



Economic Trends and Credit Insurance Update

2024 CCIA Fall Meeting

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Life & Health Consolidation and Shrinkage

- In 2000, 12 company groups wrote \$50M or more of credit life premium. Total premium was \$2.4B.
- In 2023, 4 company groups wrote \$50M or more of credit life premium. Total NWP was \$540M.

Credit Property Insurance is a Different Story

- In 2004, 4 company groups wrote \$50M or more of credit life premium. Total premium was \$1.5B.
- In 2023, 9 company groups wrote \$50M or more of credit life premium. Total NWP was \$4.0B.

Leading Companies Credit Life NWP in Millions

2000		2023	
American Bankers	245	CUNA	163
Union Security	231	AHL	105
Household Life	226	Minnesota Life	74
CUNA	166	LOTS	60
American General	130	Central States	30
AHL	97	Plateau	15
Associates Financial	68	Cooperativa De Seguros	13
American National	67	Caribbean American	12
Resource Life	65	American National	11
Central States	65	BLLA	11
Protective	57	Southern Financial ¹	7

Leading Companies – Where are They Now?

2000 Leading Writers	
American Bankers	Deemphasize
Union Security	Deemphasize
Household Life	Acquired by HSBC; sold life company
CUNA	Still in
American General	Strategic Exit
AHL	Still in; Consolidated
Associates Financial	Still in; Consolidated
American National	Acquired
Resource Life	Auto
Central States	Still in
Protective	Auto

But on the Life & Disability Side,
Where are We Headed, and How
Much More Consolidation Can We
Tolerate?

Common Themes

- Multi-Line Companies – “Non-Core”
 - American Bankers
 - American General
 - Transamerica
 - Pekin
 - American National
- Private Equity Transactions
 - ROE and AUM

Private Equity Owned Life Insurers

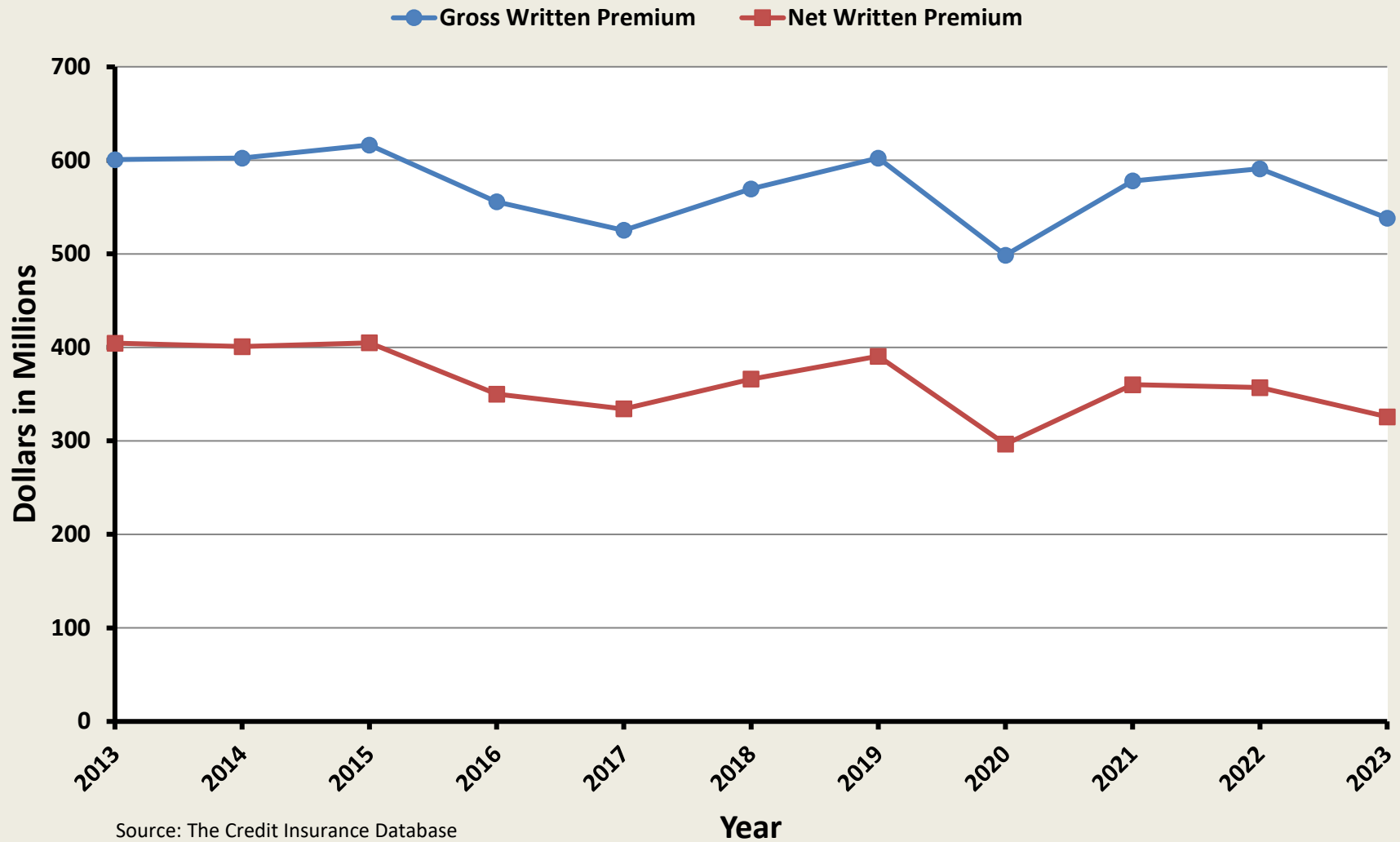
Private Equity Firm	Insurance Company	Year	Assets Acquired
Apollo	American Equity Investment Life (annuity portfolio)	2009	\$1.6 billion ¹¹
Blackstone	Fidelity & Guaranty Life	2017	\$22 billion ¹²
Blackstone	AIG Life & Retirement	2021	\$50 billion (rising to \$92.5 billion) ¹³
Blackstone	Allstate Life Insurance (now Everlake Life)	2021	\$28 billion ¹⁴
Blackstone	Resolution Life	2022	\$60 billion ¹⁵
Brookfield Asset Management	American National Group	2022	\$24 billion ¹⁶
Brookfield Asset Management	Argo Group International	2023	\$3.5 billion ¹⁷
Brookfield Asset Management	American Equity Life Investment (entire firm)	Closing 1H 2024	\$52 billion ¹⁸
KKR	Global Atlantic	2021	\$90 billion ¹⁹
Carlyle Group	Fortitude Re	2022	\$50 billion ²⁰
Ares Management	F&G	2020	\$2 billion ²¹

Why Private Equity?

- **Improving ROE:**
- ***Investment performance:*** optimization of the Strategic Asset Allocation (SAA) and delivery of alpha within the SAA
- ***Capital efficiency:*** optimization of balance-sheet exposures—for example, active management of duration gaps
- ***Operations/IT improvement:*** reduction of operational costs through simplification and modernization
- ***Technical excellence:*** improvement of profitability through price adjustments, such as reduced surplus sharing
- ***Commercial uplift:*** cross-selling and upselling higher-margin products
- ***Franchise growth:*** acquiring new blocks or new distribution channels
- **Source: McKinsey & Company**

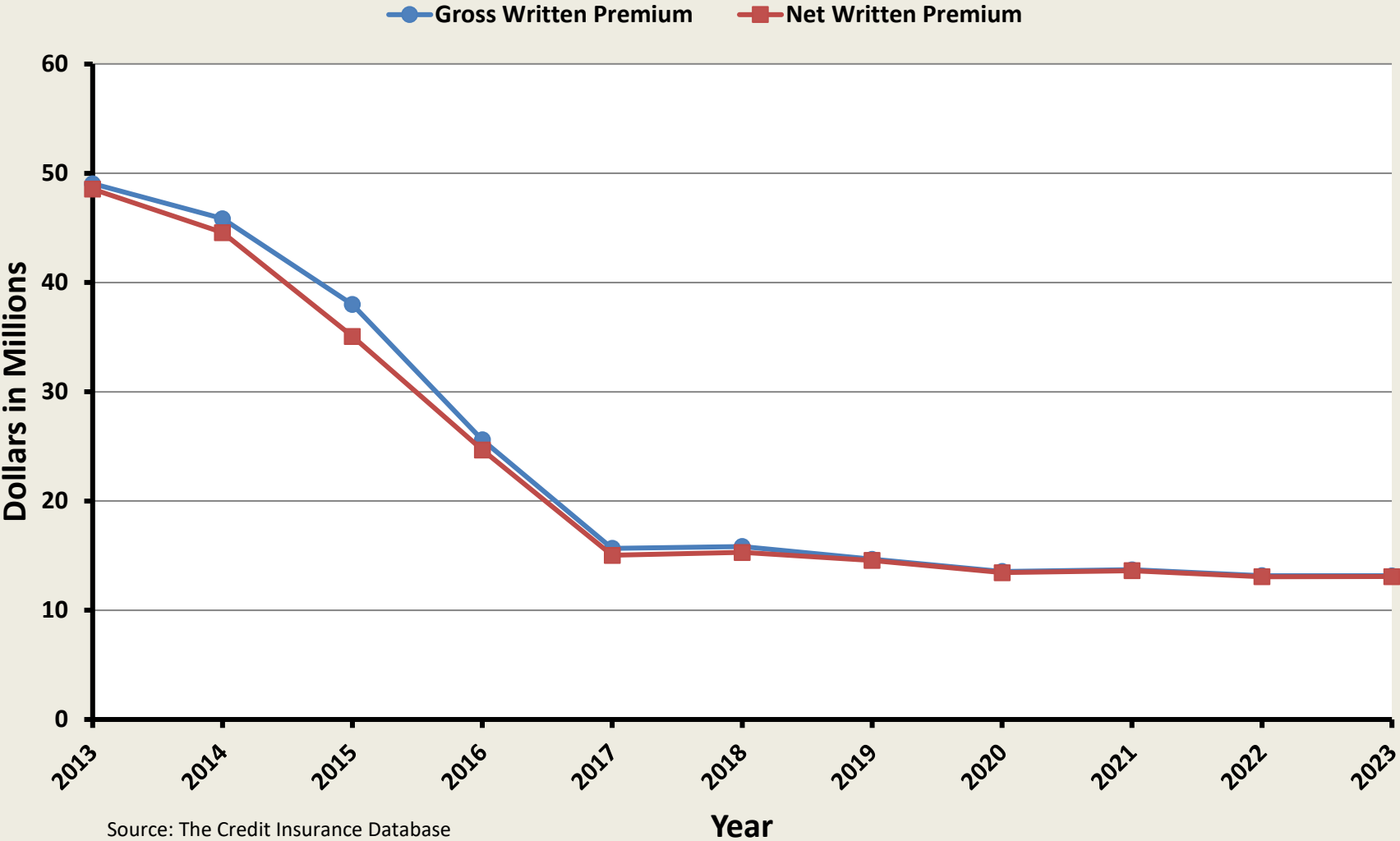
Credit Life Trends

Credit Life Insurance Single Premium



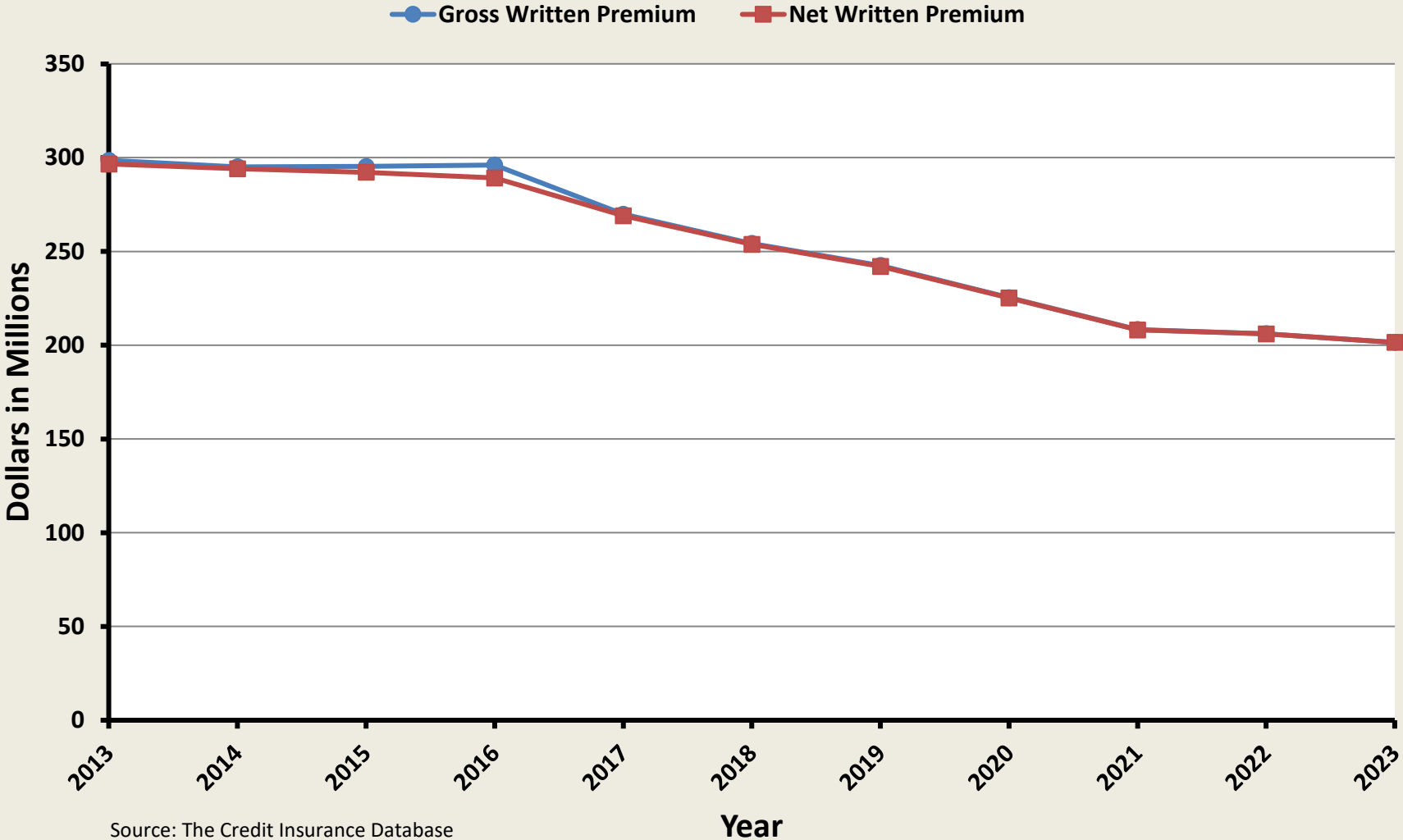
Source: The Credit Insurance Database

Credit Life Insurance Closed End MOB



Source: The Credit Insurance Database

Credit Life Insurance Open End MOB

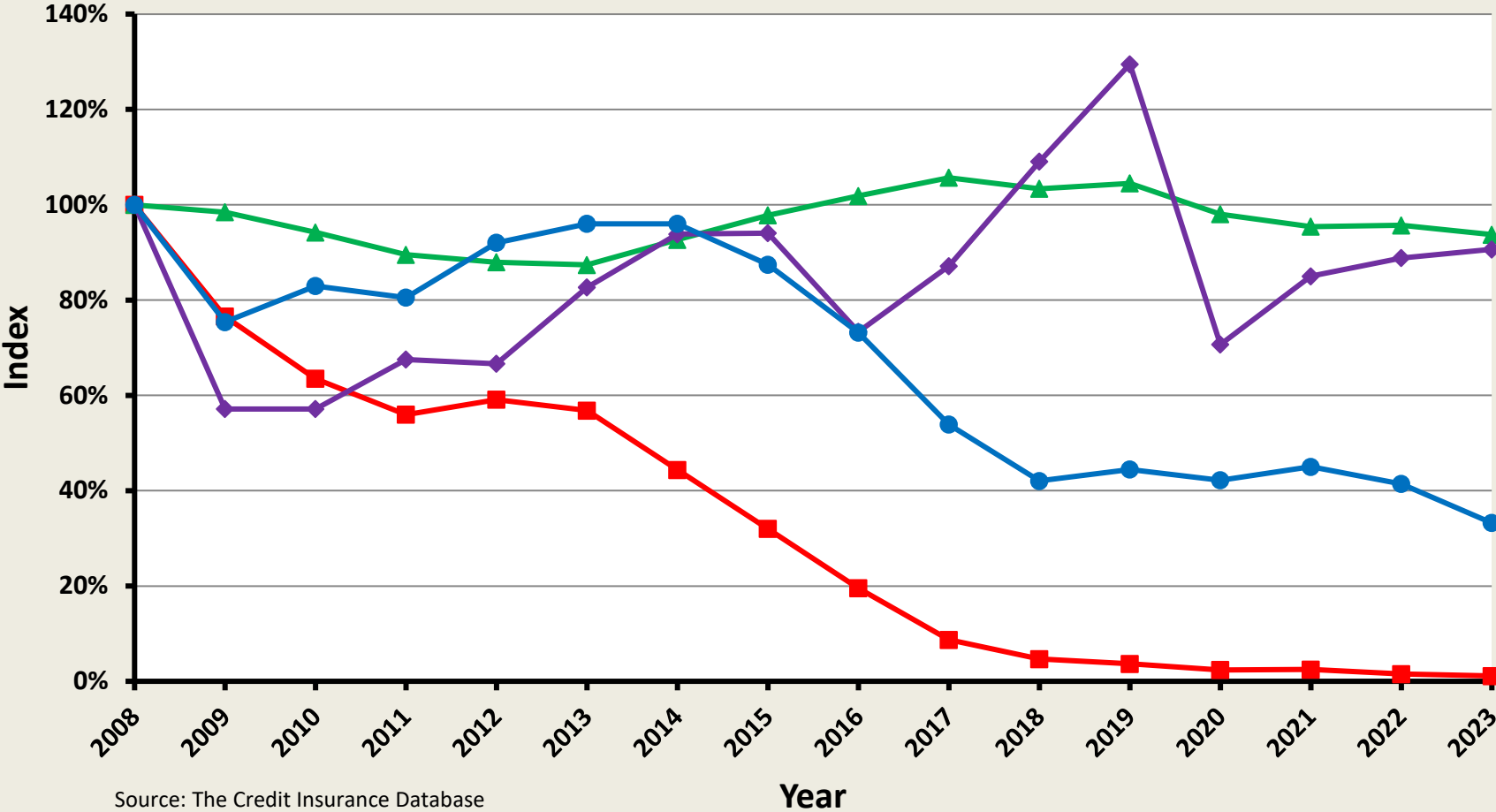


Source: The Credit Insurance Database

Life Net Written Premium by Business Sector

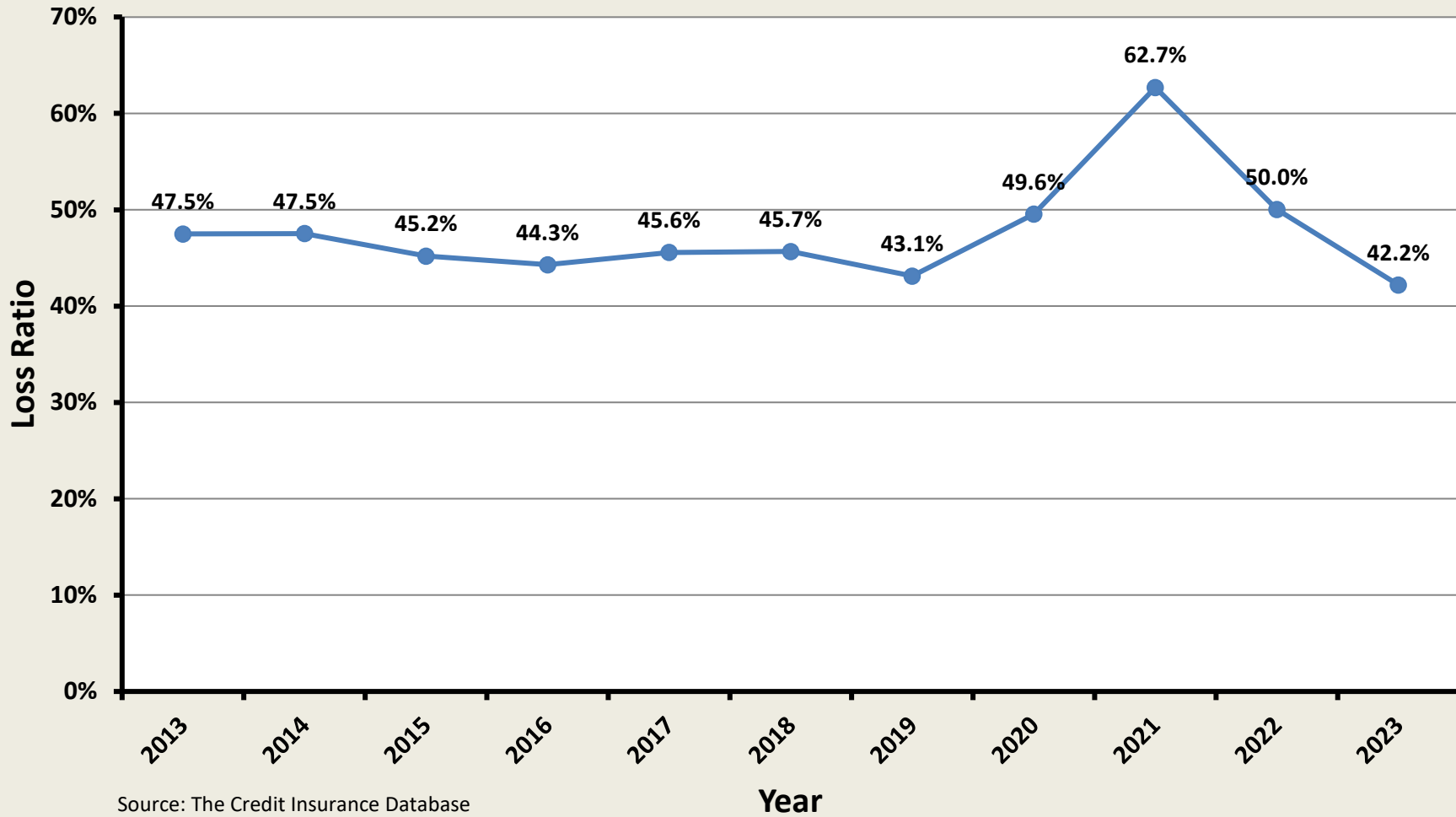
Sectors Represented by Major Companies Only

