KBRA KROLL BOND RATING AGENCY

KBRA Releases its U.S. Life Insurance 2019 Outlook

NEW YORK, NY (December 21, 2018) – Kroll Bond Rating Agency (KBRA) releases its 2019 U.S. Life Insurance Outlook, stating that its stable outlook relies primarily on continuing strong bases of capital and liquidity. In the aggregate, the industry has been profitable in recent years and KBRA expects it will continue to be so over the coming year.

Over recent years, the macroeconomic environment has been supportive. Rising rates have been a cause for some optimism, relative to the depths of the lower-for-longer interest rate environment in which the industry had been mired for quite some time. However, an inflection point appears to be near. Equity markets have recently weakened and become more volatile. There are concerns over trade wars; China and slowing global economic growth have surfaced and are intensifying. Certain factors presage a nearing of the next turn in the credit cycle and related implications for investment portfolios. Many economists expect the next recession by 2020 or 2021 (some expect 2019). Recent and pending regulatory changes will generally reduce Risk-Based Capital (RBC) ratios.

In response, KBRA highlights that credit ratings are intended to be forward-looking and to persist through the cycle. KBRA's credit perspective is tethered to underlying default risk, not near-term financial metric volatility related to any particular factor. An example of taking a longer-term perspective in the face of volatile metrics may be instructive. A number of years ago, a slowing in the rate of growth of earnings caused a certain insurance stock to sell off. Bond spreads widened in sympathy and some traders looked to sell. Those who understood insurance credit bought. It was a good trade. Despite the slowing rate of earnings growth, the company remained profitable, liquid and well-capitalized, and continued to generate ample capital to support its business. It can take a long time to turn a tanker, and KBRA takes a patient, through-the-cycle approach to credit ratings.

To access the report, click **here**.

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