S&P Global Ratings

Research

North American Insurer Rating Outlooks Reflect Strength And Stability As Mid-Year 2017 Approaches

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As mid-year 2017 approaches, the financial strength of North American insurers remains generally strong with broadly stable rating outlooks that convey S&P Global Ratings' expectation for limited rating change in the next 12 months. One exception is the highly rated bond insurance subsector, which has a negative outlook.

Overall, balance-sheet strength remains a pillar of support for North American insurers. This is a key strength, providing a measure of protection from risks related to downside economic development broadly, and the expansion or increase in the magnitude of current subsector challenges more specifically.

Life Insurers Endure Choppy Seas

- Through May 30, 2017, over 90% of our ratings on North American life insurers had stable outlooks (similar to year-end 2016) and we had taken one negative rating action.

We are keeping our stable outlook on the life insurance sector. But a stable outlook shouldn't be interpreted as rowing through calm waters. Rather, these seas are quite choppy due to low interest rates, slow growth prospects, pressures on operating performance, regulatory changes, and other factors. Also, in 2017, the industry has to focus on adapting to policy changes enacted by the new presidential administration. Changes to taxes and to the Fed's regulatory oversight are on the drawing board. But regulatory uncertainty around the Department of Labor fiduciary rule remains the more-immediate disruptor to sales. Capital and liquidity remain strong and are the key shock absorbers to current industry challenges.

Health Insurers Face Legislative Uncertainty

- Through May 30, 2017, 79% of our ratings on North American health insurers had stable outlooks (compared with 58% as of year-end 2016) and we had taken five rating actions (four upgrades, one downgrade).

Our stable health insurer sector outlook reflects significantly reduced downside bias compared with our assessment at the start of this year. Rating support continues to come from balance-sheet strength, favorable business conditions, and underlying operating performance improvement. Still, offsetting factors related to individual market-segment development and heightened legislative uncertainty persist. On May 4, 2017, an amended "repeal and replace" bill got enough votes to pass the House. The replacement bill (American Health Care Act; AHCA) could significantly change health insurance, especially the Medicaid and individual markets. But it is far from a done deal. The replacement bill still has to pass the Senate and could eventually, if signed into law, look quite different from the current version. We have not taken any rating actions based on the AHCA. We expect insurers to adapt to the new rules if and when the AHCA becomes law. However, there may be some hiccups initially because the proposed timeline for states and insurers to transition fully to the AHCA is a bit aggressive, in our opinion. Other than the AHCA, in the near term, we are closely following the uncertainty surrounding the Cost Sharing Reduction subsidy, premium rate filings, and insurer participation in the individual market. We continue to believe that any abrupt unwinding of the ACA, which has worked its way into the fabric of the health care marketplace, could be destabilizing given the underlying financial and strategic investments that have been made (aside from the coverage implications).

Property/Casualty Insurers Deal With Personal-Line Pressure

- Through May 30, 2017, 93% of our ratings on North American property/casualty insurers had stable outlooks (unchanged from year-end 2016) and we had not changed any ratings.

We are keeping our stable outlook on the property/casualty (P/C) sector, although we continue to expect the U.S. P/C insurance industry combined ratio to top 100% in 2017 as it did in 2016 as rising claims outpace pricing, and reserve releases materially decrease. Secular loss-cost trends in the auto line--including distracted driving--are also agitating overall underwriting profitability. Moreover, earnings prospects remain depressed with continued low interest rates. Nevertheless, the U.S. P/C insurance industry benefits from very strong capital and conservative investment portfolios.

On June 6, 2017, we revised our outlook on American International Group Inc. (AIG) and its operating companies to negative from stable and affirmed our ratings. This action reflects pressure on AIG's ability to execute on sustainable improvements in its operating fundamentals while retaining its competitive resiliency relative to its global multiline insurers peer group.

Reinsurers Contend With Soft Pricing Cycle

- Through May 30, 2017, 82% of our Top 40 Global Reinsurance Groups had stable outlooks (unchanged compared with year-end 2016) and we had not changed any ratings.

Our outlook for North American reinsurers is stable despite our expectations for business conditions to remain weak, pressuring near-term earnings. We believe strong capital adequacy, overall strong enterprise risk management, and still-rational underwriting behavior by most reinsurers have helped them navigate these challenging market conditions. Unfavorable reserve developments in U.K. auto insurance and high natural catastrophe losses delivered a one-two-punch to North American reinsurers' earnings in first-quarter 2017. These losses chipped away at underwriting profitability, adding to reinsurers' woes as soft industry pricing persisted and competitive pressures grew, with alternative capital reaching record highs. Several acquisitions that closed during the past few quarters supported overall growth, but were partially offset by pricing declines (between 0% and 5%) as of the Jan. 1 and April 1 renewal periods, albeit decreasing at a lower rate than in previous years. Although we can't predict what the natural catastrophe losses will look like for the whole year, we expect first-quarter 2017 to be fairly representative of how the year will play out for North American reinsurers in terms of pricing, competition, and capital management.