■ Banks ▲ Credit Unions ◆ Finance Companies ● Auto Dealers



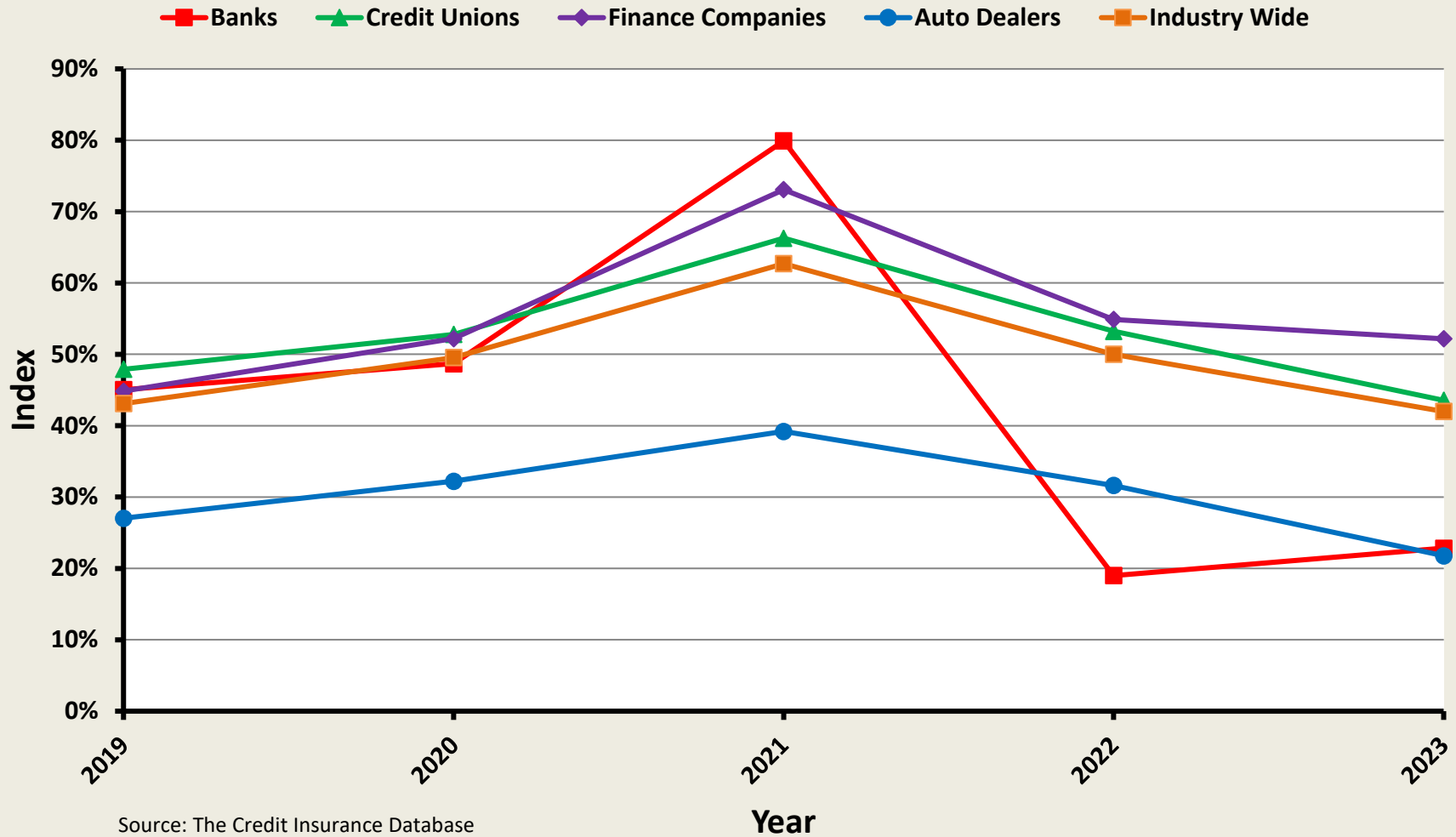
Source: The Credit Insurance Database

Credit Life Insurance Aggregate Loss Ratio



Life Loss Ratio by Business Sector

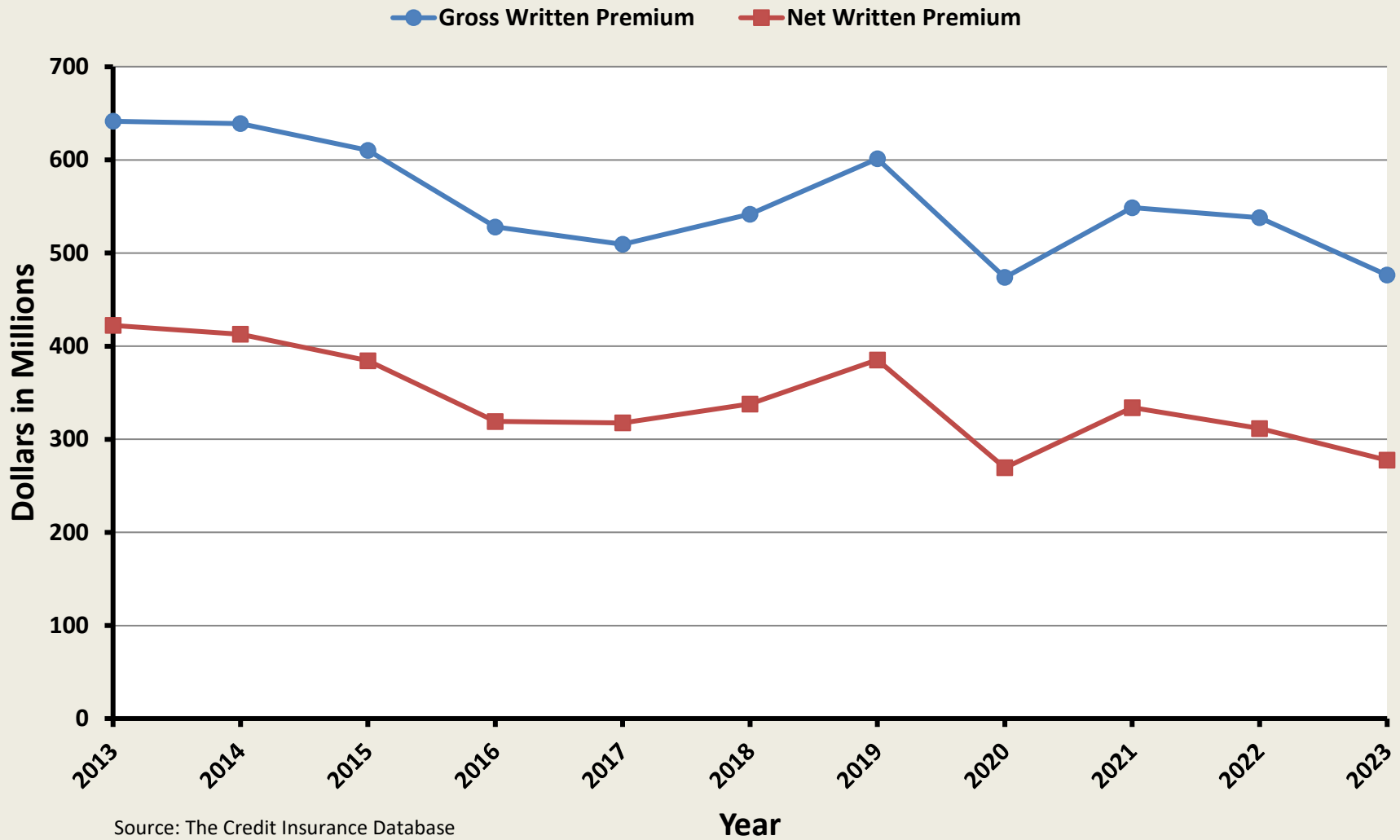
Sectors Represented by Major Companies Only



Source: The Credit Insurance Database

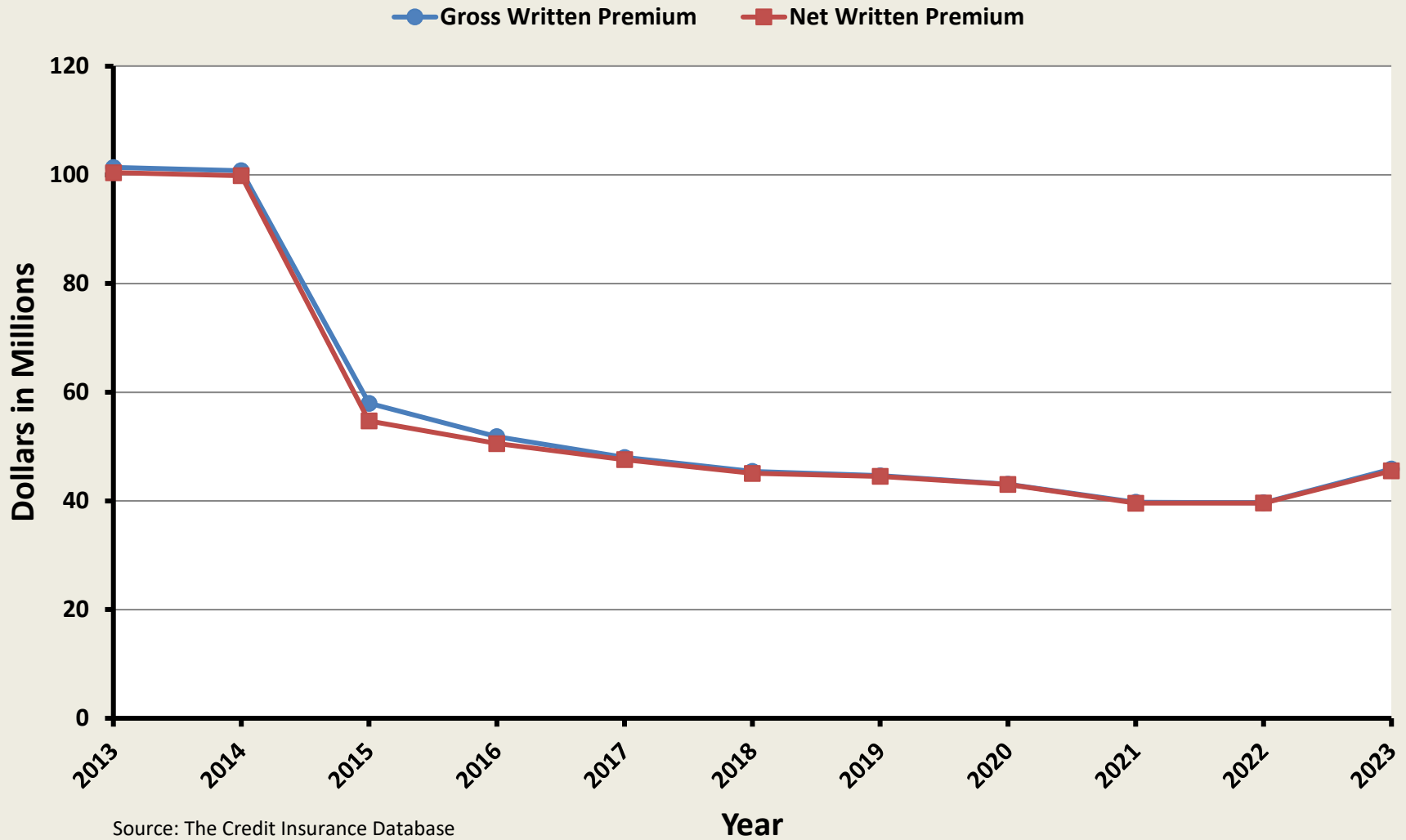
Credit Disability Trends

Credit Disability Insurance Single Premium



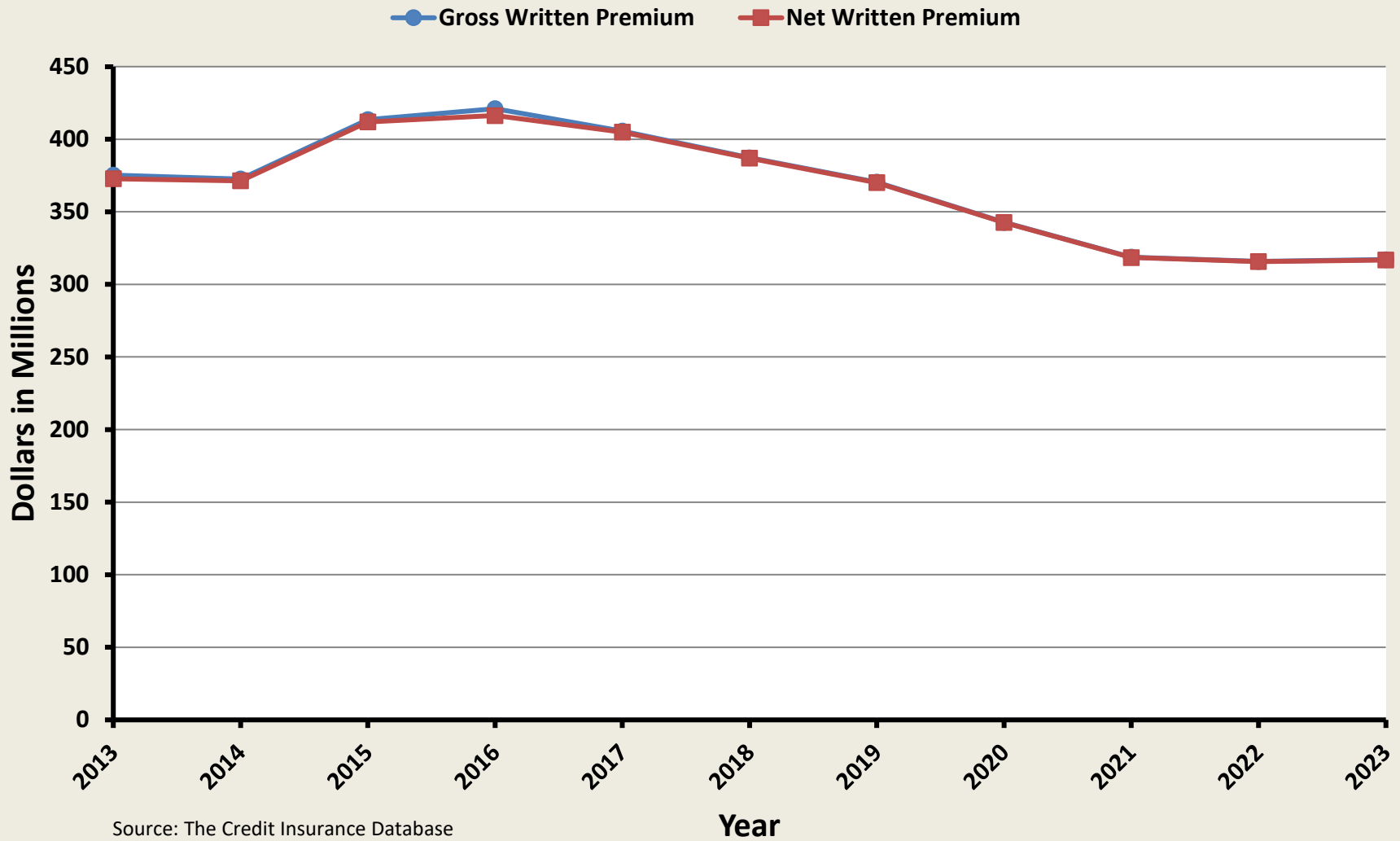
Source: The Credit Insurance Database

Credit Disability Insurance Closed End MOB



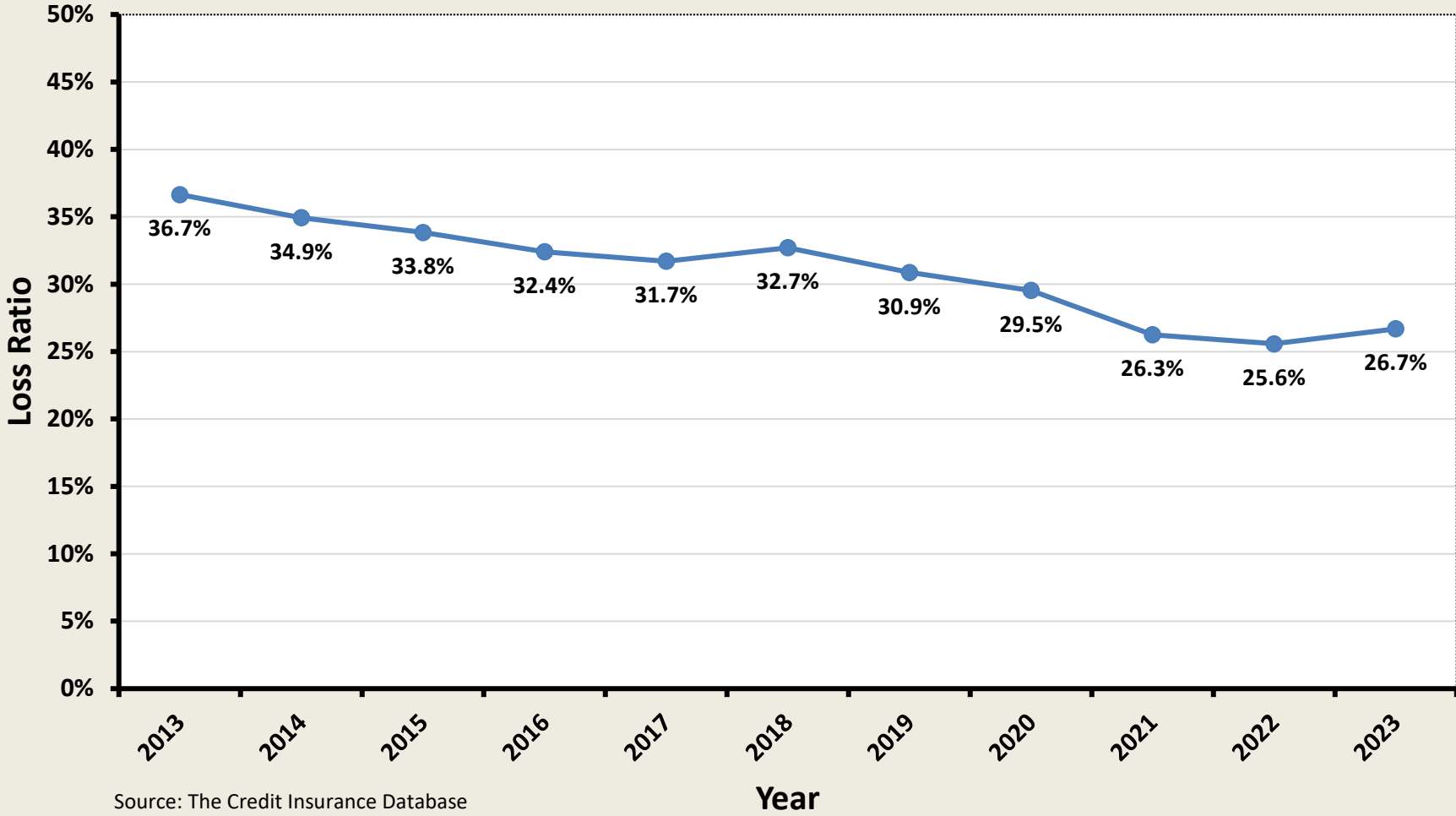
Source: The Credit Insurance Database

Credit Disability Insurance Open End MOB



Source: The Credit Insurance Database

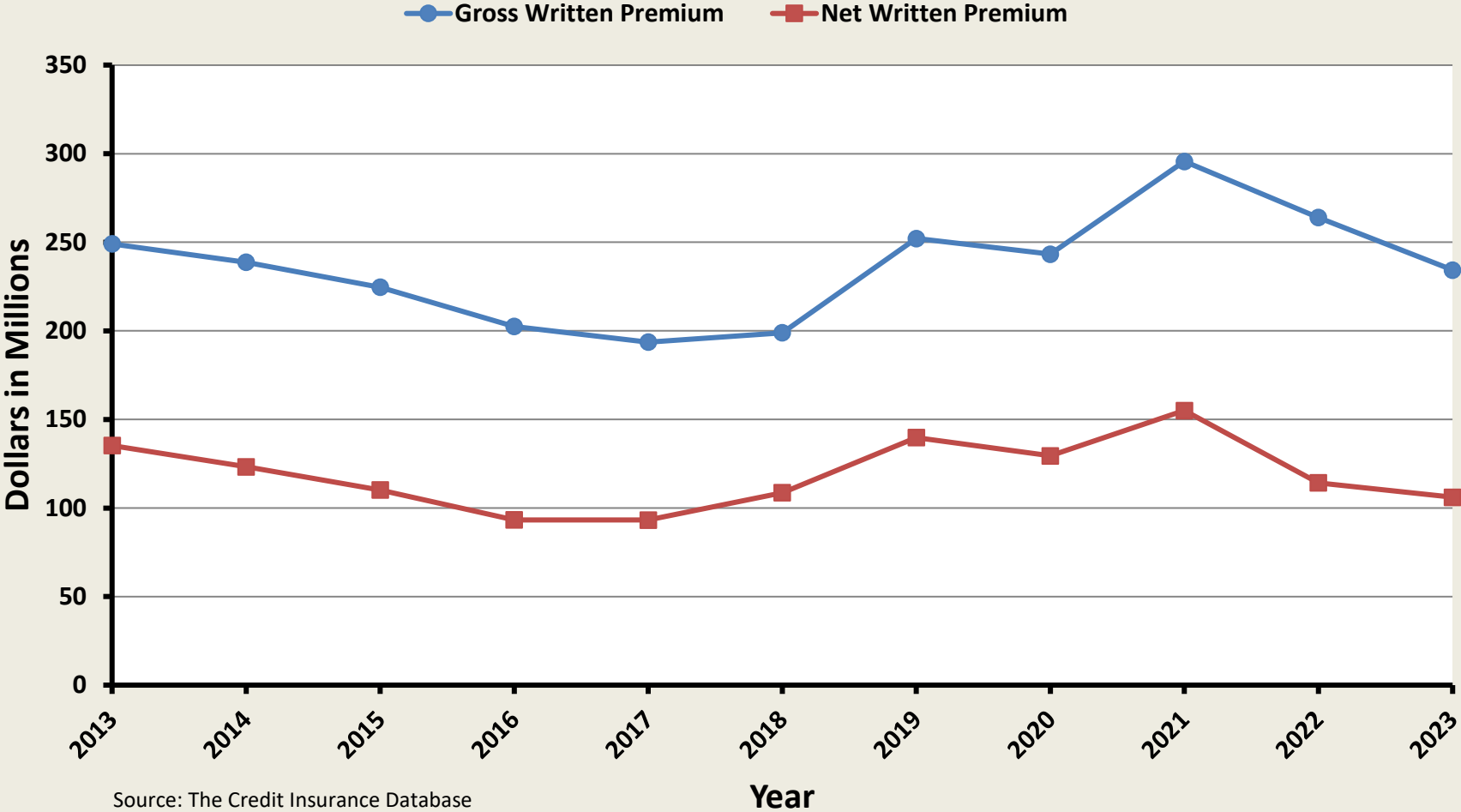
Credit Disability Insurance Aggregate Loss Ratio



Source: The Credit Insurance Database

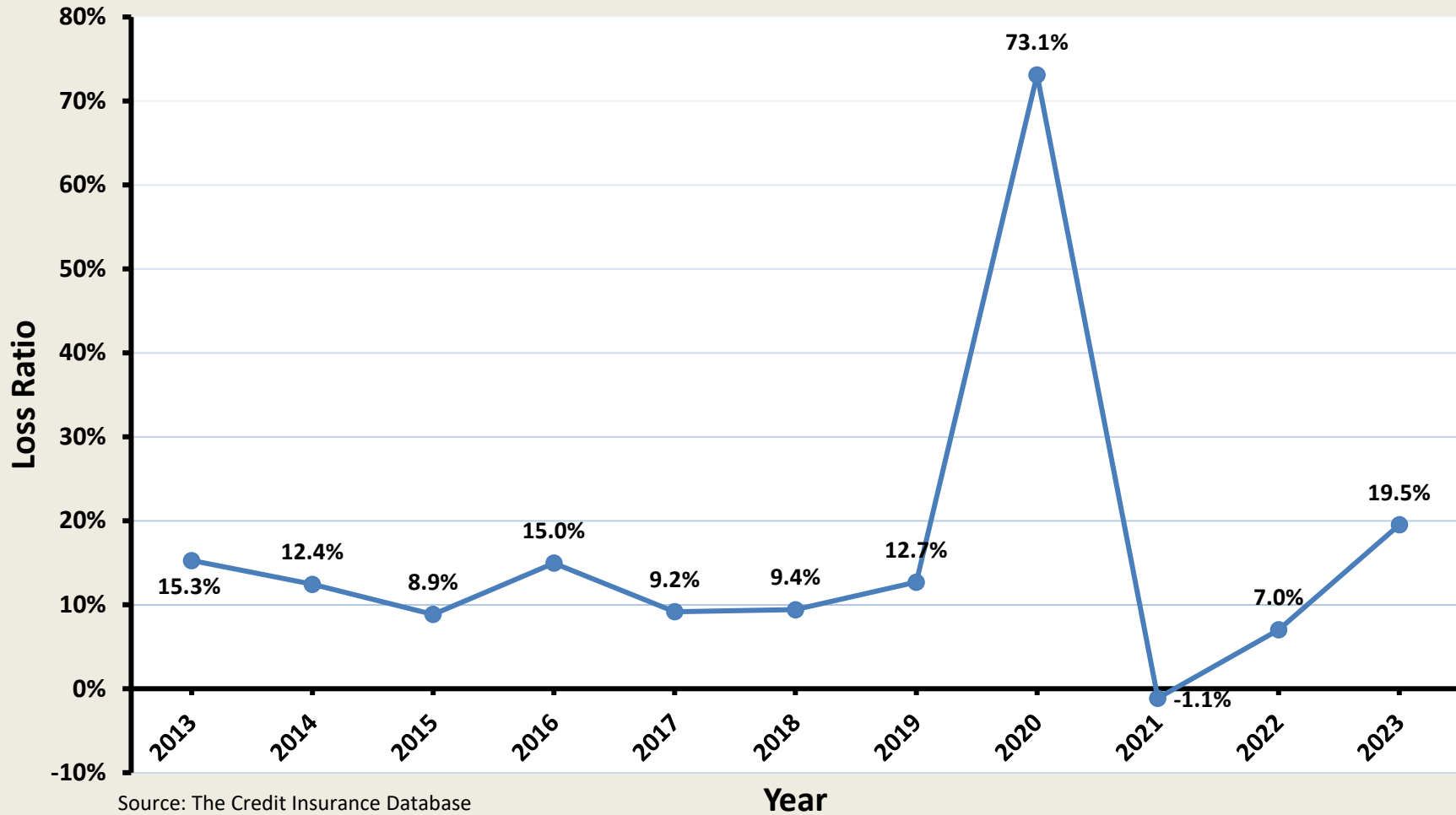
Credit Unemployment Trends

Credit Unemployment Insurance Single Premium



Source: The Credit Insurance Database

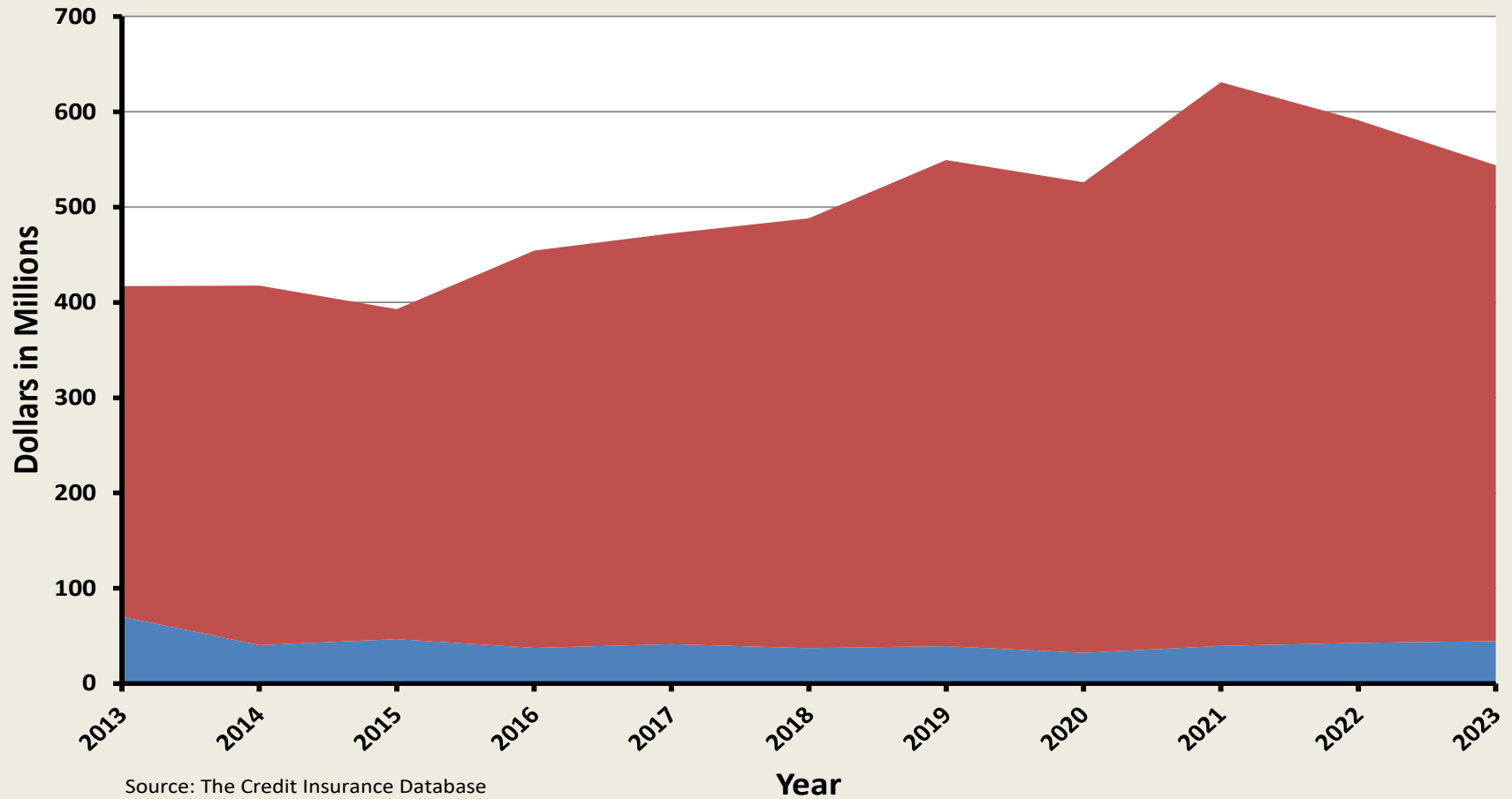
Credit Unemployment Insurance Aggregate Loss Ratio



