



Don't worry: Your Life Insurer is Sound

But would participation in TARP fuel consumer fear?

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CHICAGO (MarketWatch) -- Should the U.S. Treasury Department extend financial aid to a handful of eligible life-insurance companies, as now appears likely, consider it insurance for the insurers, industry experts said.

A run-on-the-banks scenario, according to those observers, is unlikely to strike the insurance sector. Though the industry is coming off its worst annual operating performance in years and has suffered a flurry of ratings downgrades, life-insurance companies -- which are regulated by states -- are prepared to weather economic storms, experts said.

'[Life insurers are like] someone who is rich [and] loses a little bit of money. They're not as rich, but they're still rich, and they're not going from rich to poor.'— Andrew Edelsberg, A.M. Best

"We watch these companies and their capital levels carefully," said Terri Vaughan, chief executive of the National Association of Insurance Commissioners. "At the moment, they have enough money that they can pay clients. In the long run, they are viable."

Hobbled, like many industries and individuals, by sinking equity markets and uncertainty over the value of real estate and other investments, the insurance industry has absorbed serious blows to operating profits and now stands next in line for Troubled Asset Relief Program funds. The Wall Street Journal reported Tuesday that such an initiative -- first explored in November -- could be spelled out within days.

Publicly held life insurers have lost millions in investments and asset-based products and have seen their stock prices tumble. Many privately owned companies are in the same pickle, absent the slashed market capitalizations. What were considered relative safe havens, such as commercial mortgages, credit-card receivables and auto loans, have come under fire, alongside hedge funds and limited partnerships.

But states impose stringent financial-reporting requirements on life insurers to counterbalance liabilities and obligations with reserves, Vaughan said. Most insurers also have what are called implicit or hidden capital on their balance sheets for backup. In other words, the short-term operating results and profits could be at risk, but payouts to clients -- in the historical course of business -- are safe.

A.M. Best, the credit-rating company, has taken a notch or two out of the fairly high standings of some 31 life insurers in the last year, compared with only eight upgrades. A.M. Best analyst Andrew

Edelsberg said those downgrades were driven by investment losses and rising levels of risk rather than a danger of insolvencies or diminished underwriting capacities.

"It's like saying someone who is rich loses a little bit of money," he said. "They're not as rich, but they're still rich, and they're not going from rich to poor."

Annual underwriting results have been relatively stable and are expected to be consistent this year, according to Stern, Agee & Leach.

Moreover, states will take charge of an insurer that's on the brink of insolvency, generally selling it to a stronger company that takes over policies. If liquidation should occur -- and since 1983 only about 60 life- and health-insurance companies have gone broke, according to A.M. Best -- policy holders are paid before vendors. If that falls short, state guaranty funds, into which all companies that do business in the state pay, are in place to cover shortfalls, within limits.

"The policy holders always come first," Edelsberg said.

What Vaughan and others are worried about is a fall-off in consumer confidence in the insurance companies. Because they're such a vital piece of the U.S. financial system and, like banks, are crucial to the financial future and security of many families and individuals, insurance companies are extremely sensitive to the ebbs and flows of consumer sentiment and behavior.

'We are not seeing significant increases in outflows in insurance. And we are watching for them.'— Terri Vaughan, National Association of Insurance Commissioners

"People are worried about what could happen in the future," Vaughan said. Should they become frantic and rush to cash in policies -- which would not follow the historical course of business -- it could prove problematic.

Tapping TARP for the insurance companies would grant them access to capital, which was frozen over when the credit markets iced over. "To the extent that industry participation in this program helps to raise capital and address consumer confidence, that's a good thing," Vaughan said. Because so many insurance companies were battered by rapid and deep drops in the markets (and by the credit crunch, most are keeping their assets in highly liquid instruments like Treasuries. At the same time, many of the largest life-insurance companies in the U.S. have been hoarding cash to further shore up their capital positions.

Anecdotal stories of policy holders, strapped for money, cashing in their policies or skipping payments on them are not supported by statistics. "We are not seeing significant increases in outflows in insurance," Vaughan said. "And we are watching for them, too.

"There is nothing going on that reached a level of concern for the commissioners at all," she said. "There is nothing material."

What have fallen are sales, which experts attribute to the sharp contraction in consumer spending. Sales of individual long-term-care policies, for example, plunged 23% in the fourth quarter for a full-year decline of 7%, according to Limra International, an insurance and financial-services consulting company.

"Historically, individual products have emerged relatively unscathed from the effects of a recession," Limra analyst Karen Fisherkeller said when those numbers were reported last month.

But that's changed quickly as consumers have pulled on their purse strings. "That which is not deemed necessary is put on hold," Fisherkeller added.

Given the potential consumer backlash, not to mention what government interference could mean, many insurers may steer clear of pursuing TARP funds.

"I don't know that you'll see a ton of companies run out to try to access the program," said Bret

Howlett, an insurance-industry analyst at Standard and Poor's. "It comes with a lot of strings attached. I'm not sure many insurers want the government in their business to begin with."

And though the program, at this point at least, would only be available to financially healthy and stable insurers, public perception of TARP as a bailout could be the industry's equivalent of a red letter.

"This might be a signal to consumers that some companies are saying, 'We aren't in such great shape,'

" Howlett said. "That's something they don't want out there in the marketplace."

If TARP funds are extended to life insurers, though, it could benefit the consumer in transforming a financially weak company that can't get or refinance credit into a stronger one.

Is there, then, anything consumers should be afraid of? "From the perspective of, 'Do you have to take your money out of one company and move it to another?'" A.M. Best's Edelsberg said. "I would not subscribe to that view.

"Based on our average ratings in the life-insurance industry, companies in general are sound," he said. "The average rating is still in the excellent range."

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