On June 6, 2017, we revised our outlook on Maiden Holdings Ltd. and its operating subsidiaries to negative from stable and affirmed our ratings. This action reflects our view that the recent deterioration in Maiden's operating performance could indicate weaker fundamentals in its business risk profile.

Guarantee Insurers

Title insurers : Prospects and profitability closely tied to volume of real estate activity

- Through May 30, 2017, all ratings in the North American title insurance portfolio had stable outlooks (unchanged from year-end 2016) and we had not changed any ratings.

Our outlook on North American title insurers is stable. Business prospects and profitability are closely tied to the volume of real estate activity. The Mortgage Bankers Association forecasts mortgage origination volumes declining in 2017 and remaining flat in 2018. Although rising interest rates will likely dampen refinancing volume, the shift toward a higher proportion of purchase volume will somewhat offset this decline. This shift in the mix does not materially affect the title insurers because purchase originations generate more revenue for title insurers than refinancing activity, although in profitability the two types of business are similar. We believe that market growth prospects will remain modest, and given the nature of the title insurance sector, marginal growth would not occur from excessive risk-taking.

Mortgage insurers: Benefiting from favorable fundamentals

- Through May 30, 2017, 67% of our ratings on North American mortgage insurers had stable outlooks (unchanged from year-end 2016) and we had raised three ratings.

Our mortgage insurers (MI) outlook is stable. We believe the sector continues to benefit from favorable trends in employment and housing, and seasoning of legacy books--a trend we expect to continue. This trend is also supported by strong performance of post-crisis vintages, despite some expected margin compression from prior-year rate actions and increased competition. Strong earnings are helping build capitalization, which is further supported by reinsurance. Although we expect rising interest rates to dampen the refinances, we also expect the shift toward higher purchase volume--where MIs have a better penetration and the rates are higher--to partially offset the decline in originations.

Bond insurers: Public finance issuance is down, but market volatility spurs demand

- Through May 30, 2017, all ratings in the North American bond insurance portfolio had stable outlooks (unchanged from year-end 2016) and we had not changed any ratings.

Our bond insurer outlook is negative. Although the overall volume of U.S. public finance new issuance is down year-to-date and rising interest rates have reduced refunding activity, market volatility continues to spur demand for bond insurance. Even though these insurers have experienced an increase in business volume year-over-year, each company's share of the amount of industry insured par and premiums written, as well as its risk-based pricing, may indicate that greater rating differentiation may be appropriate. Therefore, on June 6, 2017, we placed our financial strength ratings on Build America Mutual Assurance Co. and National Public Finance Guarantee Corp. on CreditWatch with negative implications. We expect to review each bond insurer's competitive position and relative performance in depth.

Table 1

Rating Change Actions*

Company	To	From	Date	Subsector	Action
Centene Corp.¶	BB+/Stable--	BB/Positive/--	May 18, 2017	Health	Upgrade
Health Net Inc.¶	BB+/Stable/--	BB/Positive/--	May 18, 2017	Health	Upgrade
AXA Financial Group	A+/Stable/--	AA-/Stable/--	May 10, 2017	Life	Downgrade

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Table 1

Rating Change Actions* (cont.)

Company	To	From	Date	Subsector	Action
Kaiser Foundation Health Plan of Washington§	AA-/Stable/--	A+/Positive/--	April 10, 2017	Health	Upgrade
MGIC Investment Corp.¶	BB+/Stable/--	BB/Stable/--	February 15, 2017	Mortgage	Upgrade
Aetna Inc.¶	A/Stable/A-1	A-/Watch Dev/A-2	February 14, 2017	Health	Upgrade
Humana Inc.¶	BBB+/Stable/A-2	A-/Watch Neg/A-2	February 14, 2017	Health	Downgrade
Arch Mortgage Insurance Co.	A/Negative/--	A-/Positive/--	January 3, 2017	Mortgage	Upgrade
United Guaranty Insurance Group	A/Negative/--	BBB+/Watch Pos/--	January 3, 2017	Mortgage	Upgrade

*From Jan. 1, 2017 - May 30, 2017. ¶Reflects holding company issuer rating. §f/k/a Group Health Cooperative.

Table 2

North American Insurance 2017 Midyear Outlooks*

Sector	Outlook
Life	Stable
Health	Stable
Property & casualty	Stable
Reinsurers	Stable
Title	Stable
Mortgage	Stable
Bond	Negative

*Expected rating trend.

Only a rating committee may determine a rating action and this report does not constitute a rating action.