Credit Property Trends

Personal Property Gross Written Premiums

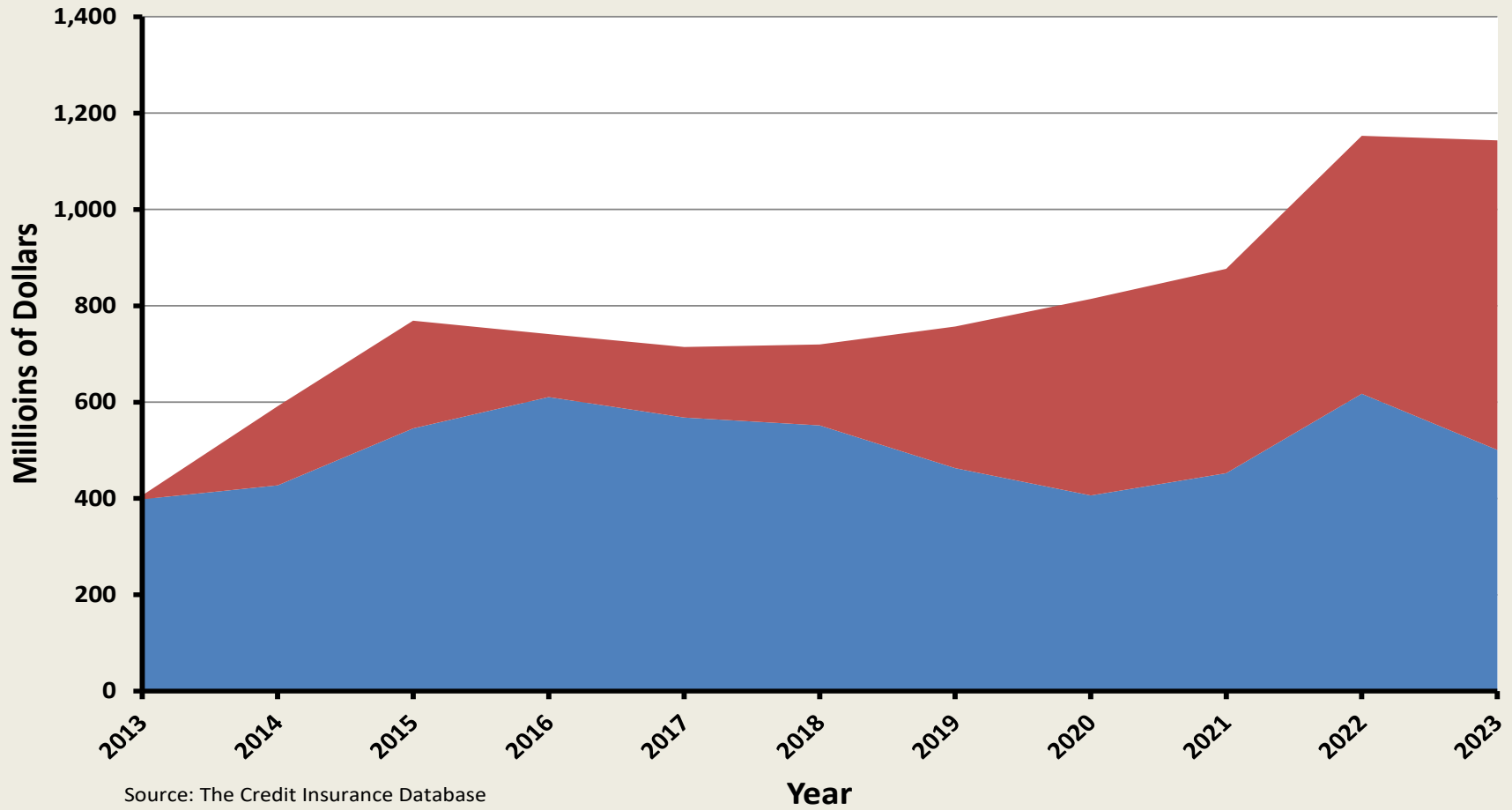
■ Single Interest ■ Dual Interest



Source: The Credit Insurance Database

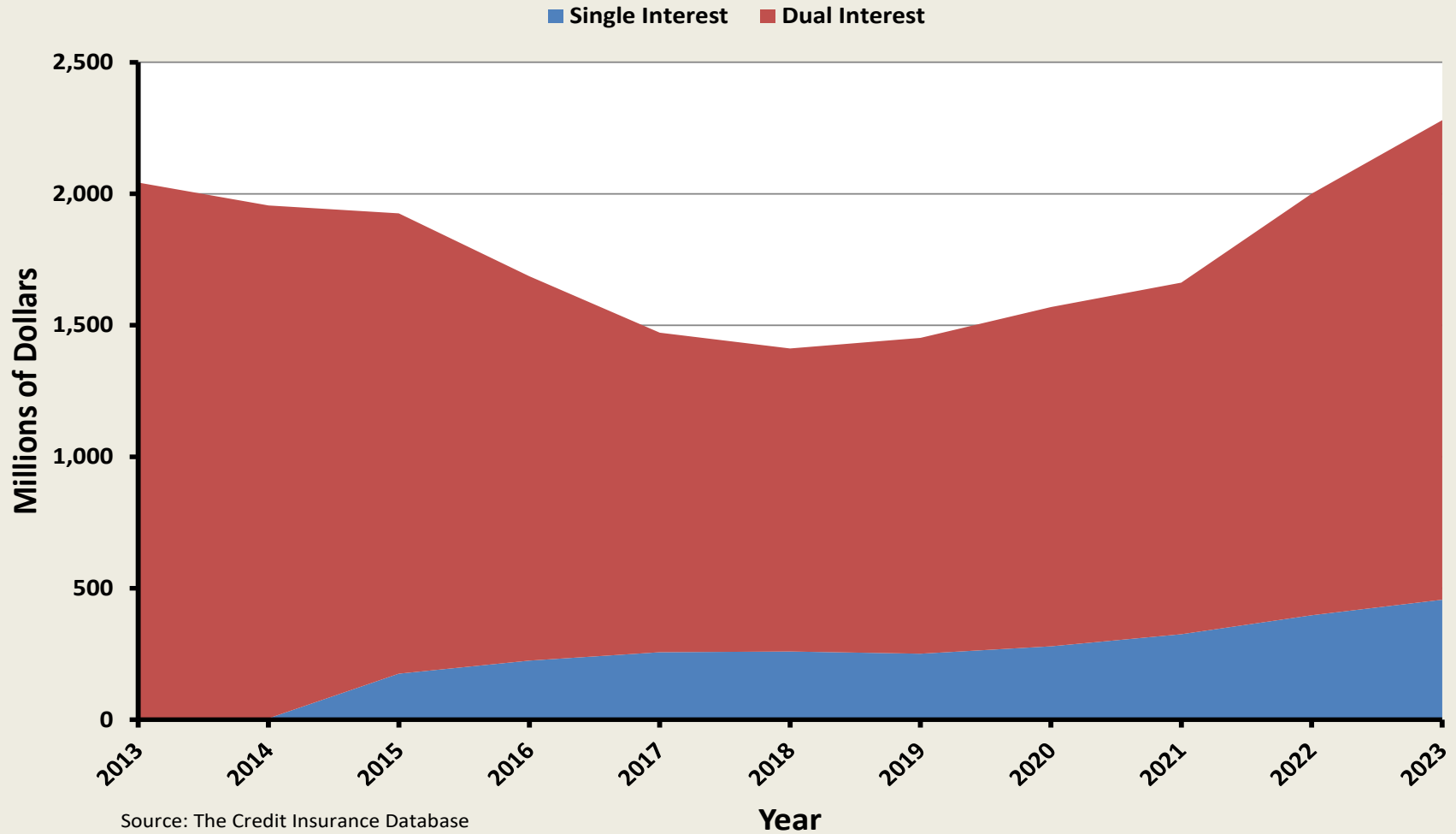
Creditor Placed Auto Net Written Premiums

■ Single Interest ■ Dual Interest

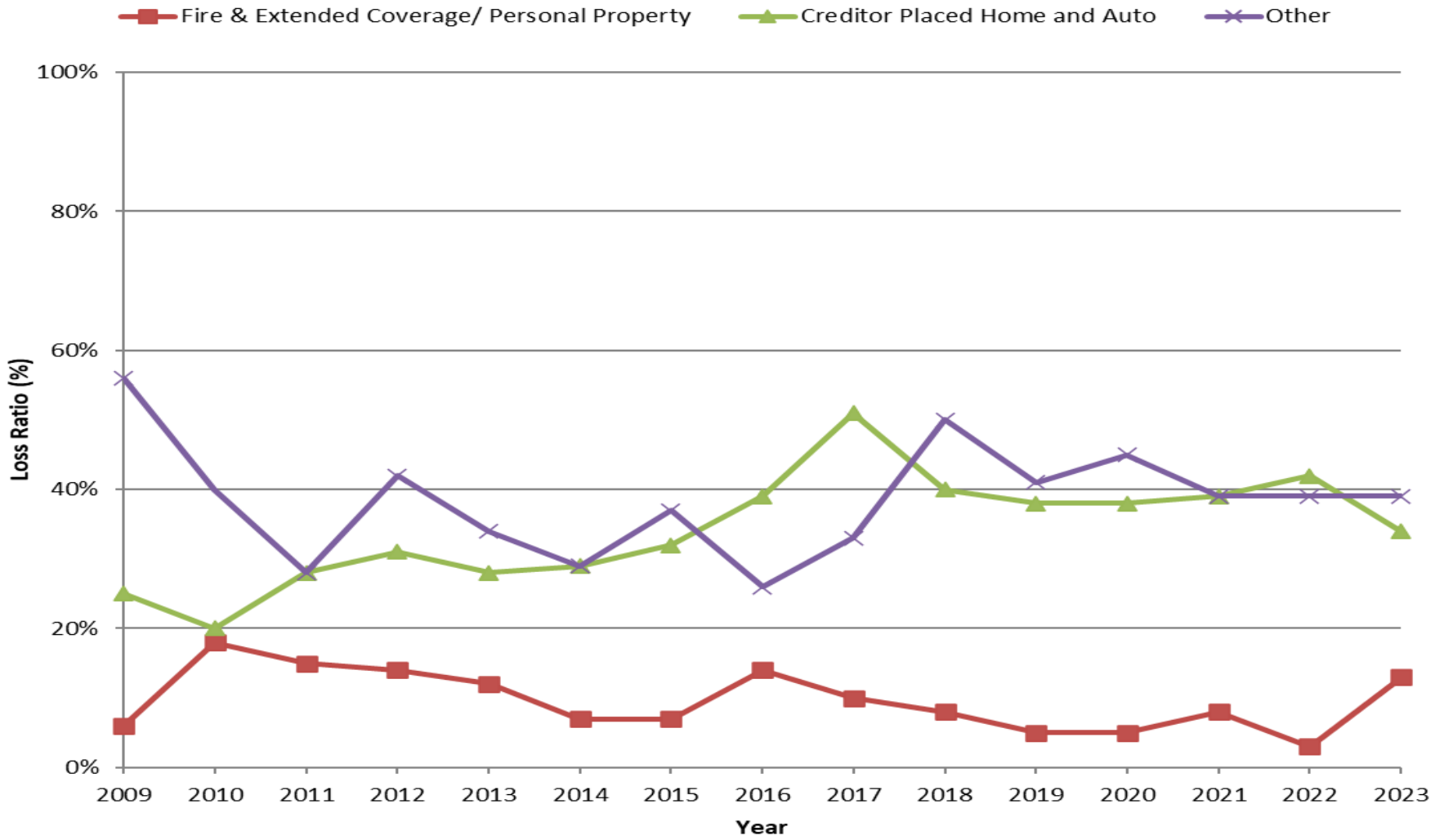


Source: The Credit Insurance Database

Creditor Placed Homeowners Net Written Premiums

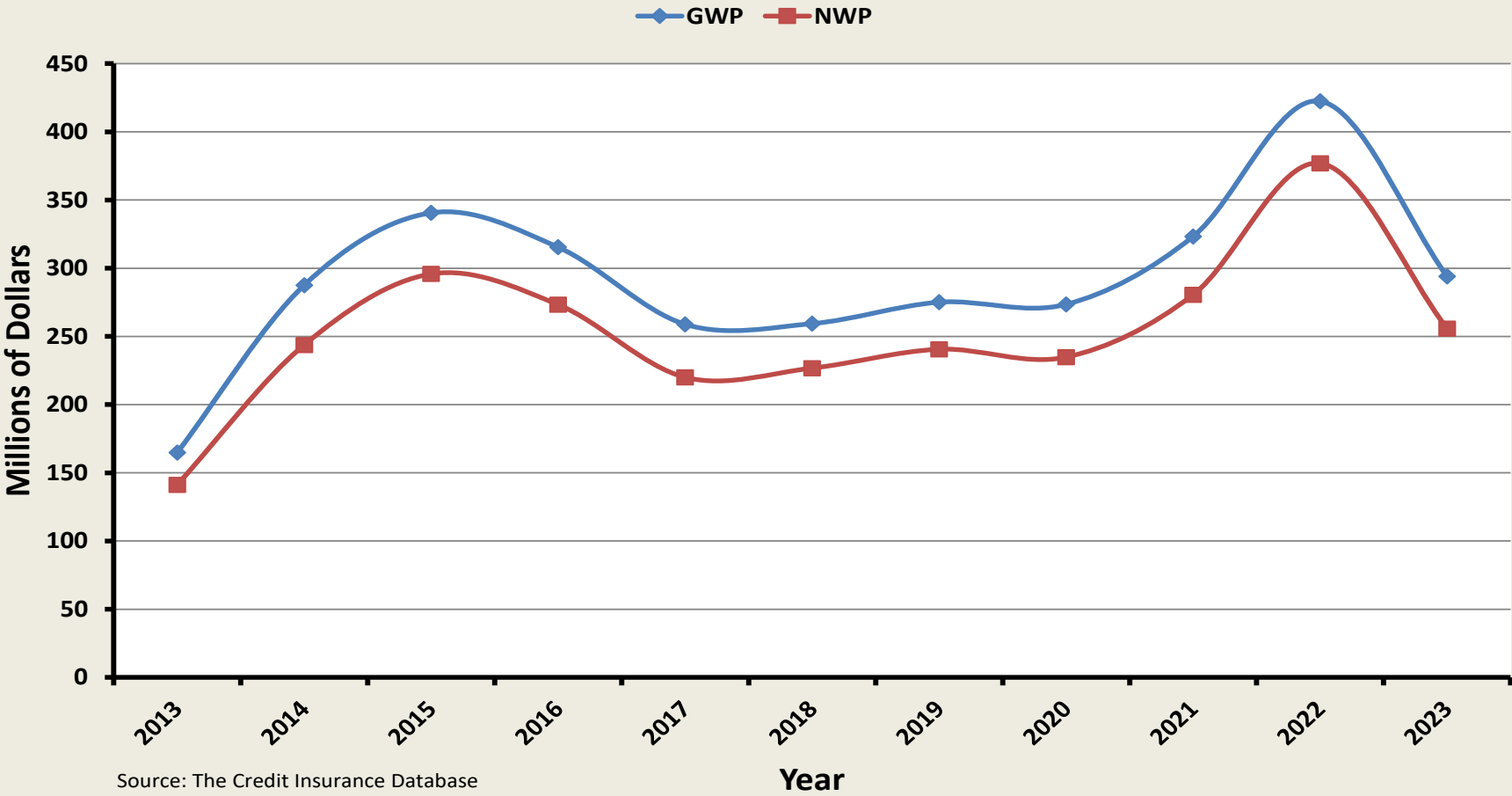


Credit Property Insurance Loss Ratios by Year and Type of Coverage (2009-2023)

