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# DUE CARE BULLETIN

September 2010

## Update on Analysis of Life & Health Insurer Impairments

*Life insurance due care requires an understanding of the factors that impact policy performance and drive product selection.*

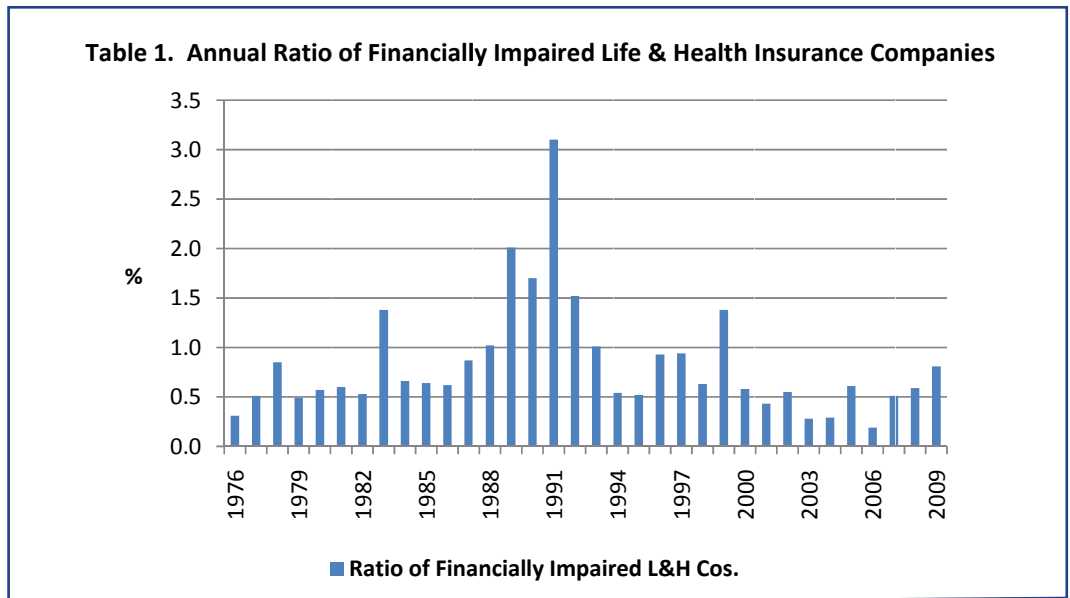
*M Financial Group continues to lead the industry in life insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.*

In March 2010, M Financial Group published a Due Care Bulletin titled “Analysis of Life & Health Insurer Impairments.” The bulletin summarized A.M. Best’s annual special report on impairment rates of U.S. life and health (L&H) insurers. This special report was updated by A.M. Best in July with impairments from 2009. The rate of L&H impairments in 2009 was 0.81%, below the average impairment rate of 0.88% over the last 34 years. The update reinforced the primary conclusions of M Financial’s March 2010 bulletin:

- Most impairments occur with very small insurers (capital and surplus under \$20 million)
- Regulatory changes in the mid-1990s have helped to reduce impairment rates, which peaked from 1989-1992
- The insurance industry is relatively strong despite recent challenges in the economic environment

### History of Life Insurer Impairments

A.M. Best has historically tracked U.S. L&H insurer impairment rates (table 1). From 1976 until 2009, the rate of financial impairments for L&H companies averaged 0.88%. In 2009, the impairment rate was 0.81%, below the average for the period. In the most recent report the rate for 2008 was revised by A.M. Best to 0.59%.



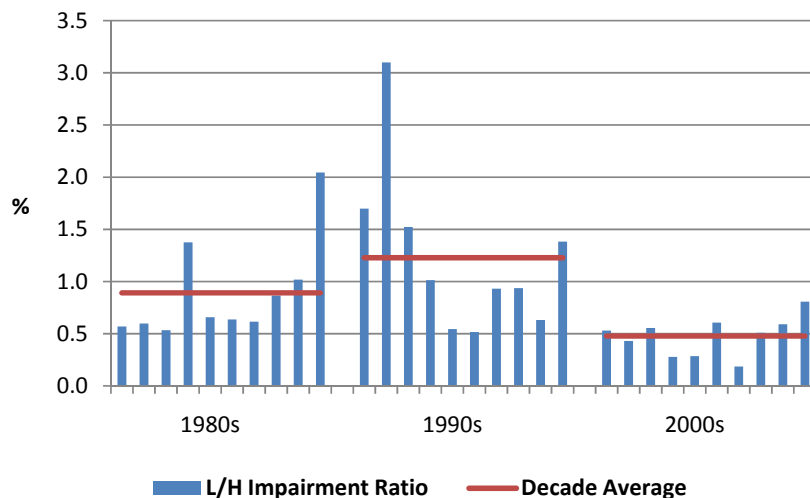
Source: A.M. Best



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Despite an increase in the rate to the highest level for the decade, the average rate for the 2000s fell to 0.48% from 1.23% in the 1990s (table 2).

**Table 2. Ratio of Financially Impaired Life & Health Insurance Companies by Decade**



Source: A.M. Best

According to A.M. Best, 91.14% of impairments from 1976-2009 occurred in companies with less than \$20 million in capital and surplus. On the other hand, the historical impairment rate for companies with capital and surplus in excess of \$500 million is just 0.03%. Of the 12 impairments in 2009, the largest company was Scottish Re (U.S.) Inc., which reported \$198 million of capital and surplus at the end of 2008. By comparison, the smallest M Partner Carrier is Unum Life of America, which reported capital and surplus of more than \$1.5 billion at the end of 2009.

## Conclusion

Our view of the risk of impairments for large life insurance companies remains the same as stated in the March bulletin. As a result of the current economic cycle, nearly all life insurance companies have been negatively impacted. However, virtually all companies are expected to survive it as demonstrated by Standard & Poor's recent comment on June 1 that, [D]espite the downgrades of many 'AA' rated companies, we still rate 95% of life insurers investment grade, which is, in our view, a testament to the industry's fundamental strengths."

## For More Information

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