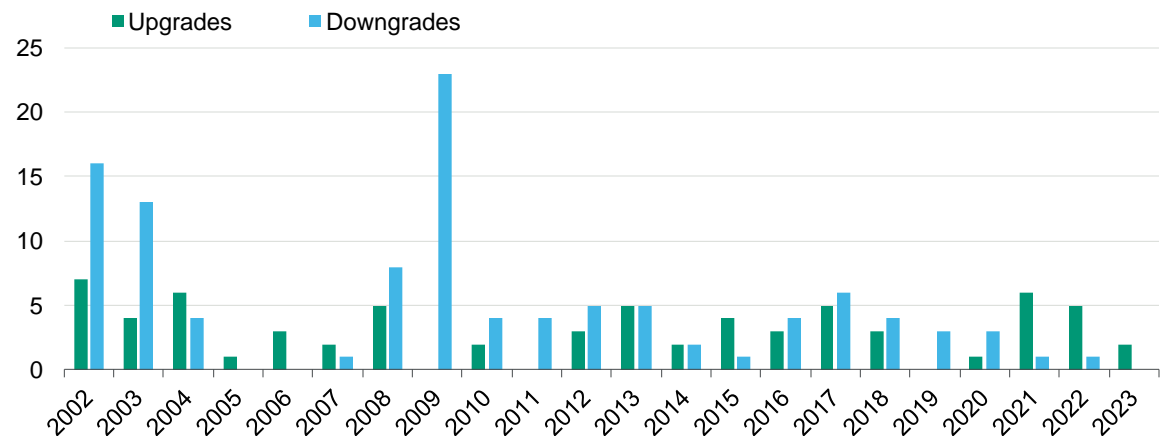
Appendix

Rating trends in US life insurance sector

Rating distribution (52 groups)



Upgrades and downgrades



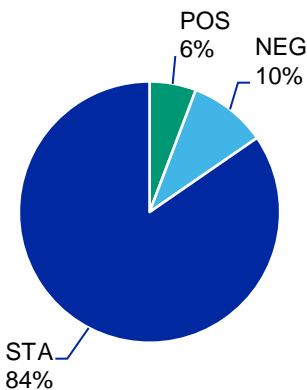
* As of September 15, 2023

Source: Moody's Investors Service

Average IFS rating

	# of insurers	Average IFS rating
Mutual insurers	13	Aa2/Aa3
Non-mutual insurers	39	A1/A2
Total	52	A1/A2

Outlook distribution



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