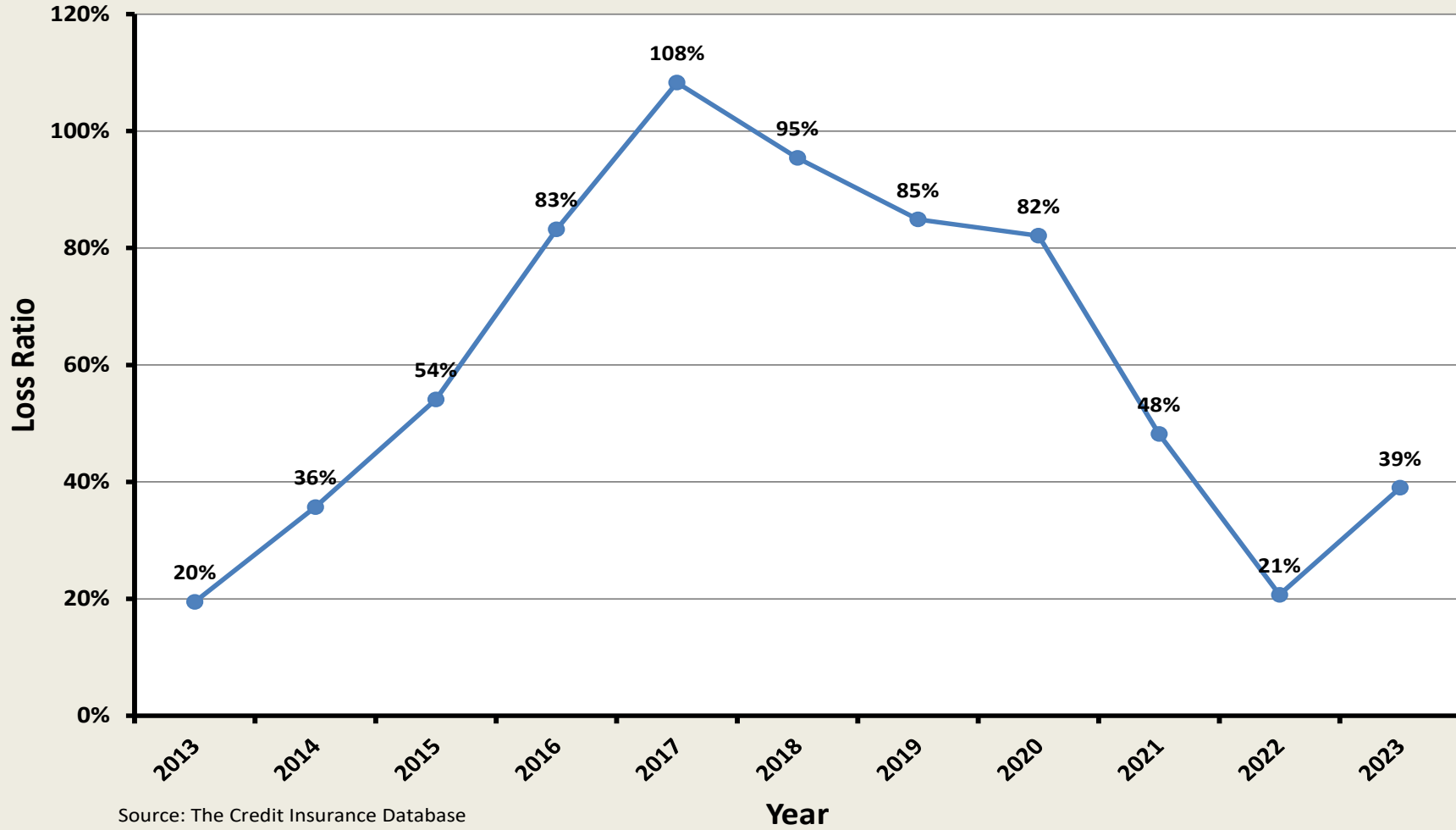


Personal GAP

Gross Written Premiums and Net Written Premiums

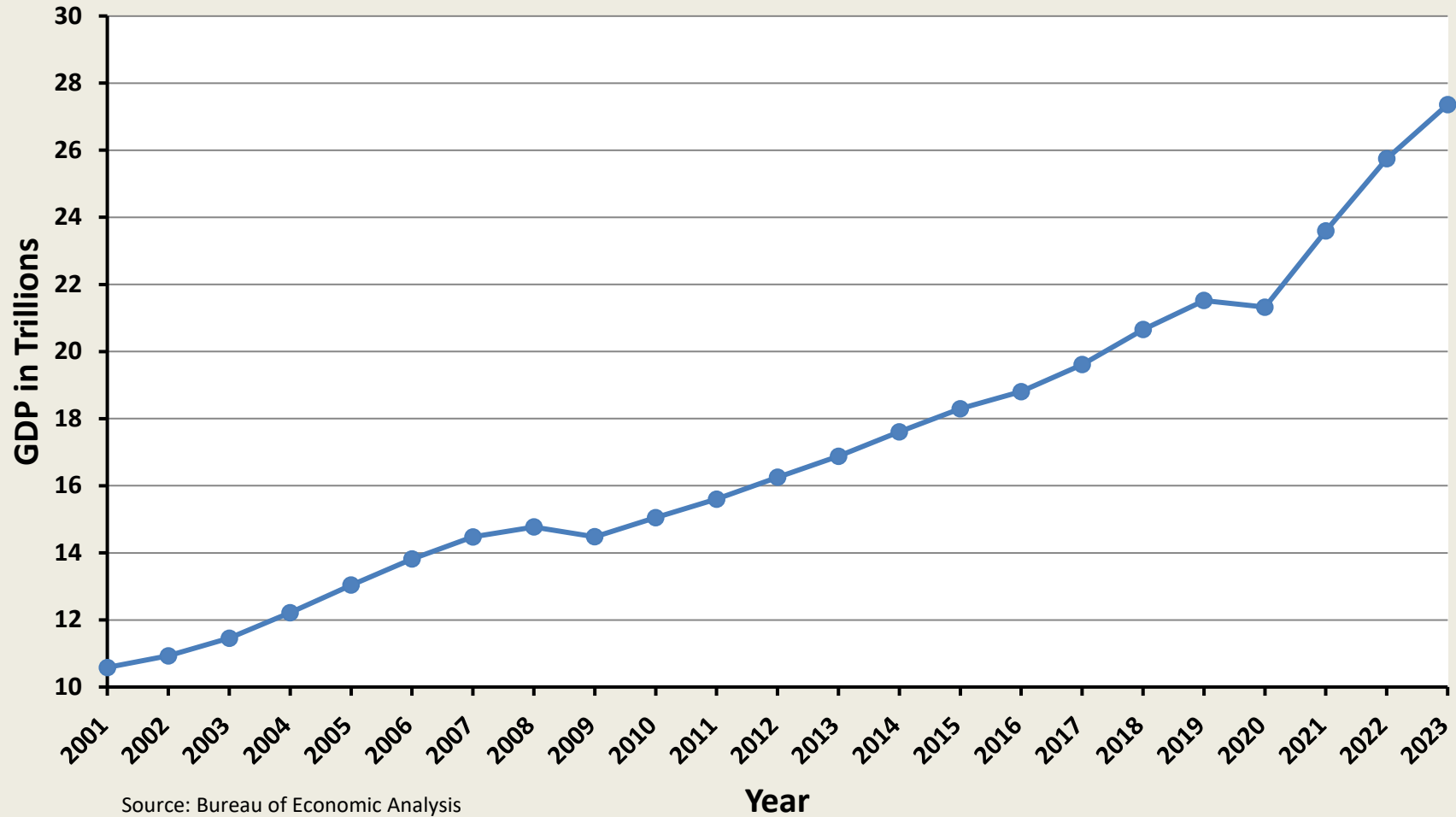


Personal GAP Loss Ratio



National Economic Trends

Seasonally Adjusted Average Gross Domestic Product

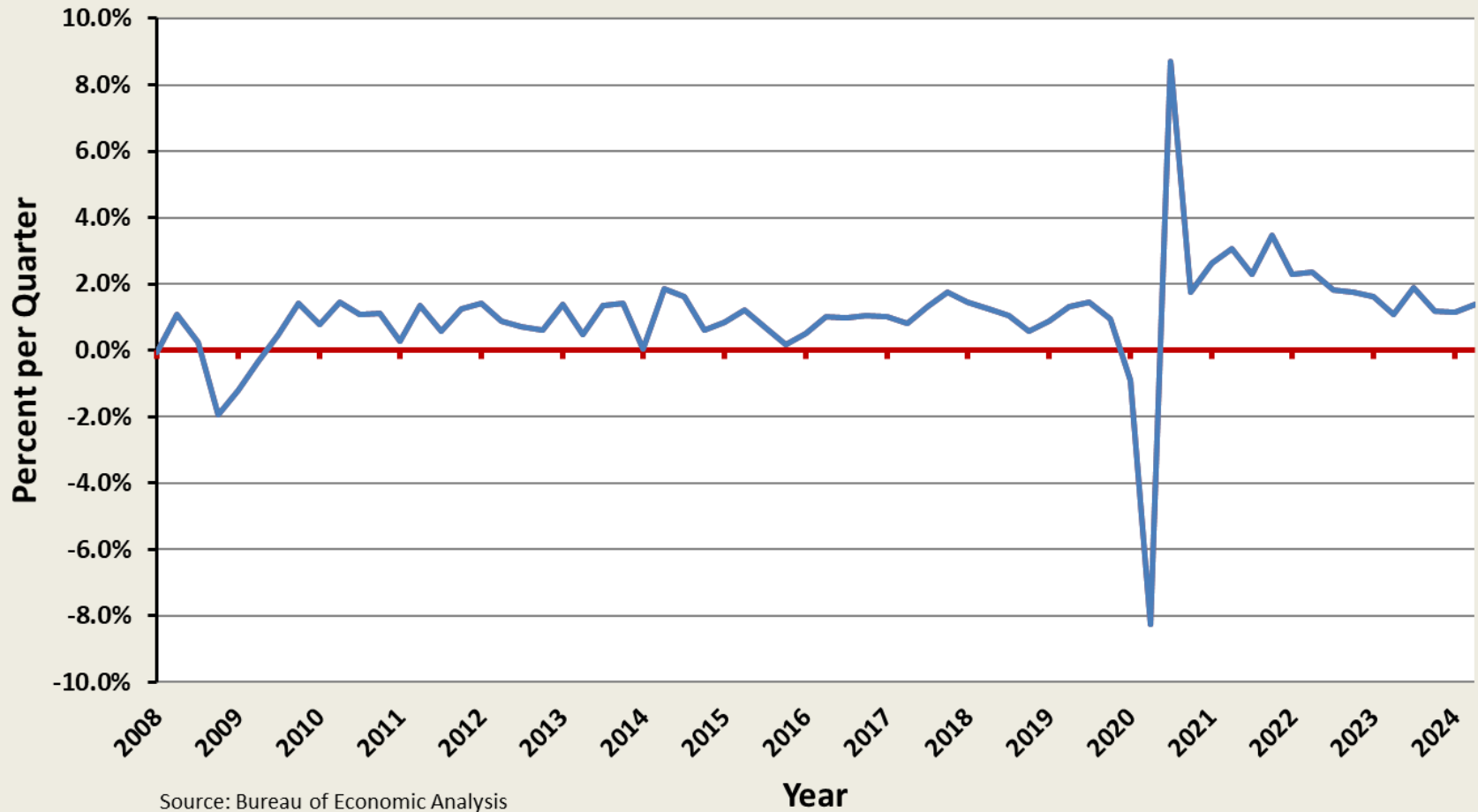




Source: U.S. Bureau of Economic Analysis

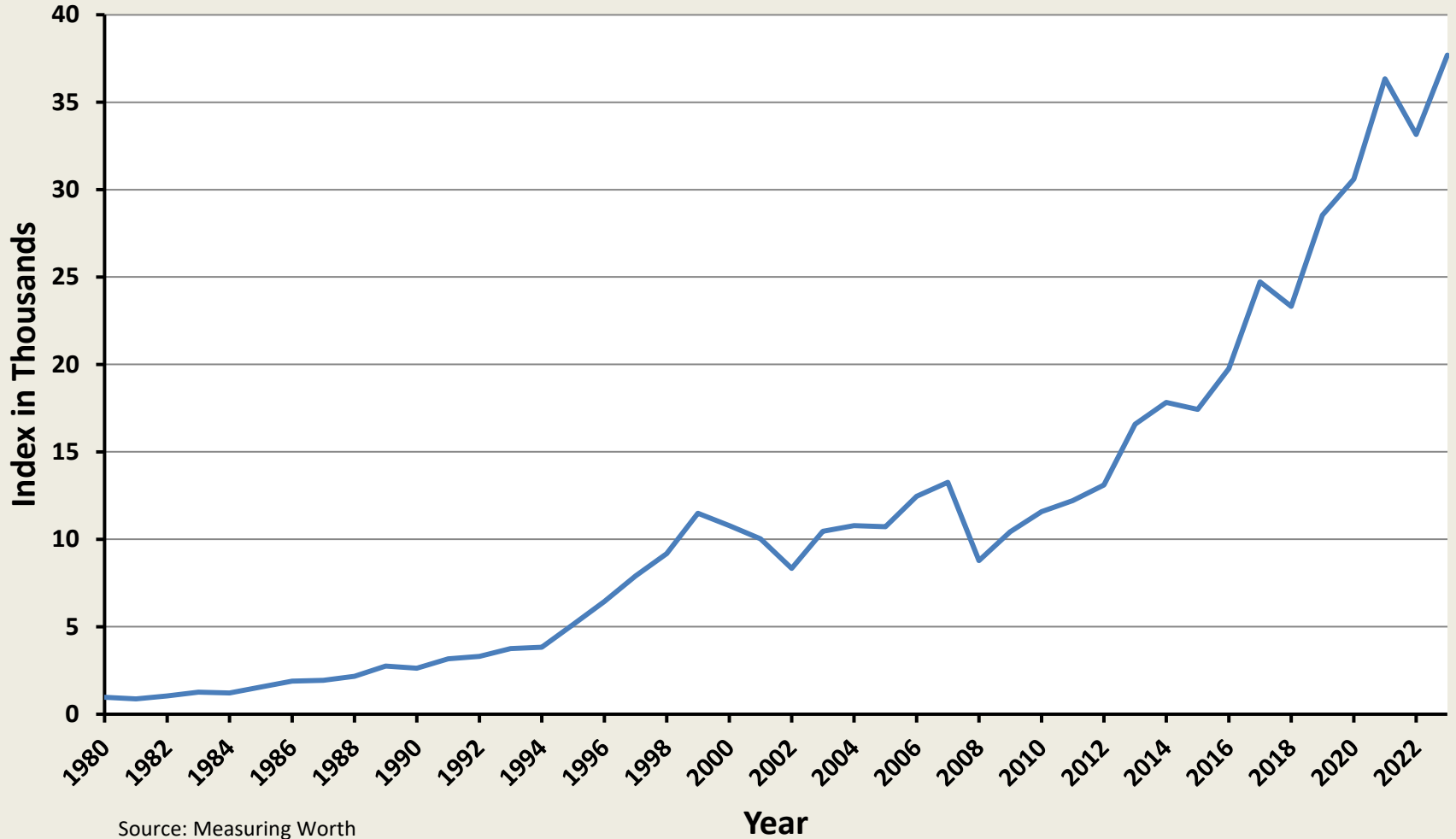
myf.red/g/1vuj0

Percentage Change in Seasonally Adjusted GDP by Quarter



Source: Bureau of Economic Analysis

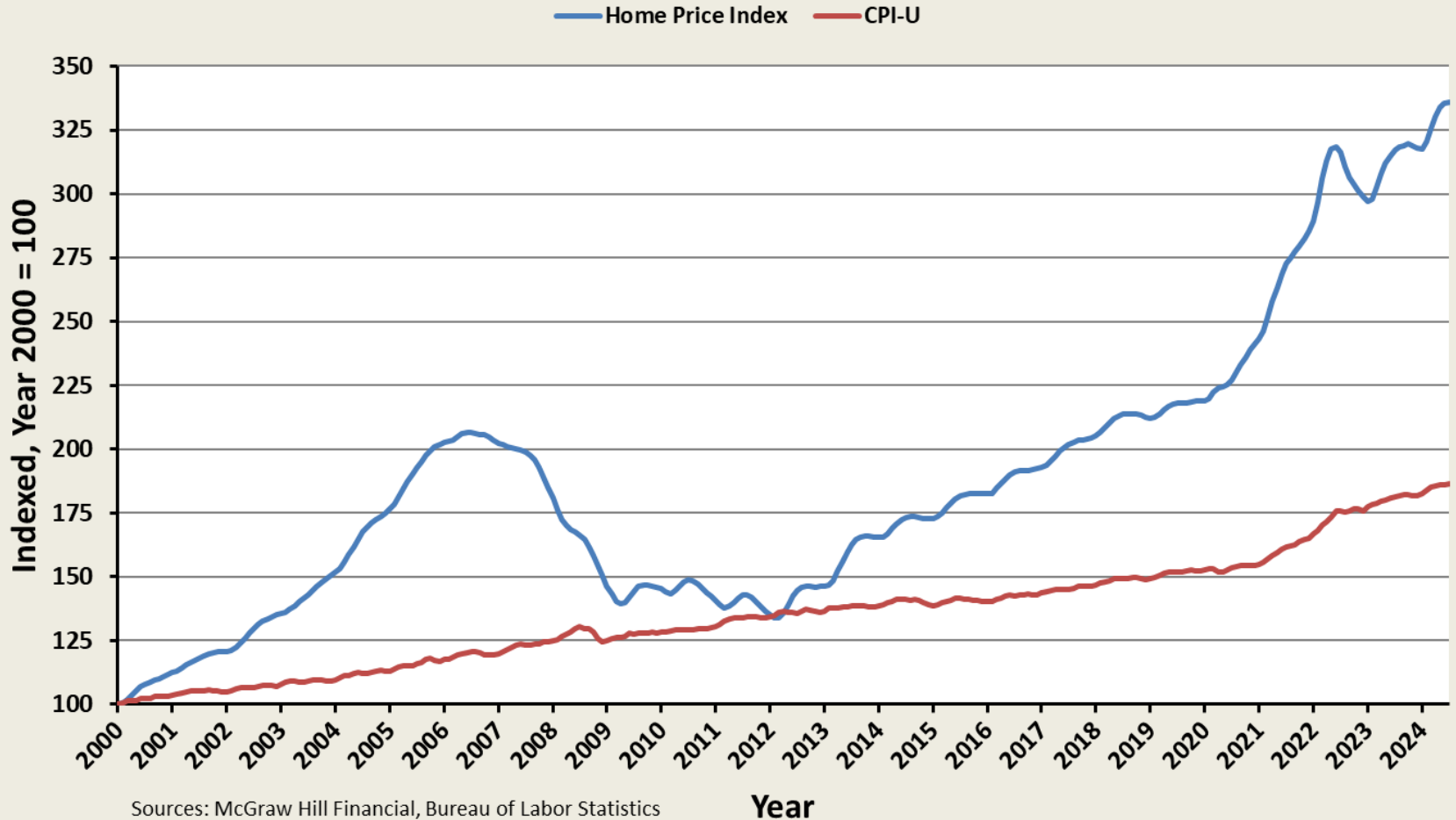
Dow Jones Industrial Average at Year End



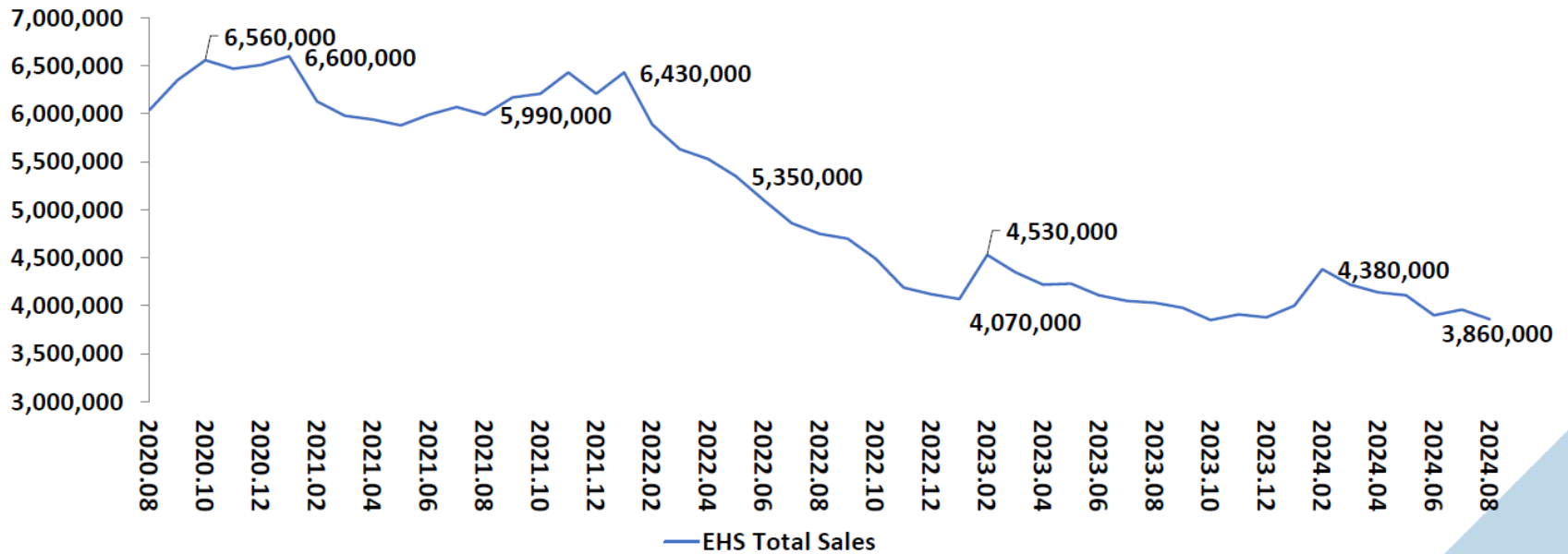
KBW Bank Index



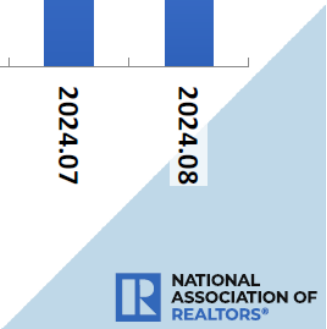
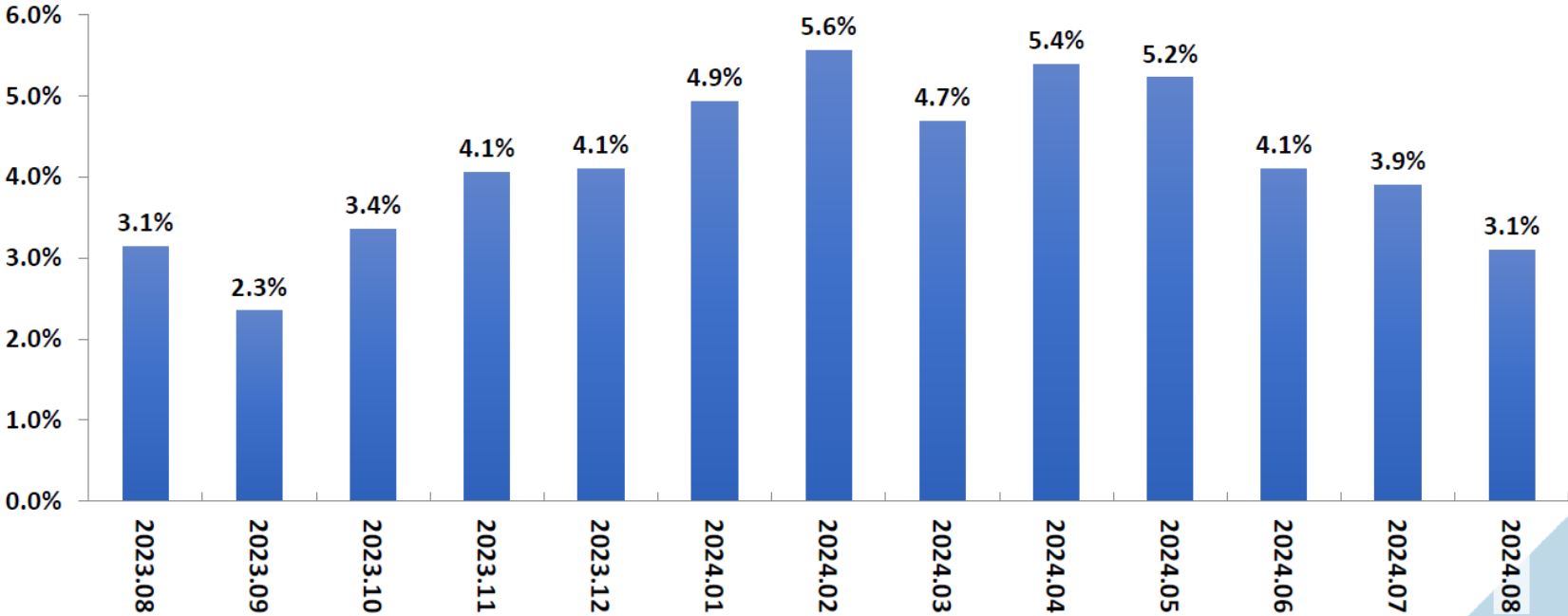
Shiller Home Price Index Composite 20 vs. CPI-U



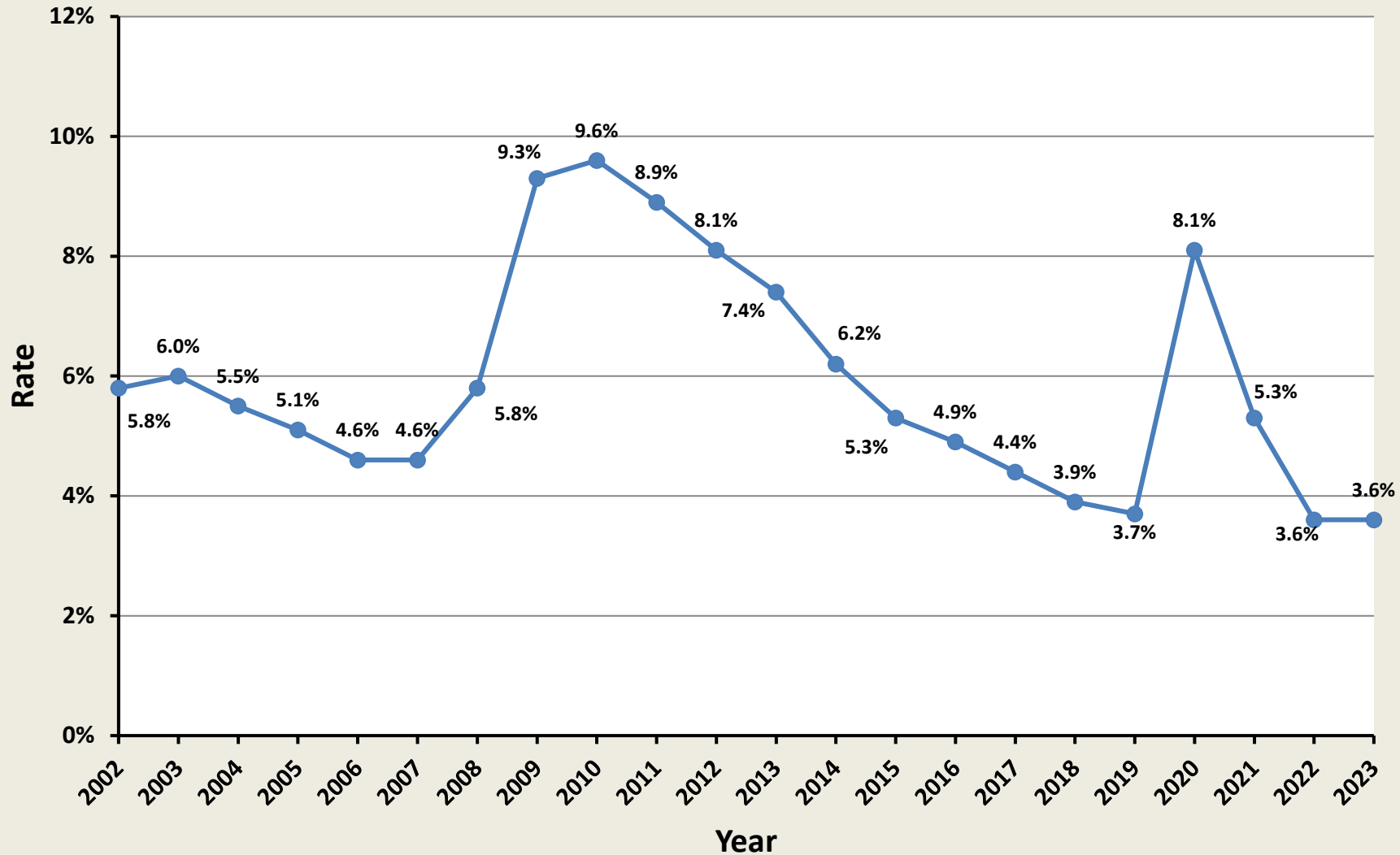
Total Existing Home Sales, SA Annual Rate



Existing Home Sales Median Price, Percent Change Year-Over-Year



Unemployment Rate





Source: U.S. Bureau of Labor Statistics

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Source: U.S. Employment and Training Administration

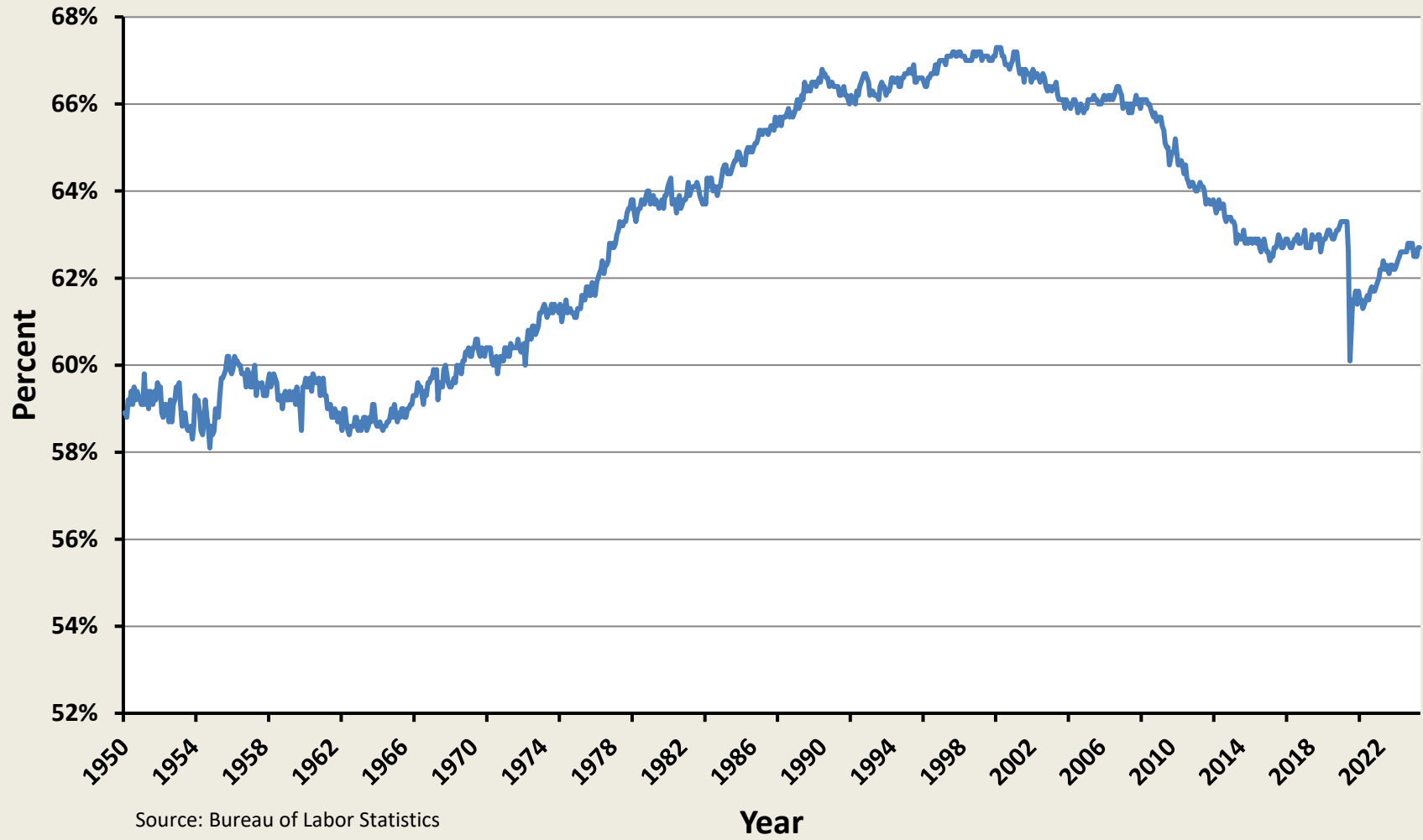
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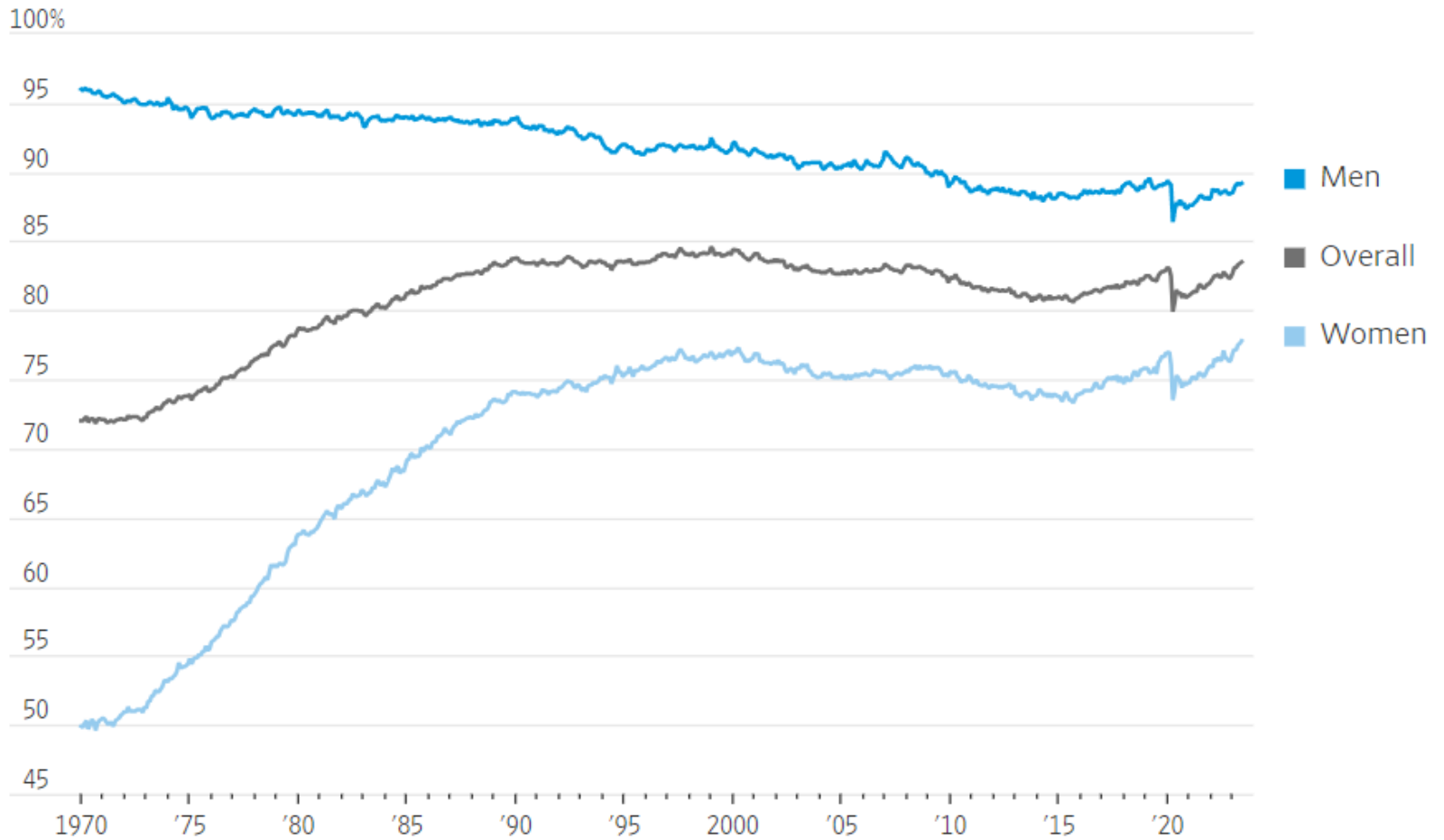
Source: U.S. Employment and Training Administration

