# Key Issues and Themes for the Life Insurance Sector

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## Mixed Trends in US Mortality Should Favor Group vs. Individual Life Insurance

- We suspect MFC will likely take a moderate sized mortality charge in 3Q related to lapse rates for US SGUL (we could see something in a $100-400mm range), while LNC will also likely get some increased scrutiny
- Older aged mortality and lapse rates continue to remain a challenge for some, and with most individual life insurance blocks still showing some elevated mortality vs. pre-pandemic levels and lapse rates still running below pre-COVID levels, especially for SGUL policies, this could still represent a source of pressure for select insurers
- Meanwhile, working age population mortality appears to be trending at favorable levels vs. pre-COVID experience, which may continue to drive favorable profitability trends for several group life blocks for the balance of 2024, a net positive for MET and UNM
- Reinsurance rate increases represent a headwind for some primary individual life insurers and the recent SCOR indication that they intend to implement more rate increases is another sign that this should continue
  - Some insurers who have executed individual life insurance risk transfer deals, such as LNC and PRU, still maintain the risk of future rate increases by reinsurers on those blocks, while MET was able to transfer that risk on their deal,
  - MFC is somewhat unique in that most of their reinsurance doesn't allow the reinsurers to push through rate increases
- The recent $11bn SGUL deal announced by PRU with Wilton Re also implies that there was an approximate negative cede of around 5-6% in our view – a reminder that even after PRU's $1.5-2.0bn SGUL charge in 2022 – there may still be some wood to chop for the industry as it relates to assumptions on the more aggressive policy types

# Competition Heating up in Group Benefits

- The YTD favorability, particularly for group disability and group life insurance, which we think is leading to some increased competition and more business being put out to bid for Jan 2025 renewals
- Enhanced technology seems to be becoming a more important factor for new business and retention and in that regard, we have heard AFL, MET, UNM, and LNC being mentioned by some as having a leg up on the competition, which should help them sustain growth as competition heats up
- We think HIG, PRU, NY Life and Standard Life may lose some share during this period of heightened competition in the group benefits space
- We suspect pricing will soften somewhat for both disability and life, while dental and medical stop loss will achieve rate increases

# Fed Rate Cuts Should Have Some Mixed Impacts Across the Sector

- If the short end of the curve declines meaningfully but the long end remains near current levels, we would expect this to be a net positive overall for most life insurers, as their long duration products should screen better than shorter duration alternatives like money market funds and certain banking products
- Lower short-term rates should help alleviate some stress within the CRE market for floating rate loans, which has been an overhang for the sector
- On the other hand, if a number of Fed rate cuts sees the long end of the curve also decline meaningfully, this could pressure investment spreads and also potentially hurt a good source of organic growth, fixed annuities and fixed indexed annuities, products that have seen industry sales increase by 100-200% since 2021

## Strategic Optionality Remains A Key Issue for A Number of Insurers

- The majority of insurers under our coverage are all being impacted by this theme in some regard, but we see the most potential for it being impactful for stocks for LNC, BHF, UNM, and CRBG
  - Following three tough quarters in a row, BHF now seems to be actively pursuing transactions to accelerate FCF. While this could render it the cheapest P/FCF stock in the sector, the level of VA cash flow volatility and hedge breakage has been too high as of late to give us confidence for that stock
  - LNC has had less volatility and improved fundamentals in recent quarters, though the challenge for that stock may be proving that the company has taken all of its balance sheet medicine for its individual life insurance exposure
  - We have thought that CRBG could pursue either a VA or life insurance risk transfer deal for some time. However, we don't see the tail risk being too high on either risk for the company, which likely raises the bar on pricing and may make it a longer process
  - For UNM, we think a LTC risk transfer deal could be a needle mover for the shares
  - The MFC deal could pave the way for similar transactions, in our view, but the requirement for bundling other, more attractive risks along with LTC will be the likely table stakes to be able to get something done

# Internationally, Japan Has Become a Focus Market

- Economic difficulties in China have negatively impacted faster growth SE Asian Countries, Causing More Global Investors to Shift Attention Away, with Japan getting more attention now
- More bullish global investor sentiment for Japanese insurance is in part driven by interest rates moving up to levels not seen in almost 15 years, which has led to strong performance of certain Japanese insurers and banks in 2024.
- Also, many constituents expect a wave of restructuring ahead of and during the implementation of the new insurance capital regulation, called ESR (economic solvency regime)
- Alternative managers and reinsurers are looking to participate in this great restructuring, while primary Japanese insurers evaluate ways to optimize capital.