[myf.fred/g/1wkLf](https://myf.fred.stlouisfed.org/g/1wkLf)

Labor Force Participation Rate 16 Years and Older



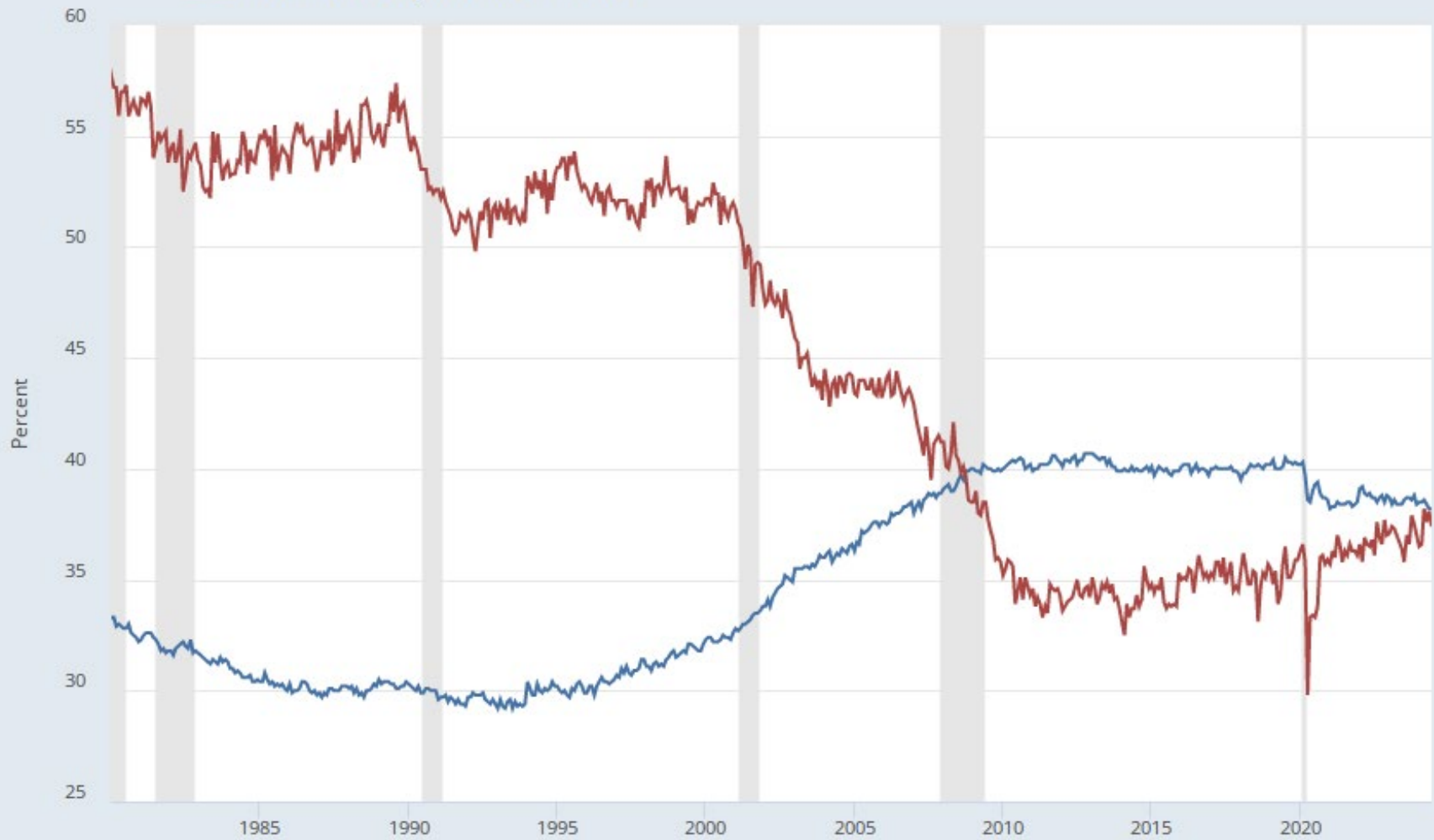
Share of prime-age population (25 to 54 years old) working or looking for work



Note: Seasonally adjusted
Source: Labor Department

FRED

- Labor Force Participation Rate - 55 Yrs. & over
- Labor Force Participation Rate - 16-19 Yrs.



Source: U.S. Bureau of Labor Statistics

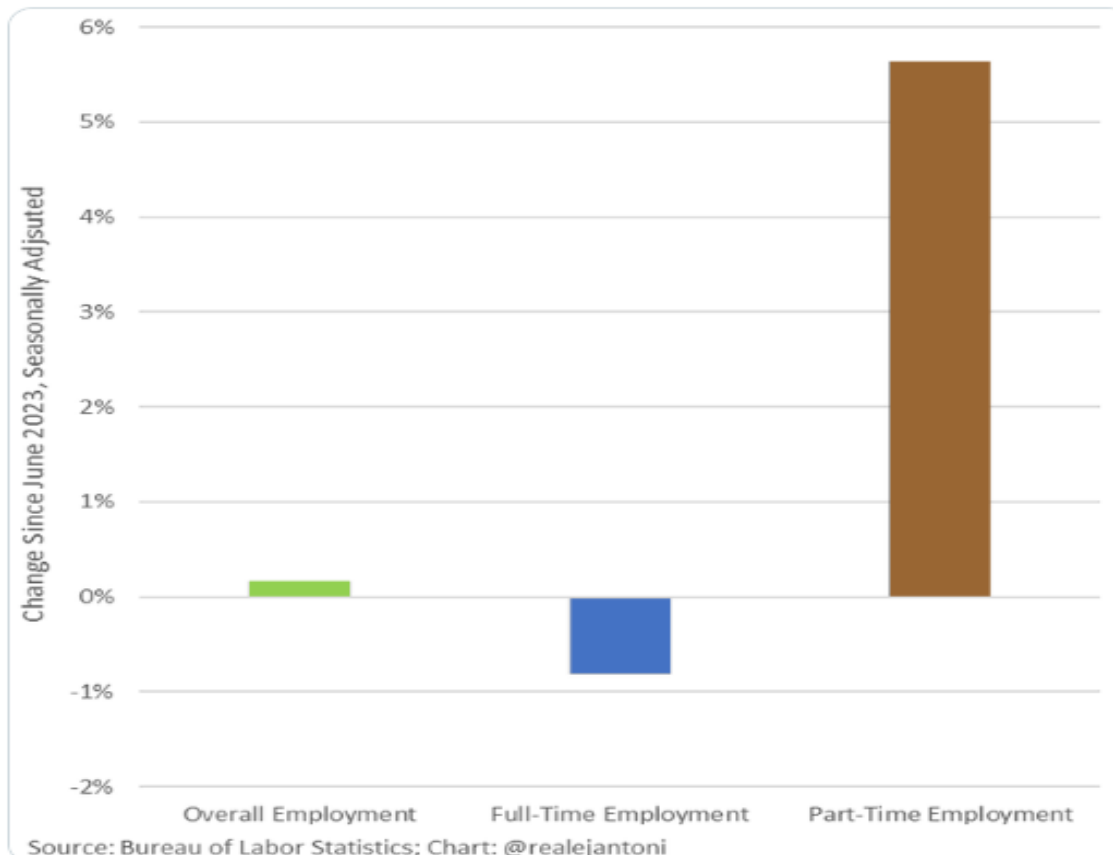
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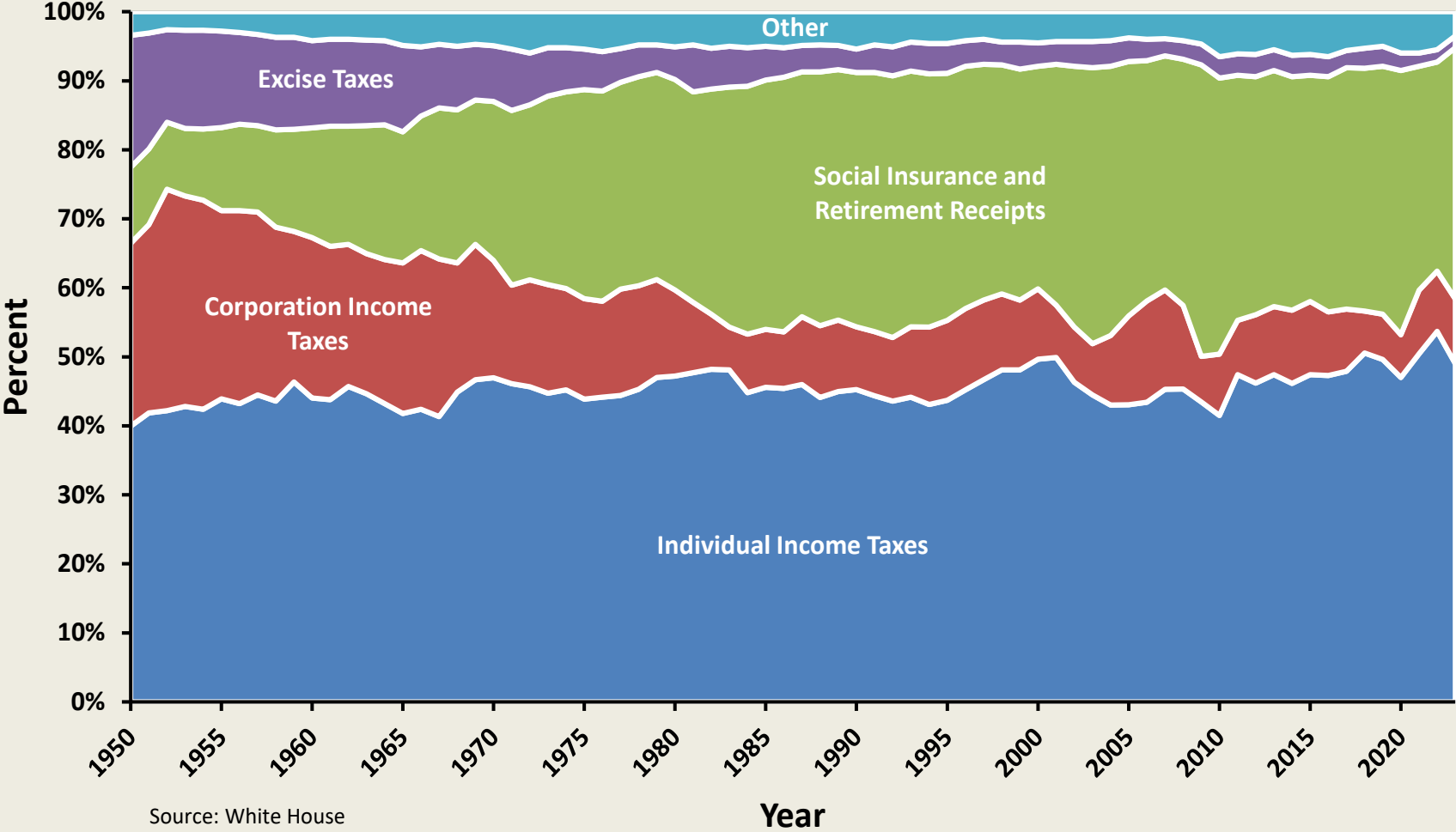
E.J. Antoni, Ph.D. 
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All of the net job gains since Jun '23 have been part-time employment; while the economy hemorrhaged 1.1 million full-time jobs, part-time jobs rose 5.6%, b/c it's nothing more than a gig recovery at this point:

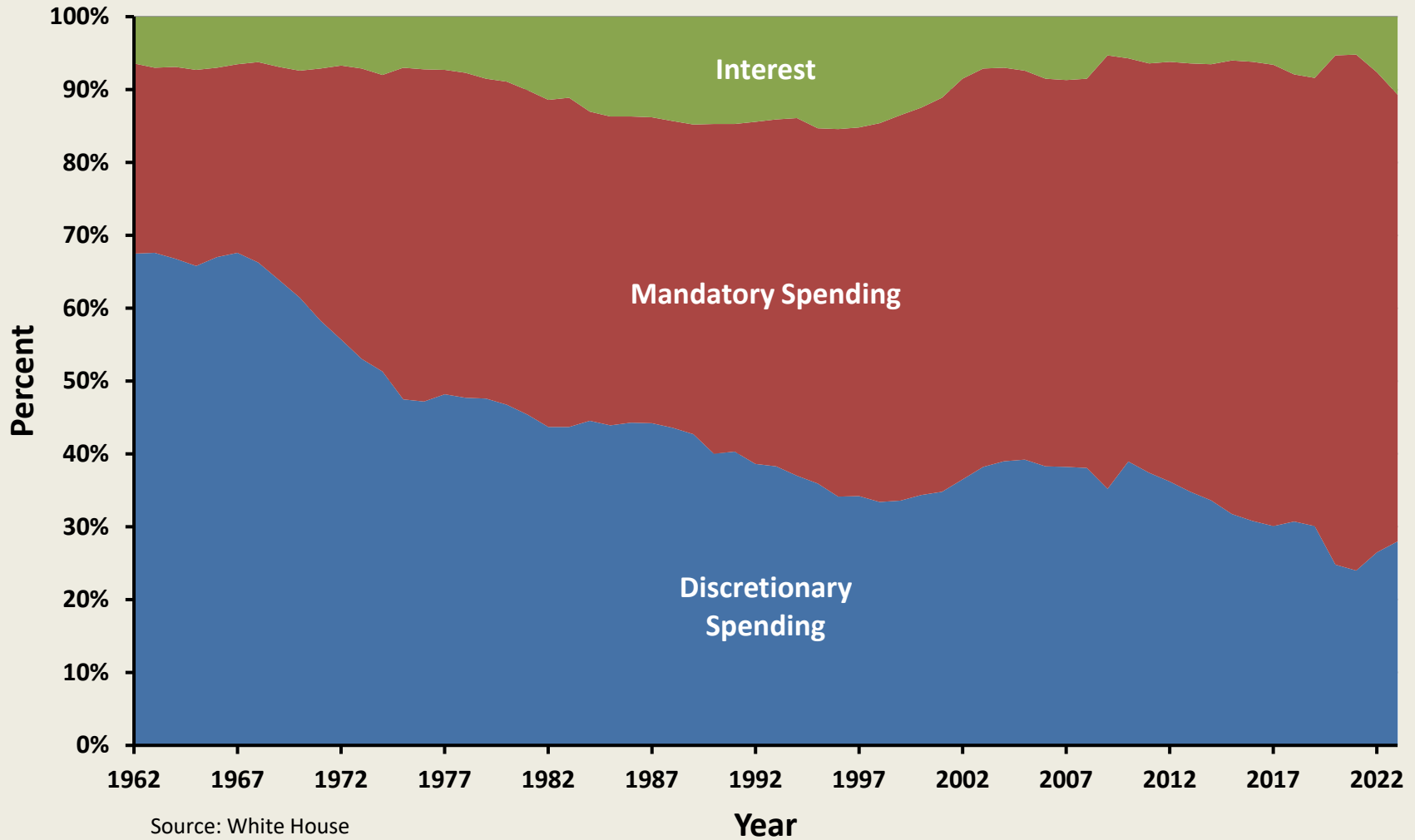


Sources of Federal Revenue Through 2023

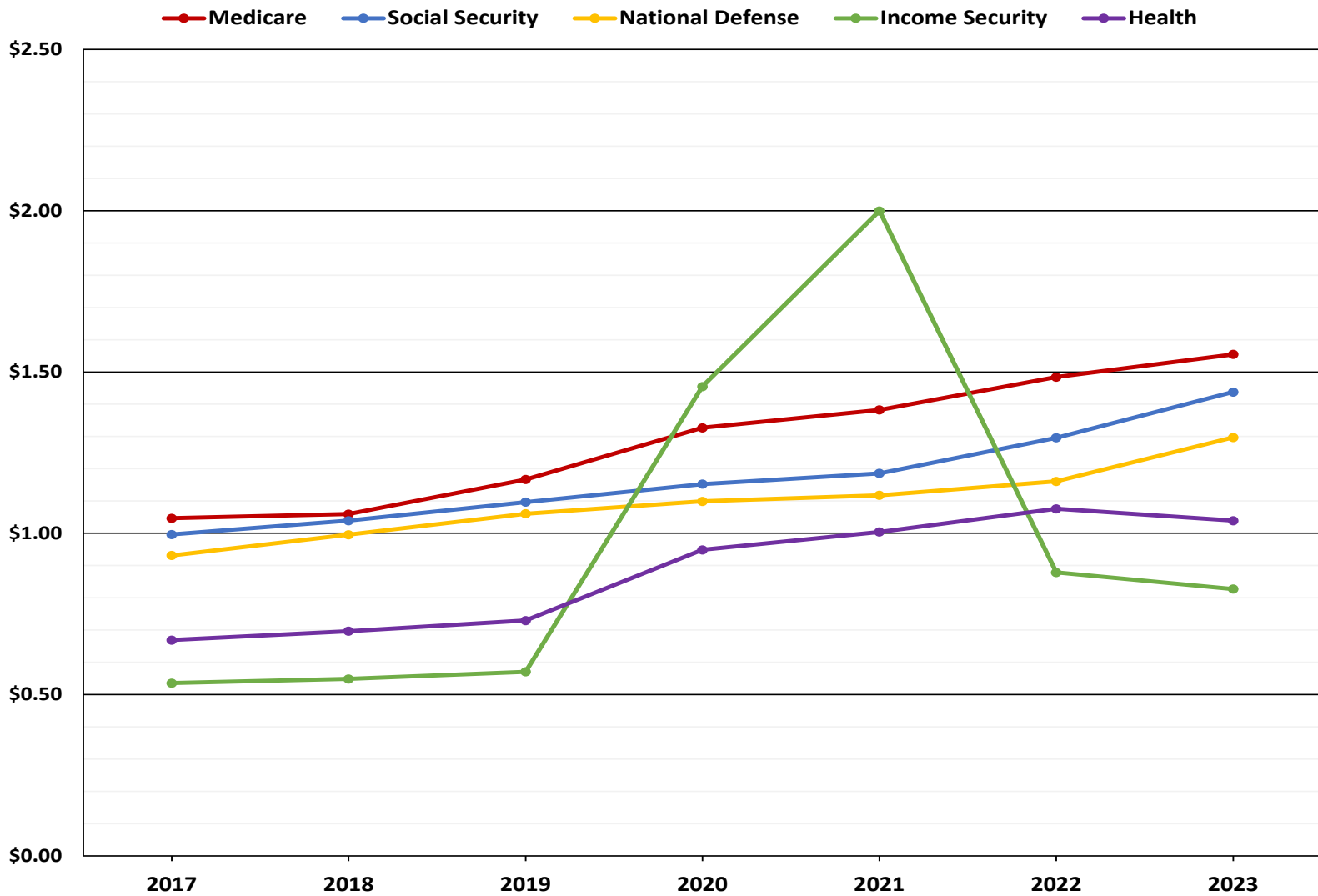


Source: White House

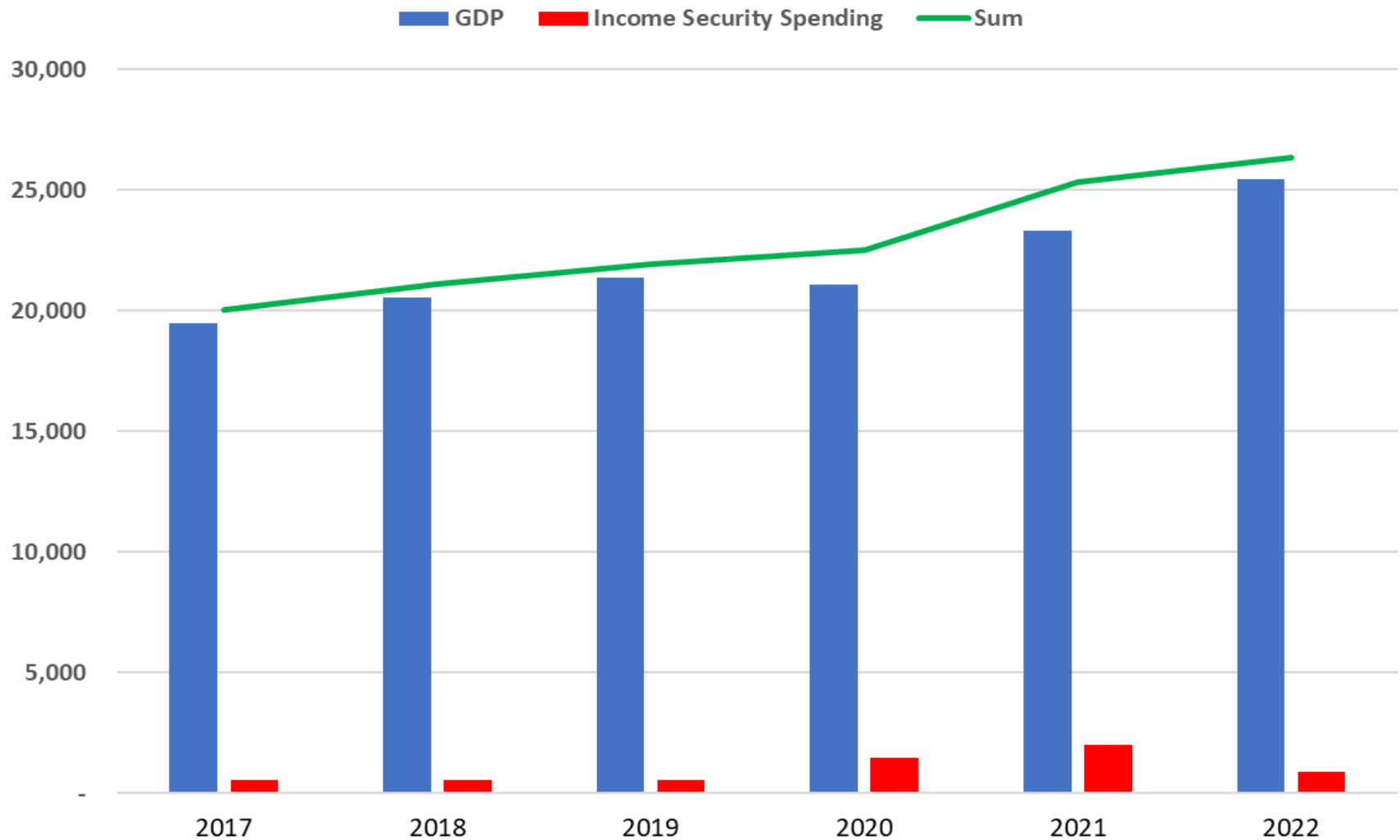
Federal Spending by Category



U.S. Spending Trends 2017-2023

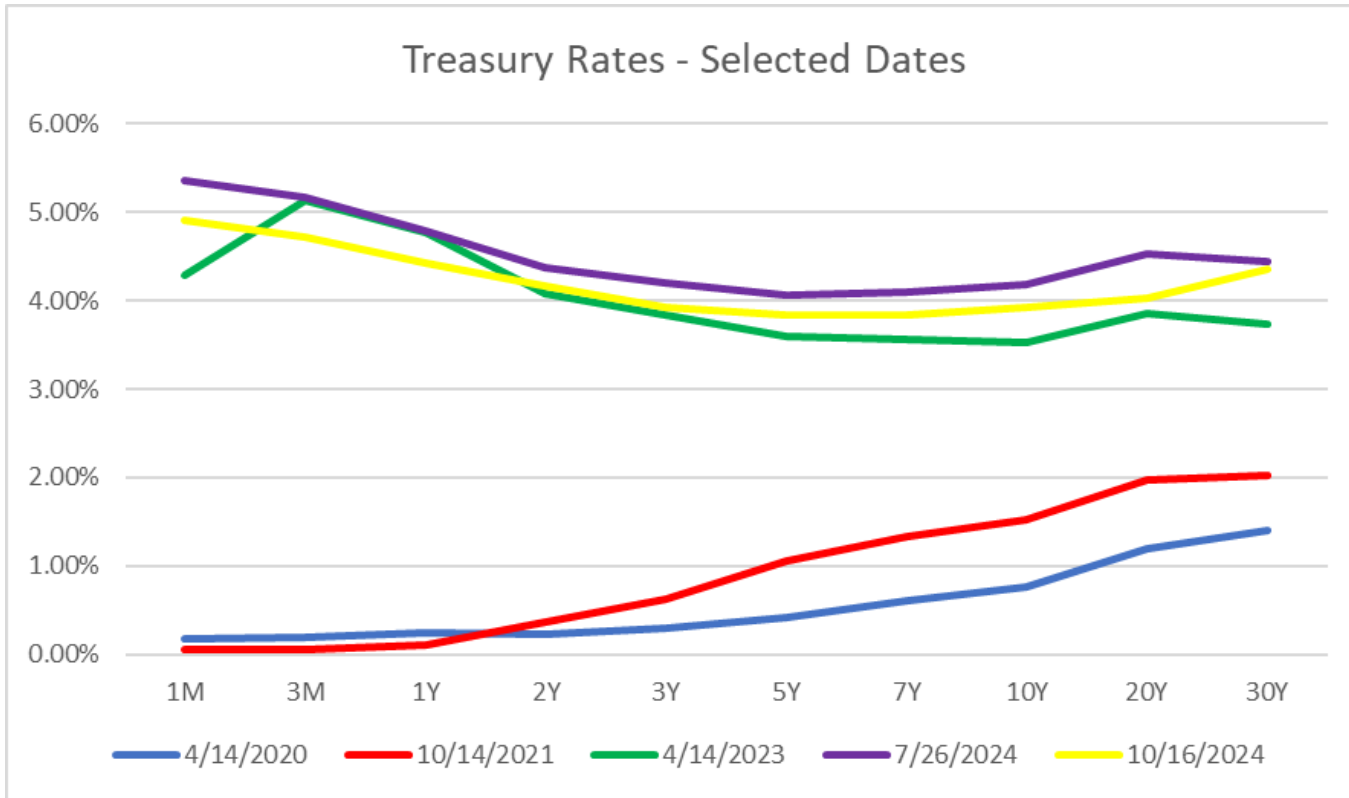


Replacement of Economic Loss 2017-2022



Or, Life is a Series of Overadjustments?

Treasury Rates - Selected Dates



What is a “Normal” Yield Curve?

1. Short term treasuries approximately equal inflation – in other words, a short term “risk free” rate would allow maintenance of purchasing power
2. Long term rates reflect the opportunity (and interest fluctuation) risk of having money tied up for longer

Something Like This..

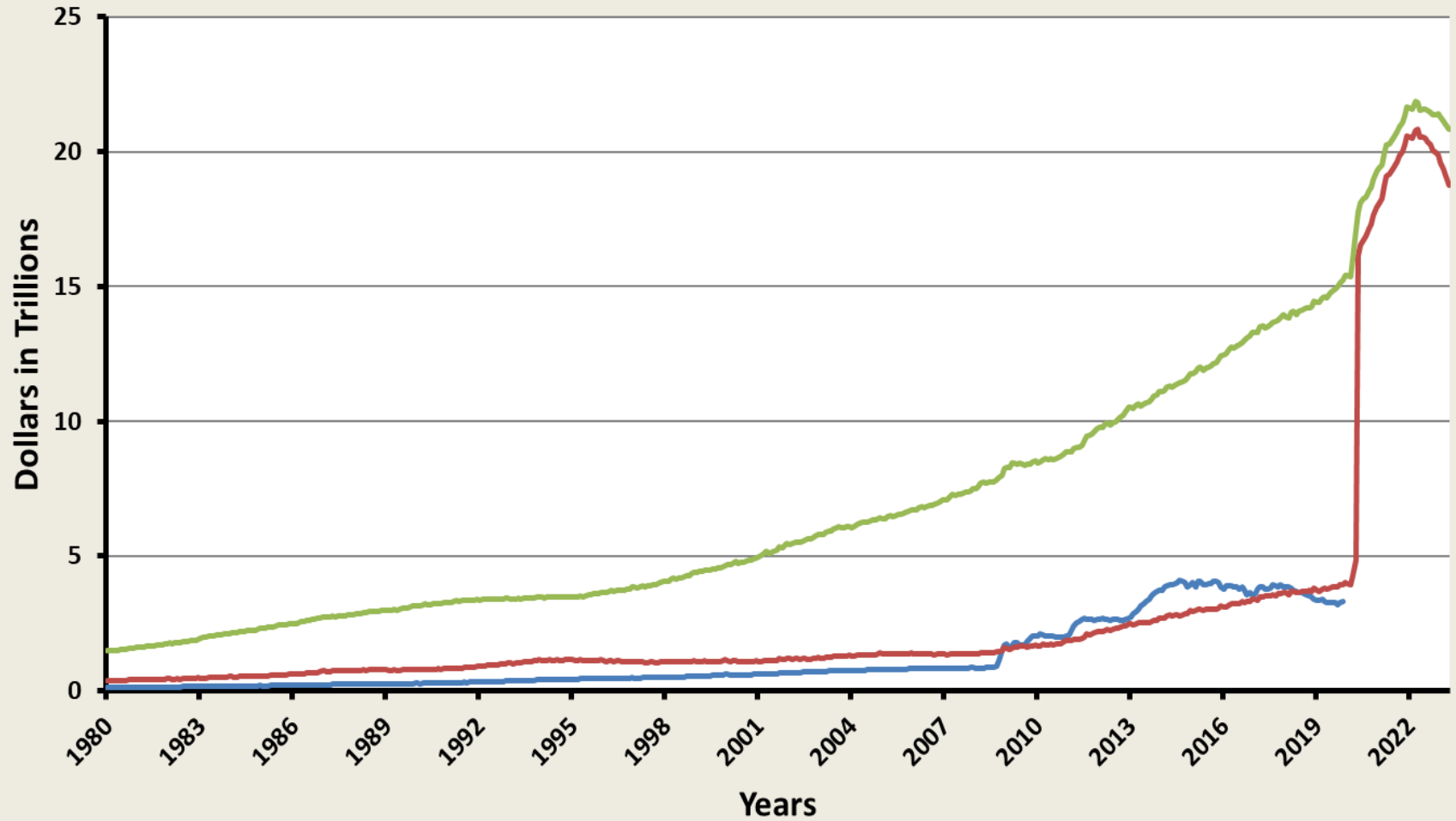


Source: Investing for Me

Money Supply

MB = Cash in Circulation + Federal Reserve Bank
M1 = Cash in Circulation + Demand Deposits
M2 = Cash in Circulation + Demand Deposits + Savings

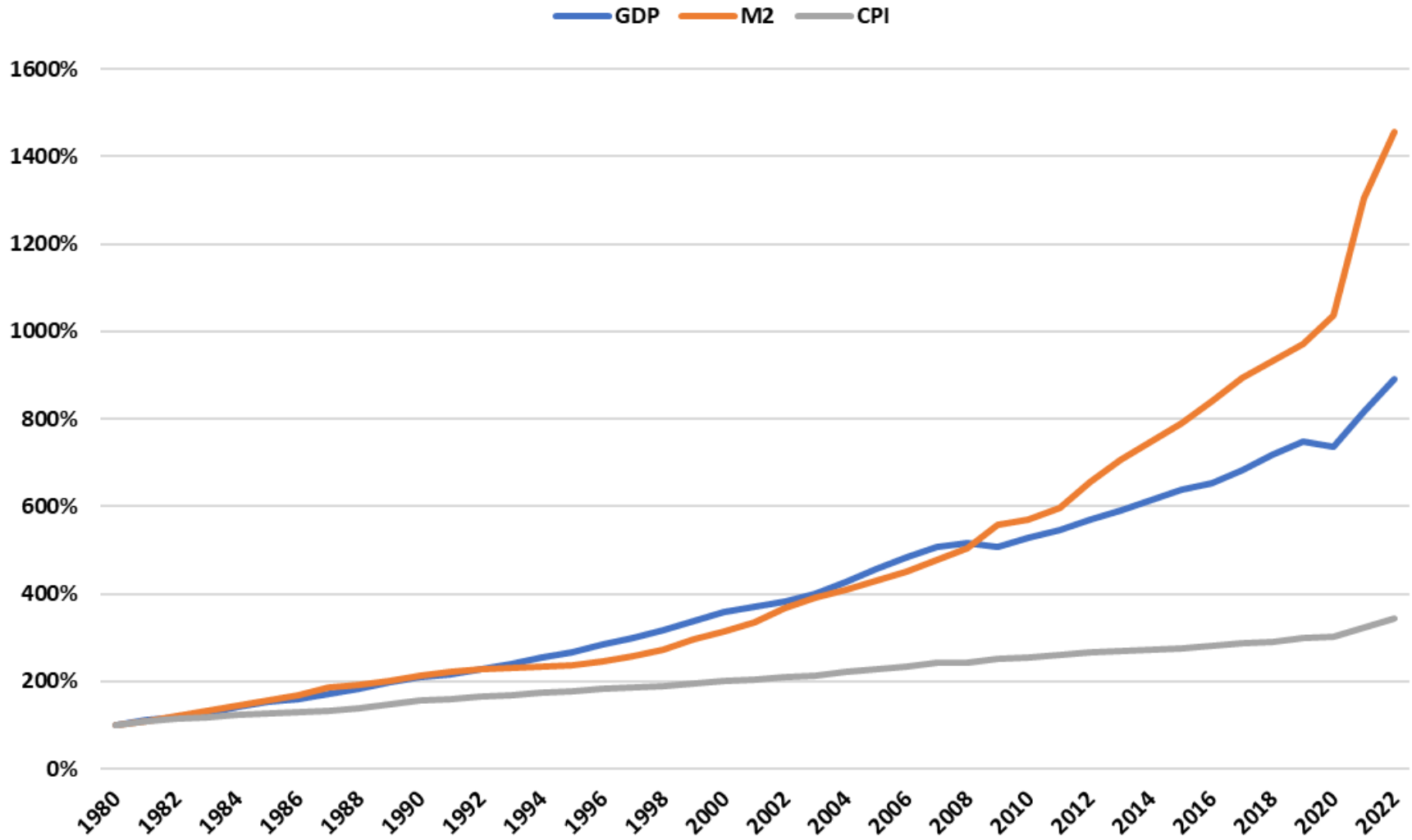
— MB (Discontinued in 2020) — M1 — M2



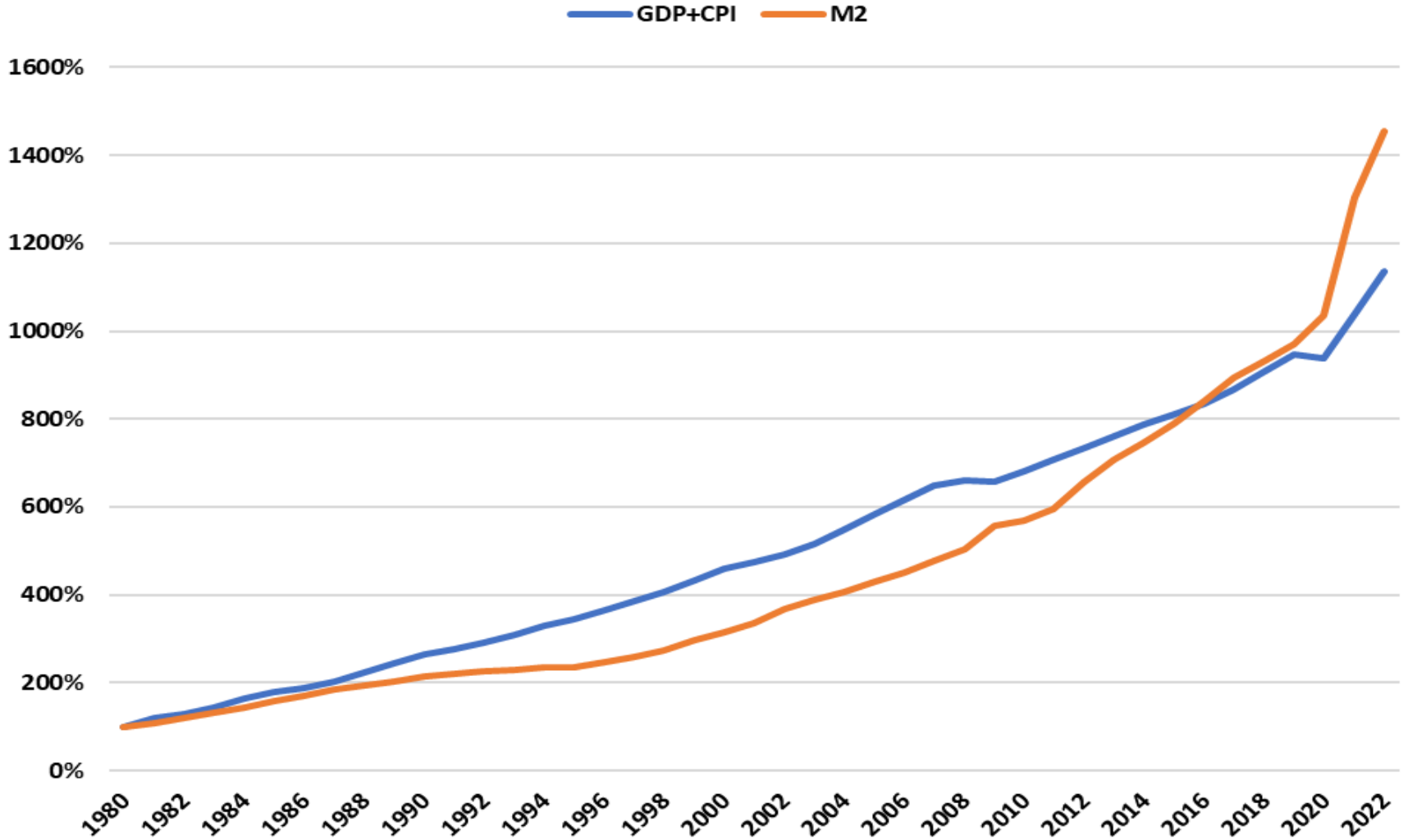
Classic Theories of Inflation

- Inflation occurs when:
 - Market-power theory: oligopolists can increase prices even if the demand does not rise. This occurs due to increase in wages in the oligopolistic industry.
 - Demand-Pull: Demand exceeds supply. Occurs for several reasons – mostly restricted supply.
 - Monetary: When money supply grows faster than GDP, more money chases fewer goods = broad inflationary pressures.

Comparison of Growth in GDP, M2 and CPI - 1980-2022

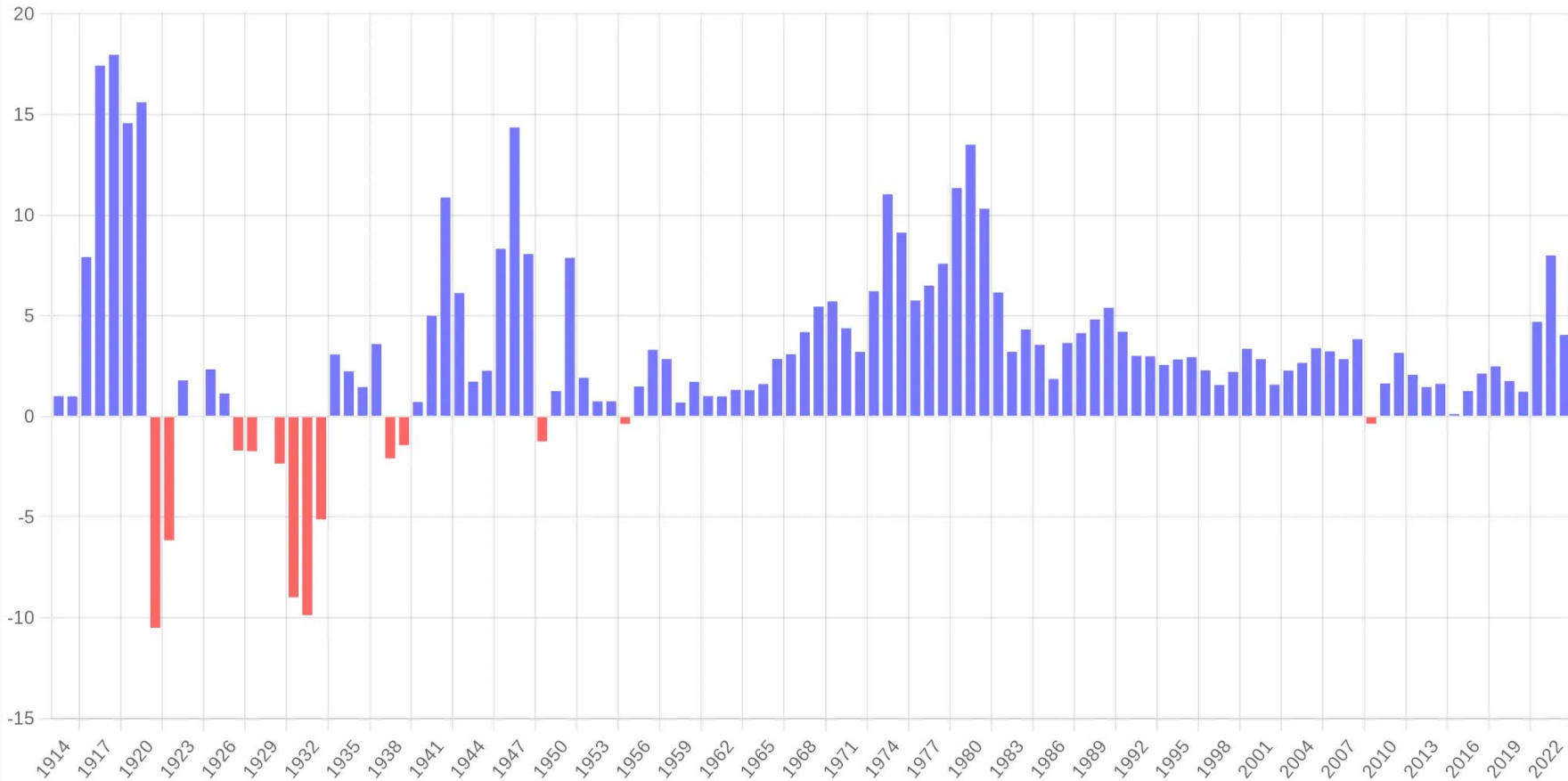


Comparison of Growth in GDP + CPI vs M2 - 1980-2022



USD inflation since 1914

Annual Rate, the Bureau of Labor Statistics CPI

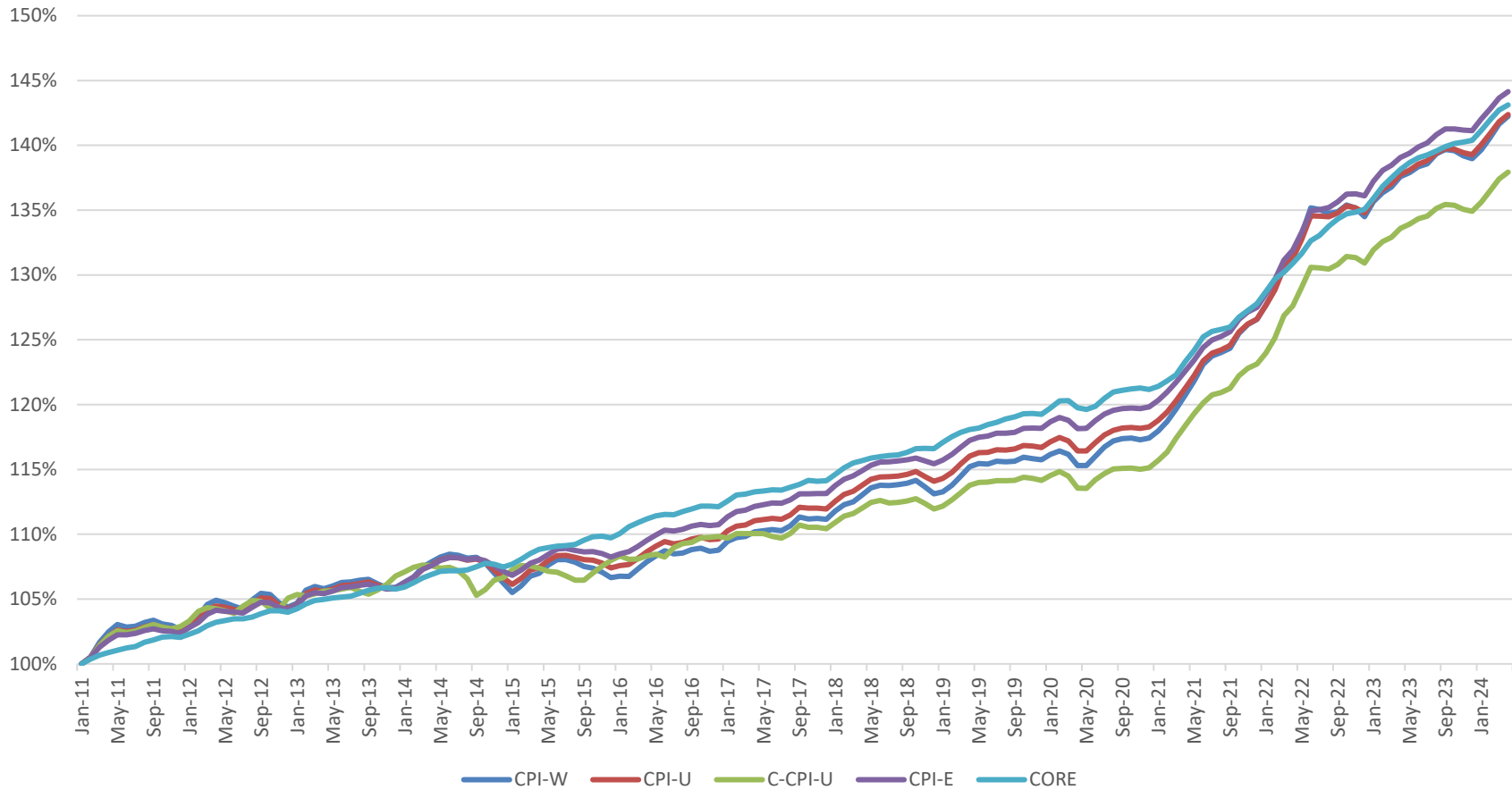


Measures of Inflation

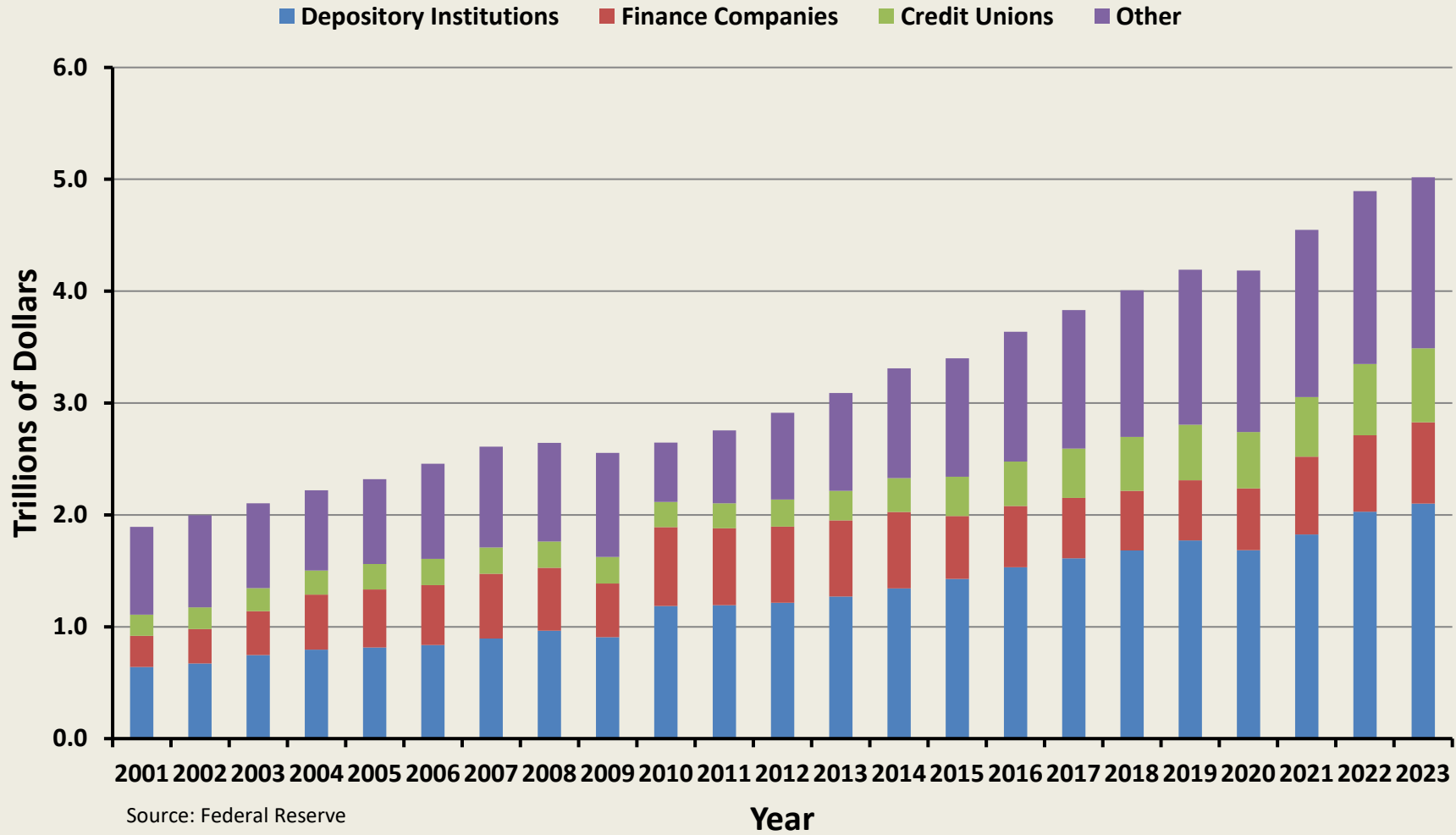
- CPI-U
 - “U” stands for Urban consumers
- CPI-W
 - “W” stands for Wage earners
- C-CPI-U
 - The first “C” stands for “Chained” – reflect cost of living, rather than inflation
- “Core” CPI
 - Ignores food and energy prices – which fluctuate for non-economic reasons

How do These Compare?

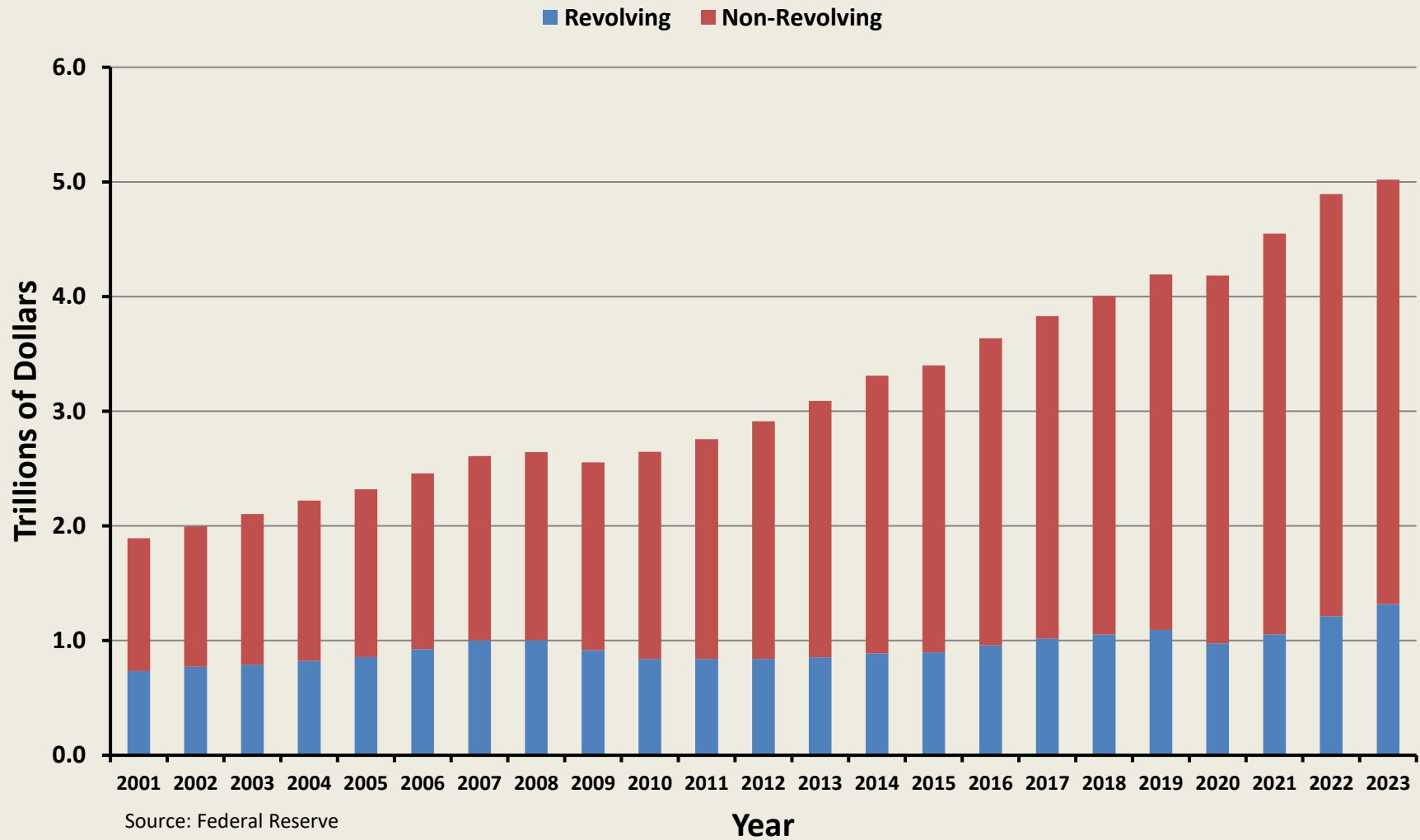
CPI Comparisons 2011 - 2024 (April)



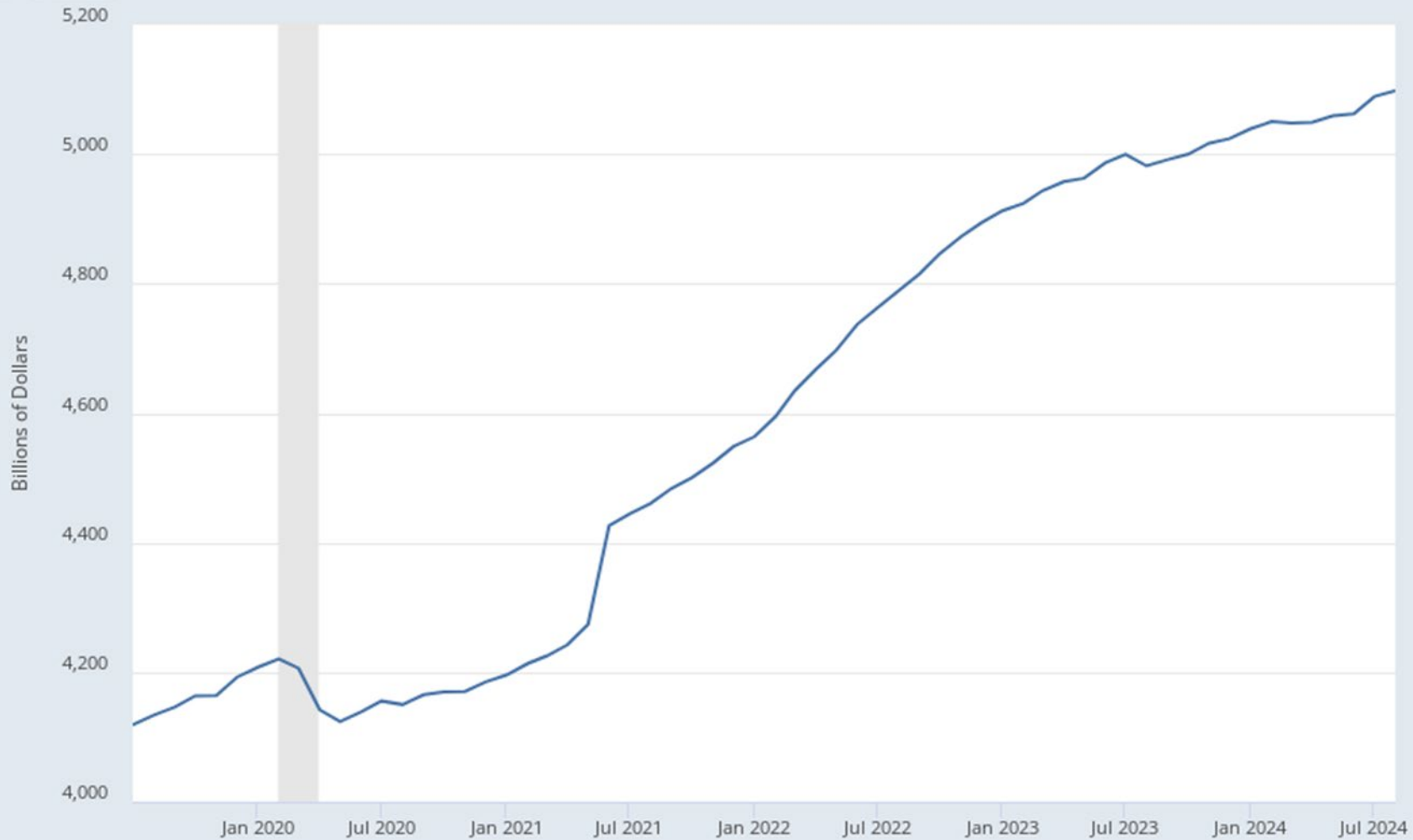
Major Holders of Consumer Debt



Outstanding Consumer Debt

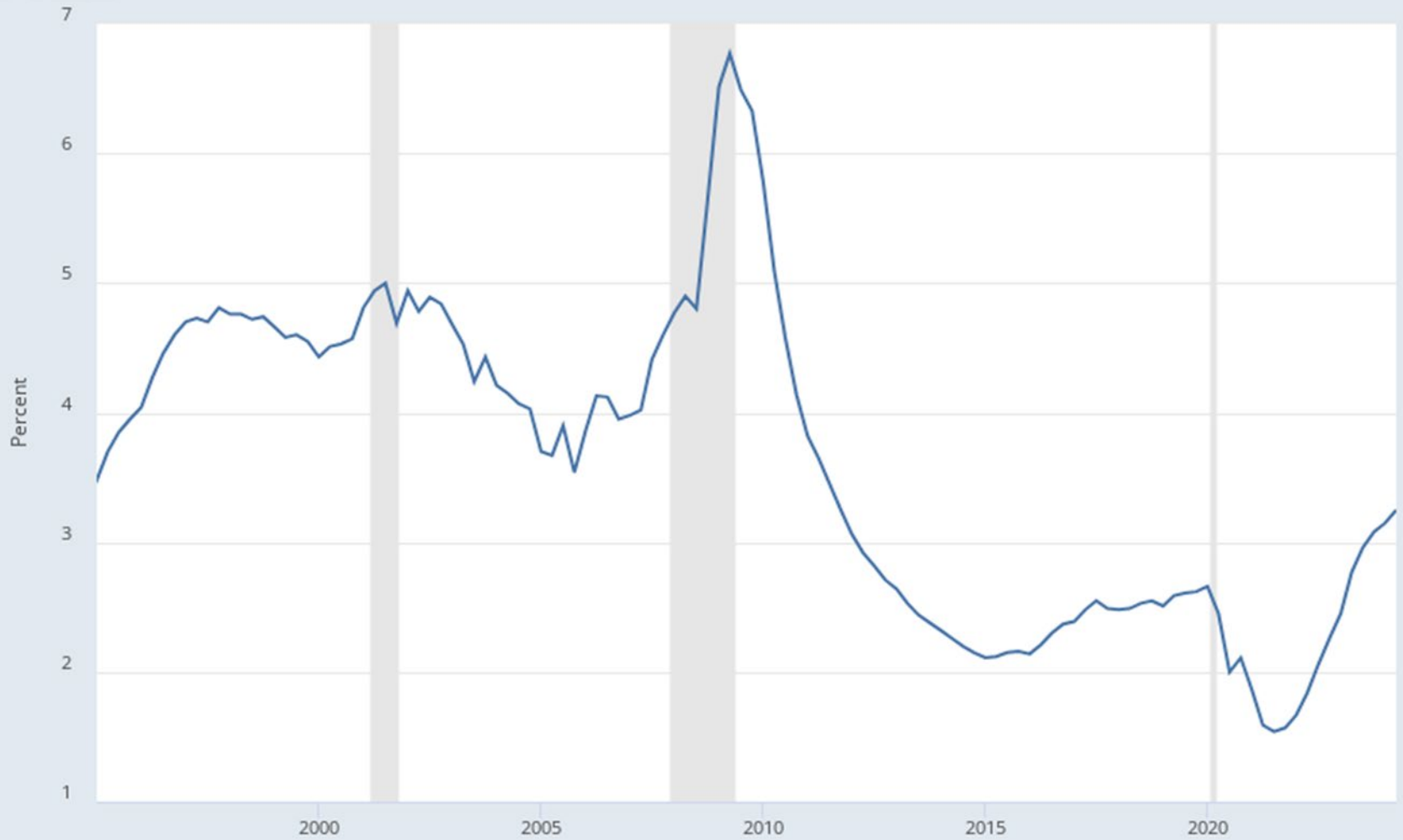


FRED  — Total Consumer Credit Owned and Securitized



Source: Board of Governors of the Federal Reserve System (US)

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Source: Board of Governors of the Federal Reserve System (US)

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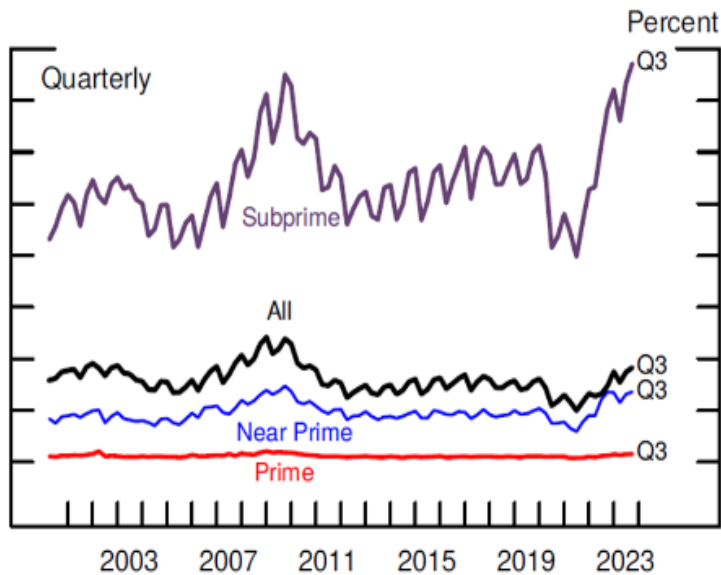


Source: Board of Governors of the Federal Reserve System (US)

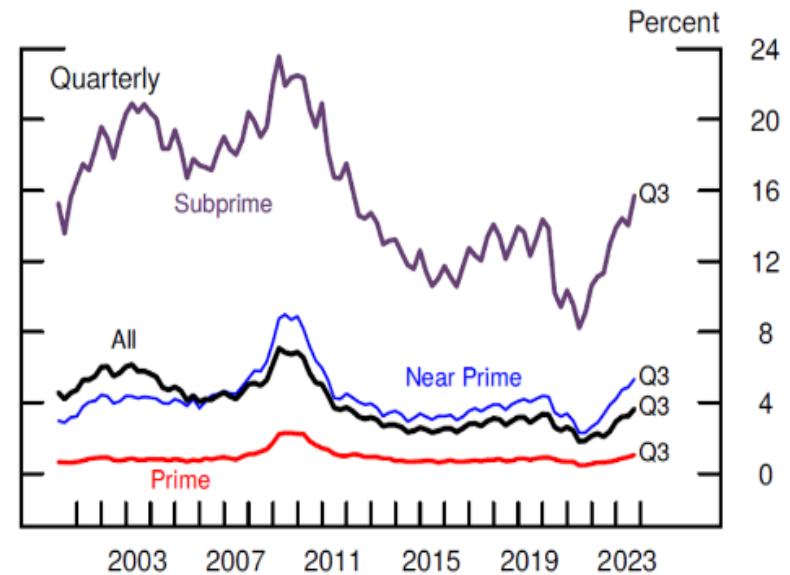
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Figure 2. Delinquency rates on auto and credit card loans have reversed their pandemic declines, with especially large increases for subprime borrowers

Auto Loan Delinquency Rates



Credit Card Delinquency Rates

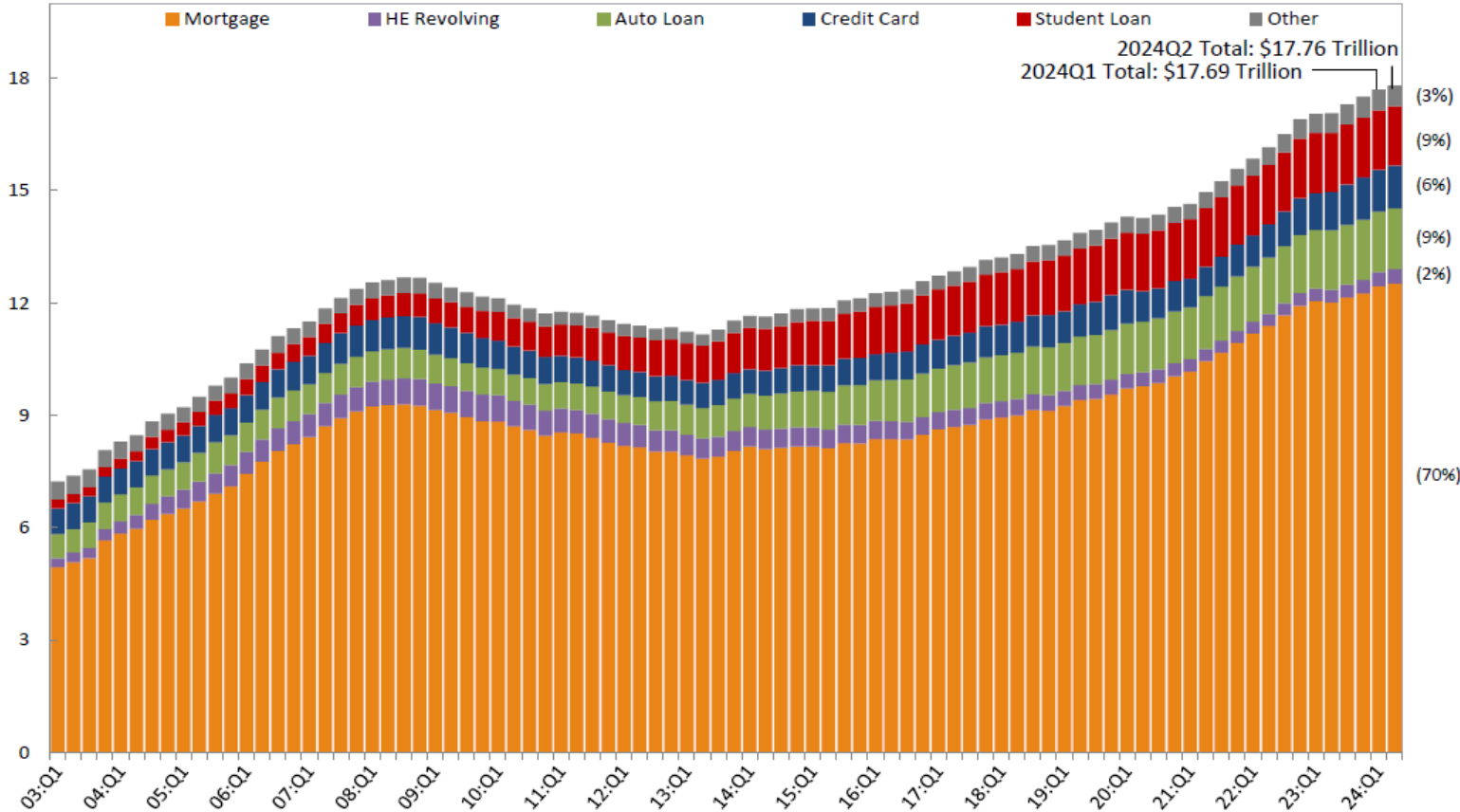


Note: Delinquency measures the fraction of balances that are at least 30 days past due, excluding severely derogatory loans. Prime refers to credit scores above 719, near prime between 620 and 719, and subprime below 620. Credit scores lagged four quarters.

Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

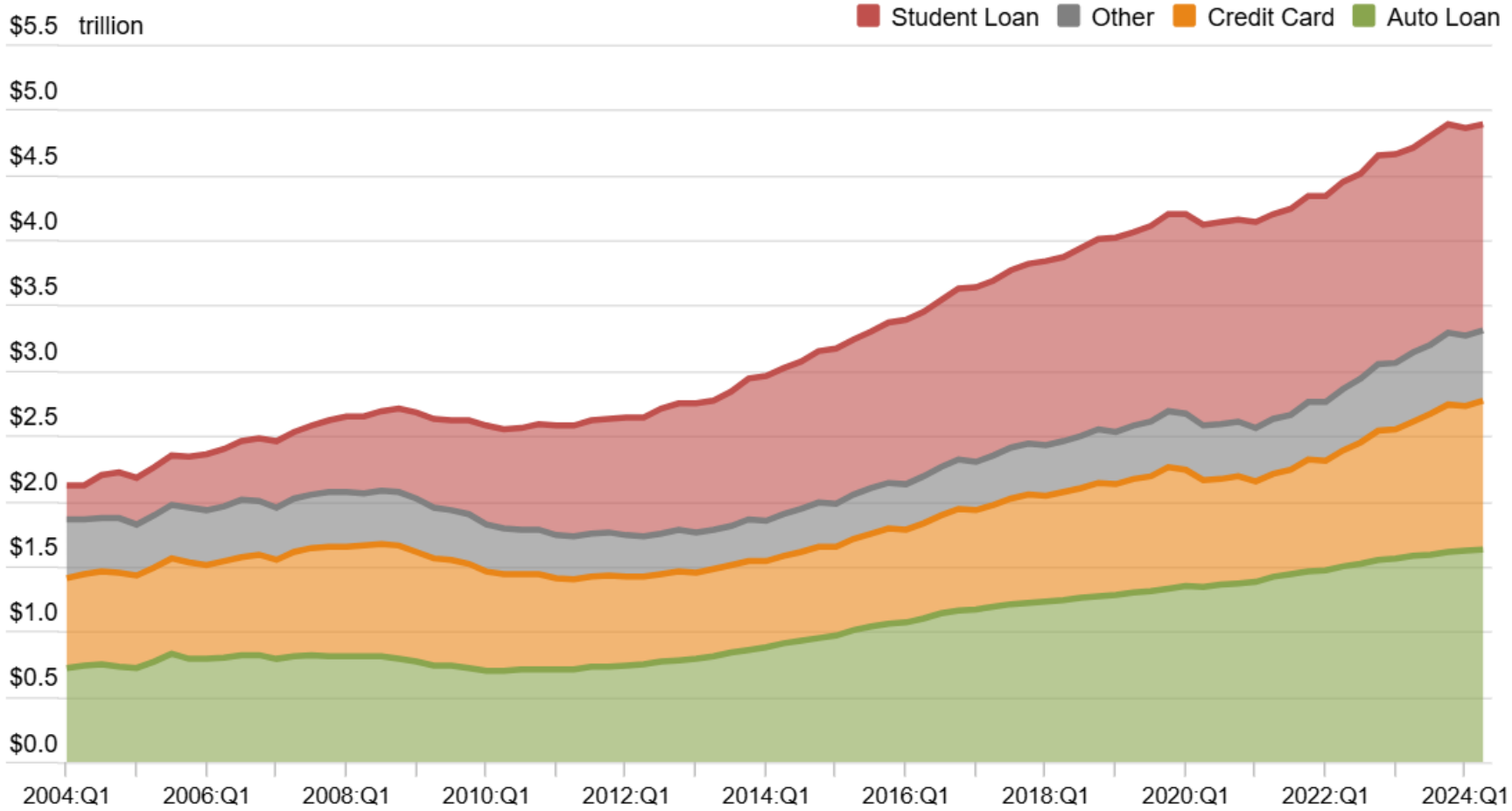
Total Debt Balance and its Composition

Trillions of Dollars



Source: New York Fed Consumer Credit Panel/Equifax

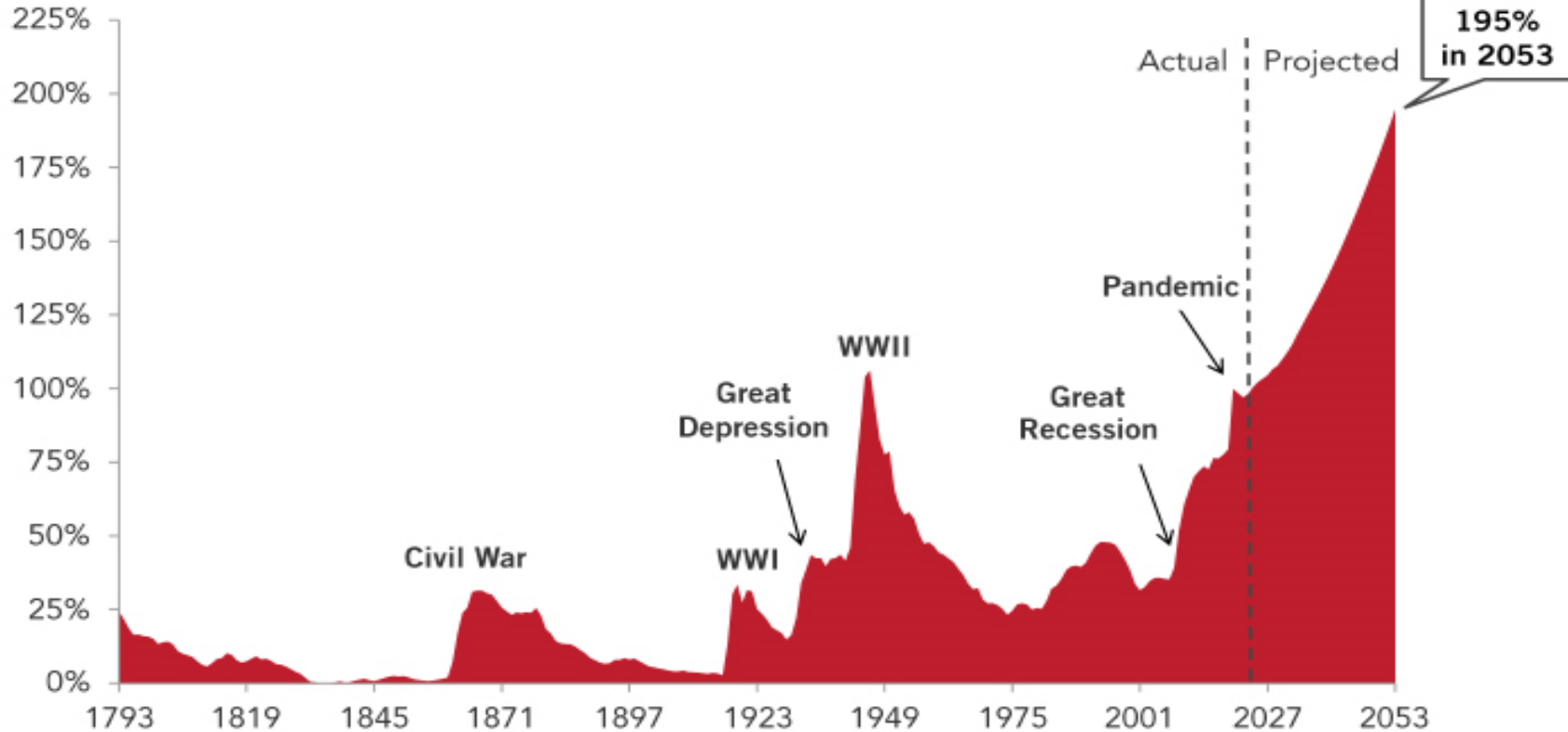
Non-Housing Debt Balance



Source: FRBNY Consumer Credit Panel/Equifax



Debt Held by the Public (% of GDP)



SOURCES: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, February 2023; and *The Budget and Economic Outlook: 2020 to 2030*, January 2020.

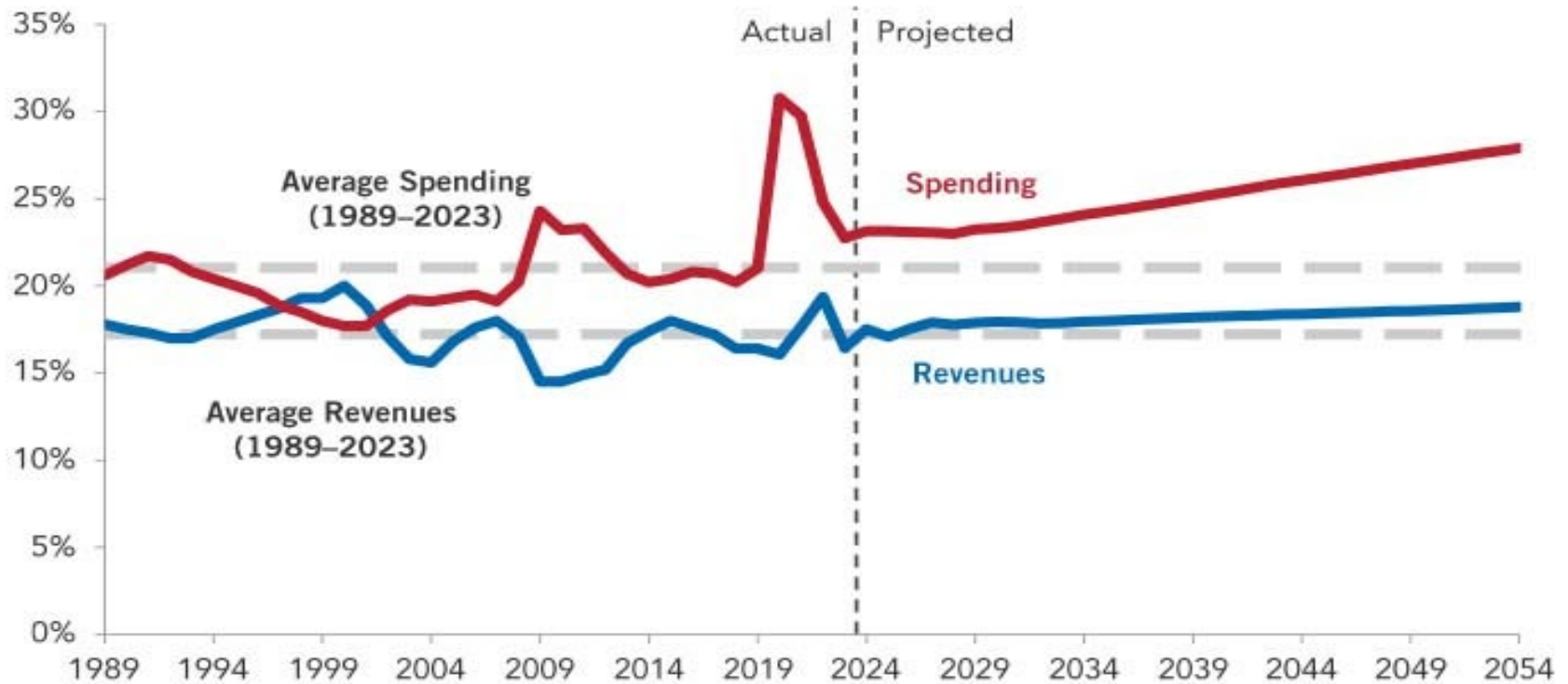
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The growing debt is caused by a structural mismatch between spending and revenues

Federal Spending and Revenues (% of GDP)



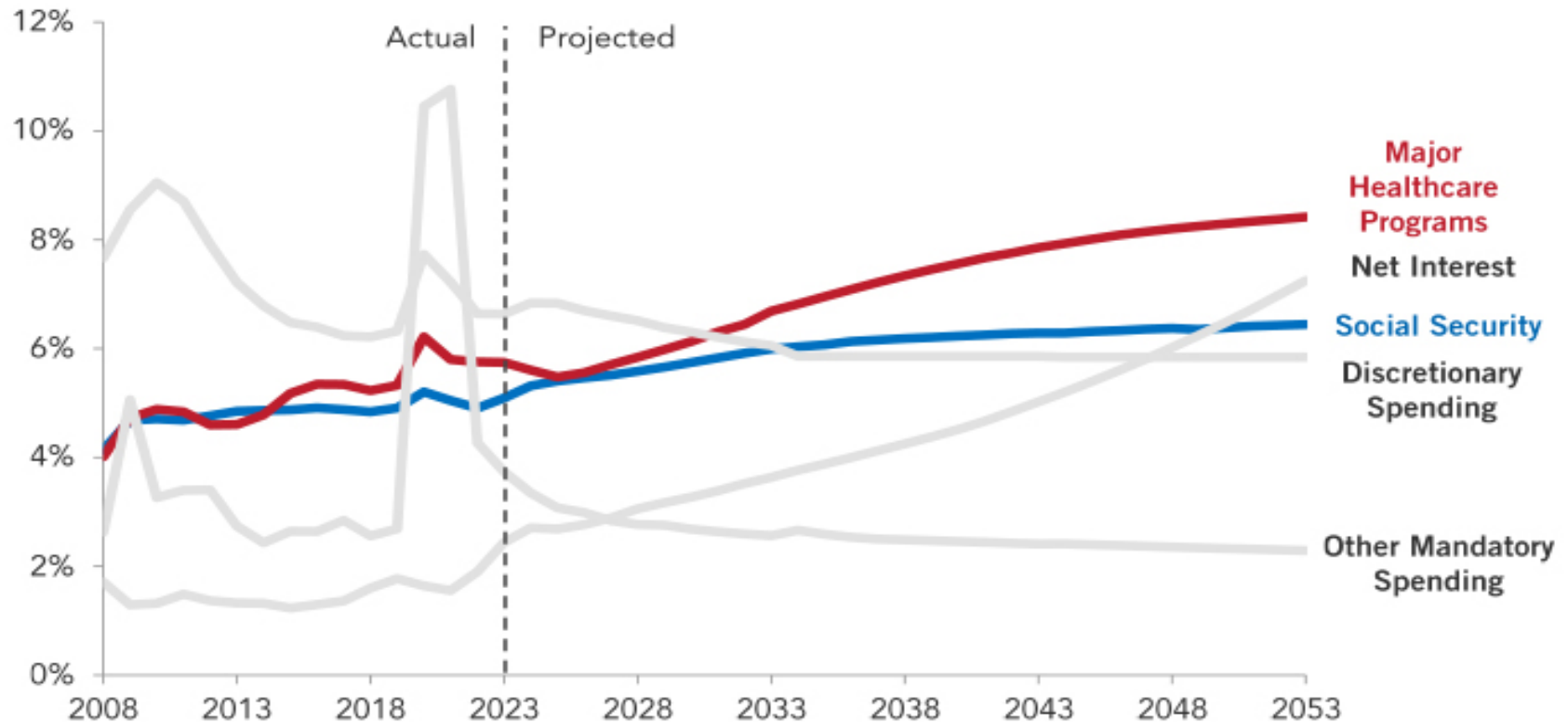
SOURCES: Congressional Budget Office, *The Budget and Economic Budget Outlook: 2024 to 2034*, February 2024; and Office of Management and Budget, *Historical Tables, Budget of the United States Government: Fiscal Year 2024*, March 2023.
NOTE: Projected data have been adjusted to remove the effects of timing shifts. Certain payments that would ordinarily have been made on the first day of this fiscal year (October 1), but are instead made at the end of September and thus shifted into the previous fiscal year are treated as belonging to the subsequent fiscal year.

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Spending for the major healthcare programs and Social Security will continue to climb

FEDERAL SPENDING (% OF GDP)



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, Feb 2023.

NOTE: The major healthcare programs include Medicare (net), Medicaid, the Children's Health Insurance Program, and spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

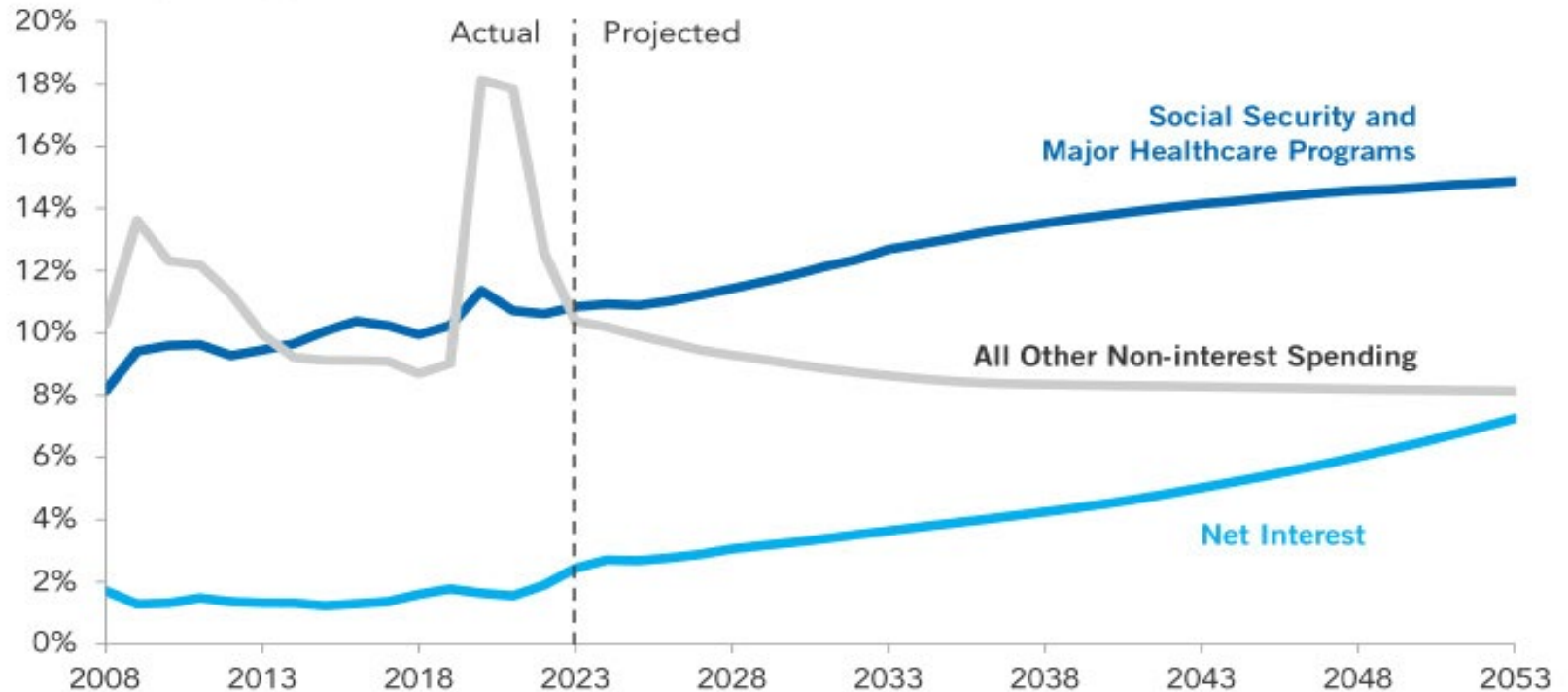
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Spending for mandatory programs and interest is projected to outpace all other non-interest spending

Federal Spending (% of GDP)



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, Feb 2023.

NOTE: The major healthcare programs include Medicare (net), Medicaid, the Children's Health Insurance Program, and spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending. Data for 2023 to 2053 are adjusted to remove the effects of shifts in the timing of payments that arise when the first day of the fiscal year falls on a weekend.

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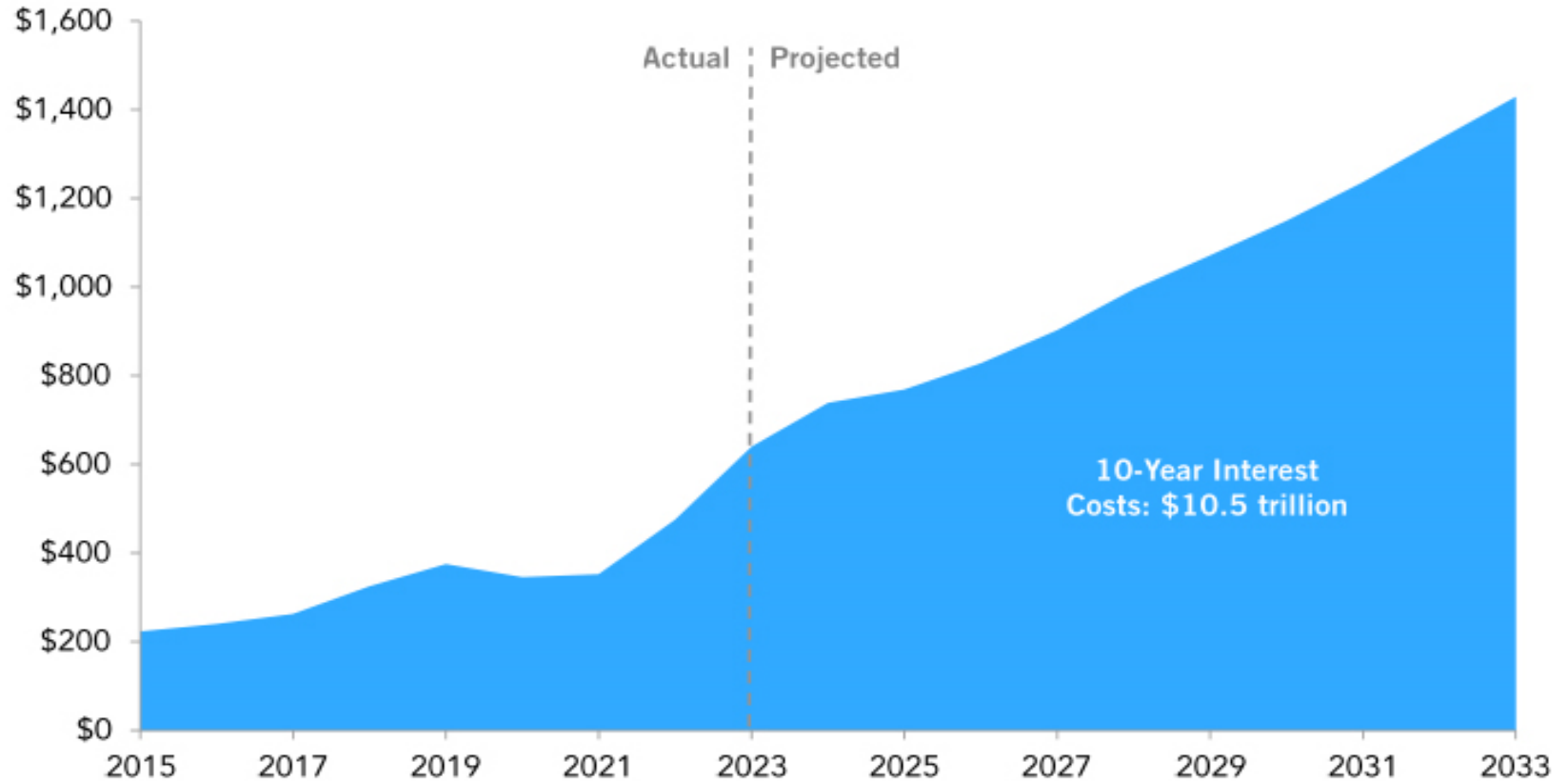
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Interest on the National Debt

- In 2023, the federal government spent \$658 billion on net interest costs.
- In 2022, the federal government spent \$476 billion on net interest costs on the national debt.
- That grew from \$352 billion in 2021 by 35% in 2022 and 38% in 2023. This equaled nearly 2% of gross domestic product (GDP).
- Interest costs are on track to become the largest category of spending in the federal budget

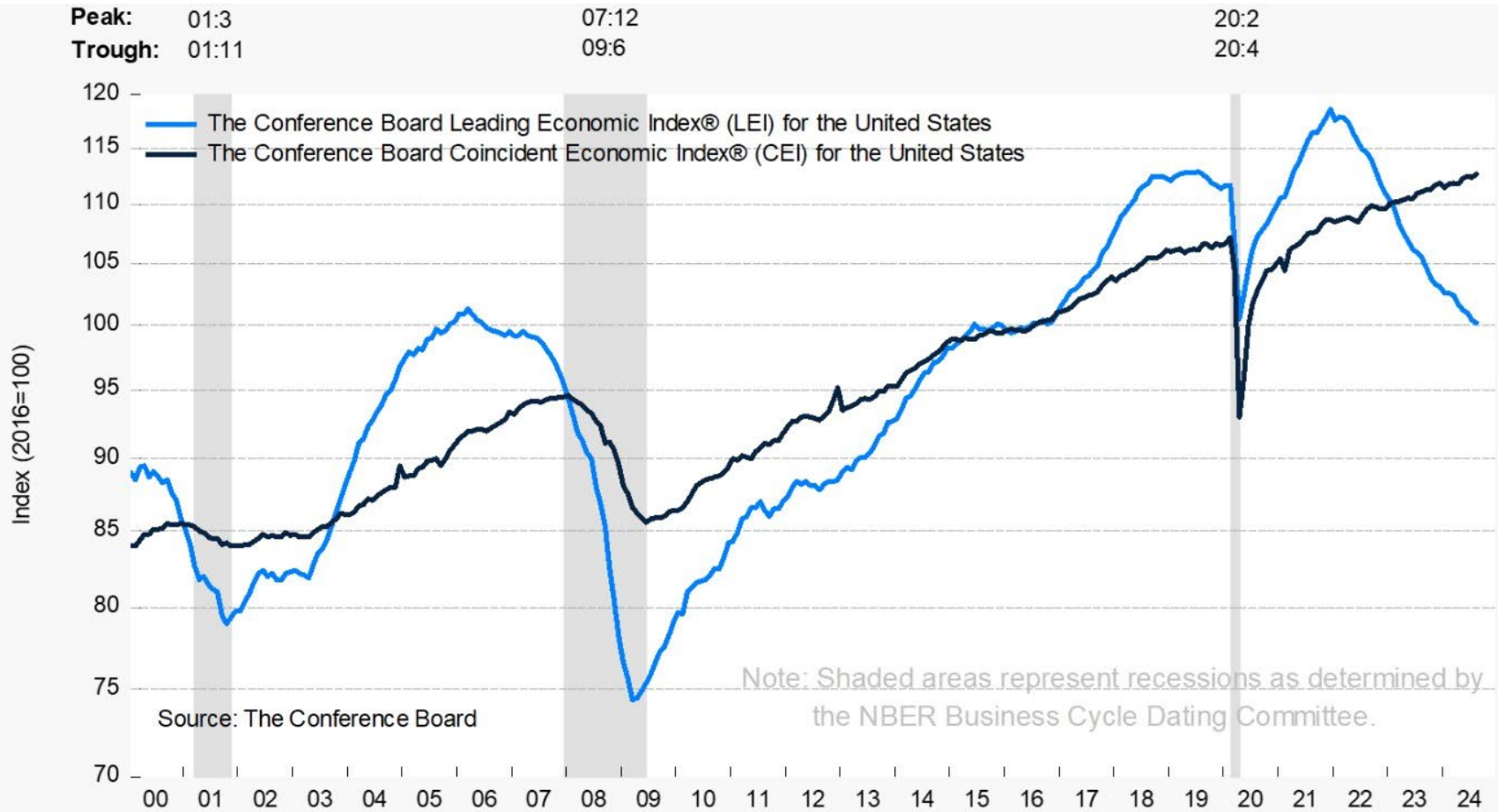
Net interest costs are projected to rise sharply

BILLIONS OF DOLLARS

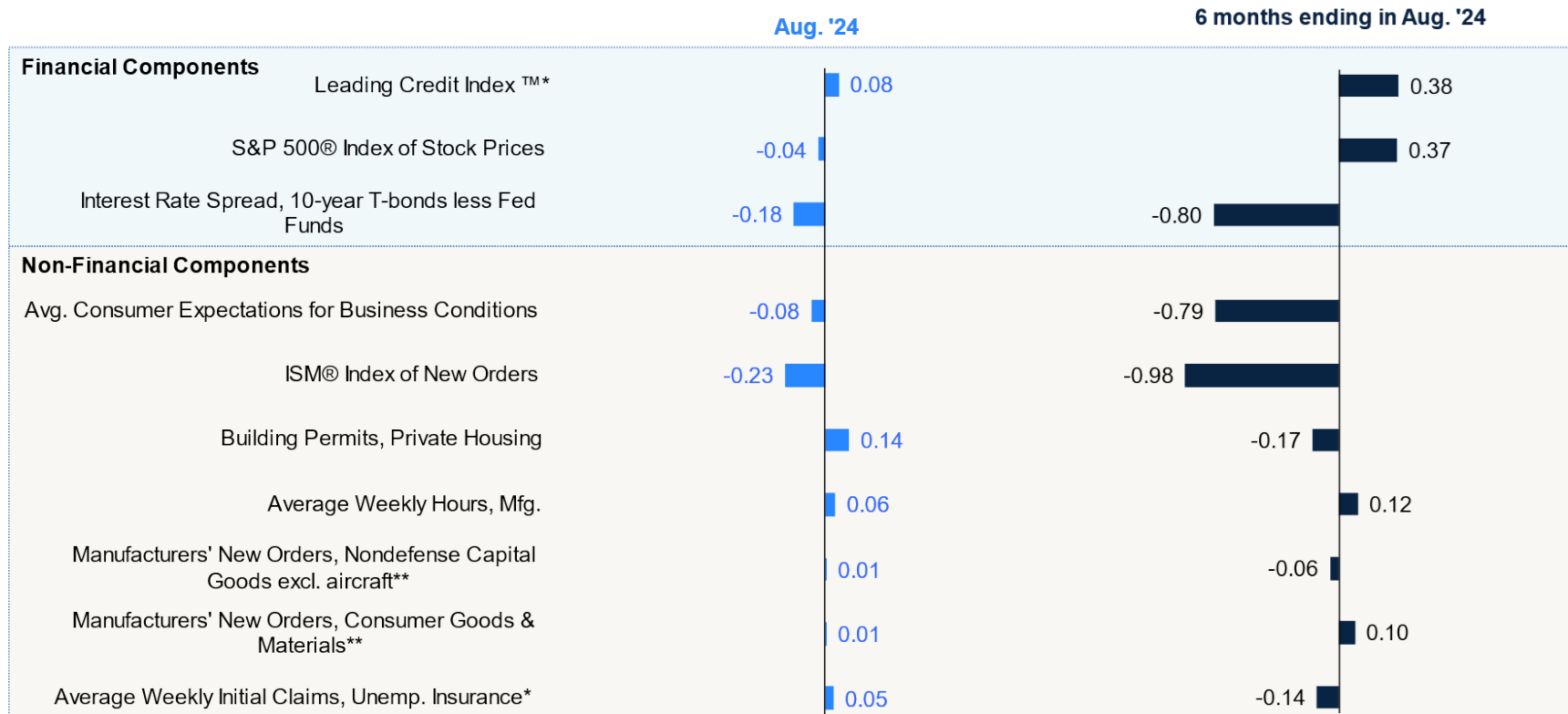


SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, February 2023.
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Leading Economic Indicators



The Conference Board Leading Economic Index® and Component Contributions (Percent)

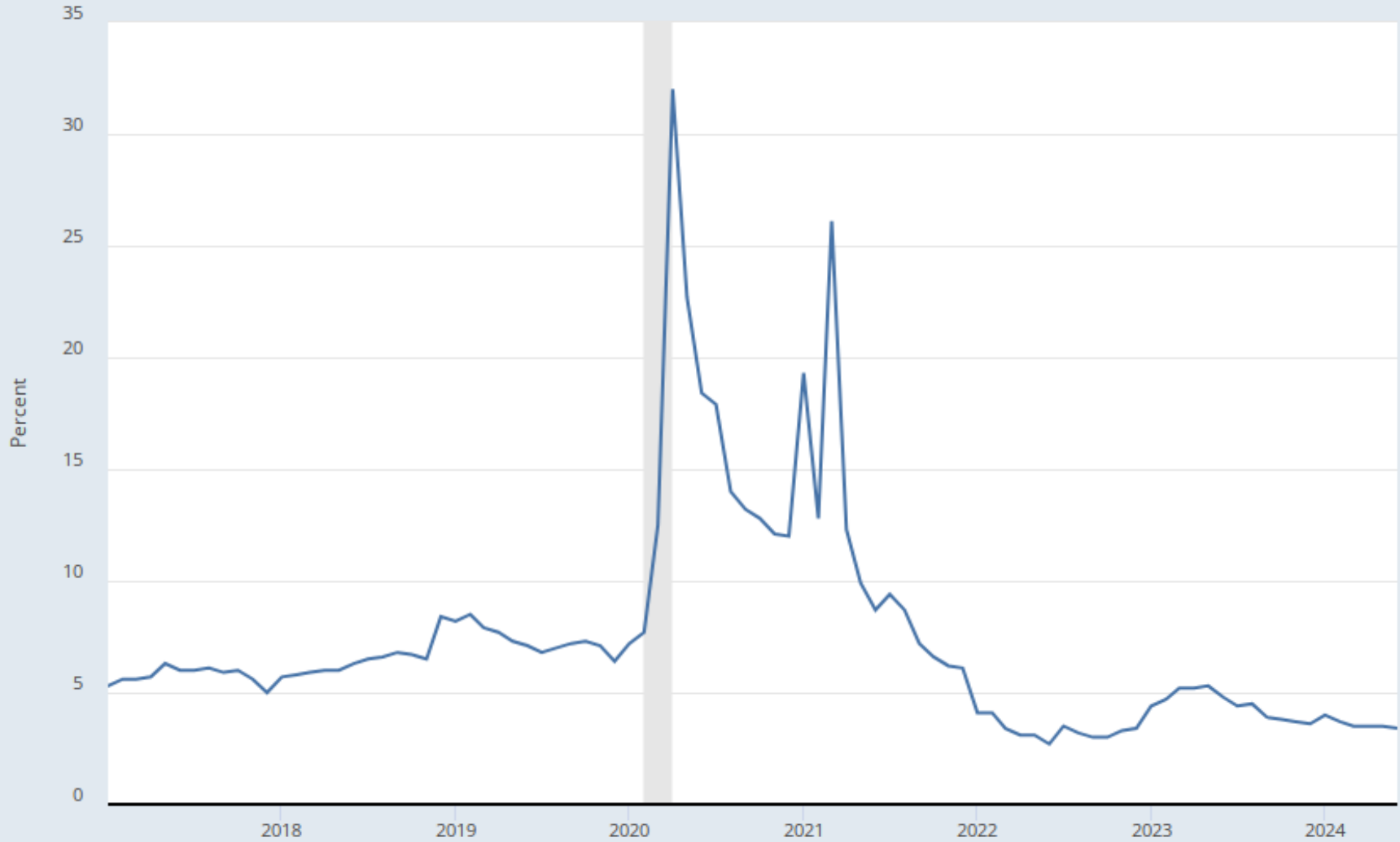


Source: The Conference Board

* Inverted series; a negative change in this component makes a positive contribution.

** Statistical Imputation

LEI change might not equal sum of its contributions due to application of trend adjustment factor



Source: U.S. Bureau of Economic Analysis

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Crystal Ball Time

- Inflation slowing down; what could affect this?
 - Money supply, supply chain, protectionism
- Recession, maybe (50-55%, according to NY Fed)
 - May happen; more Fed rate cuts?
 - Higher taxes + higher interest rates = less spendable income
- Savings down; lower than pre-COVID
 - Increased borrowing – credit card mostly
 - Delinquencies rise → underwriting -> credit crunch
- Average Annual Consumer Expenditures
 - Increased 2021 = 10+% (recovery from COVID)
 - Increased 9% in 2022
 - 5.9% in 2023, 2024 – about 4-5%, 2025 slower growth
- Looming Social Security, Medicare deficits, interest costs