

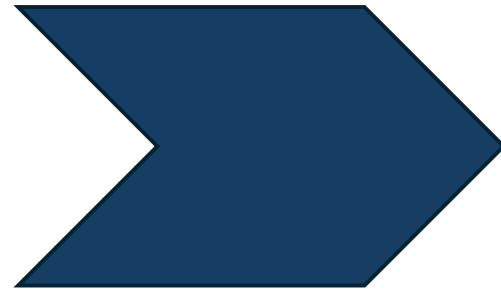
Larson Insurance Summit

Insurers' Response to a Changing Economy



Kyle Timmermann, VP of Corporate Development
Parkway Advisors

A refresher on the past 4-years



The economy has largely been a ramification of Covid-19

Historic inflation, which peaked in August of 2022

Aggressive monetary policy to combat rising prices

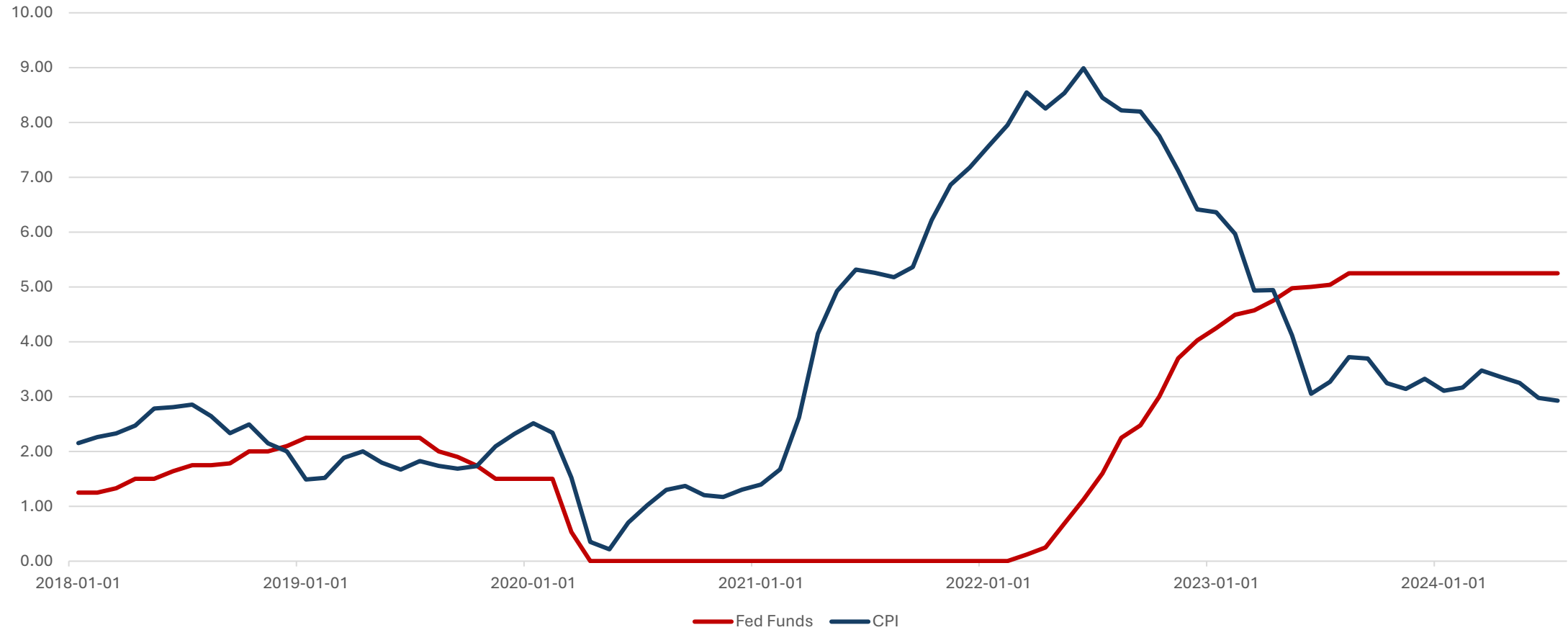
Banking Crisis

Real Estate Meltdown

Evidence we were heading for a “hard landing”

Robust Consumer Spending

Monetary Policy (Inflation Slayer)

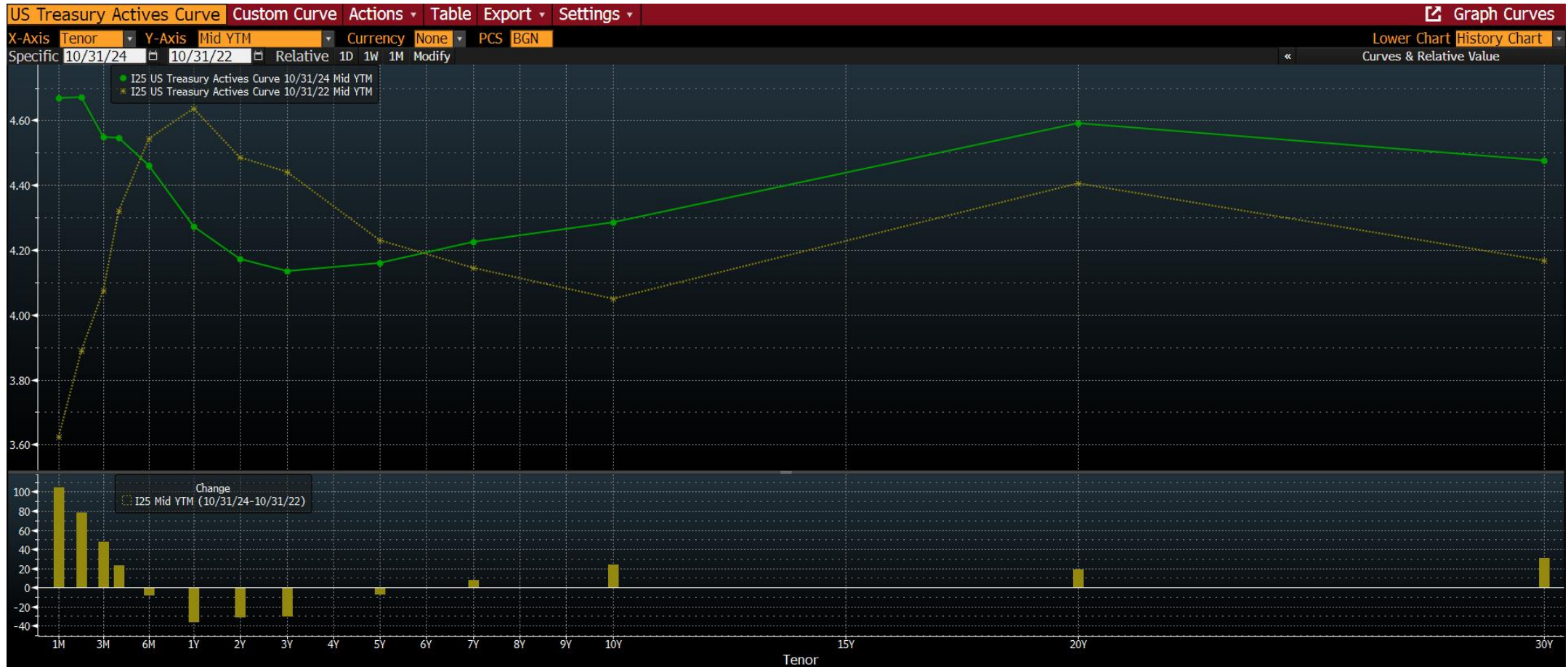




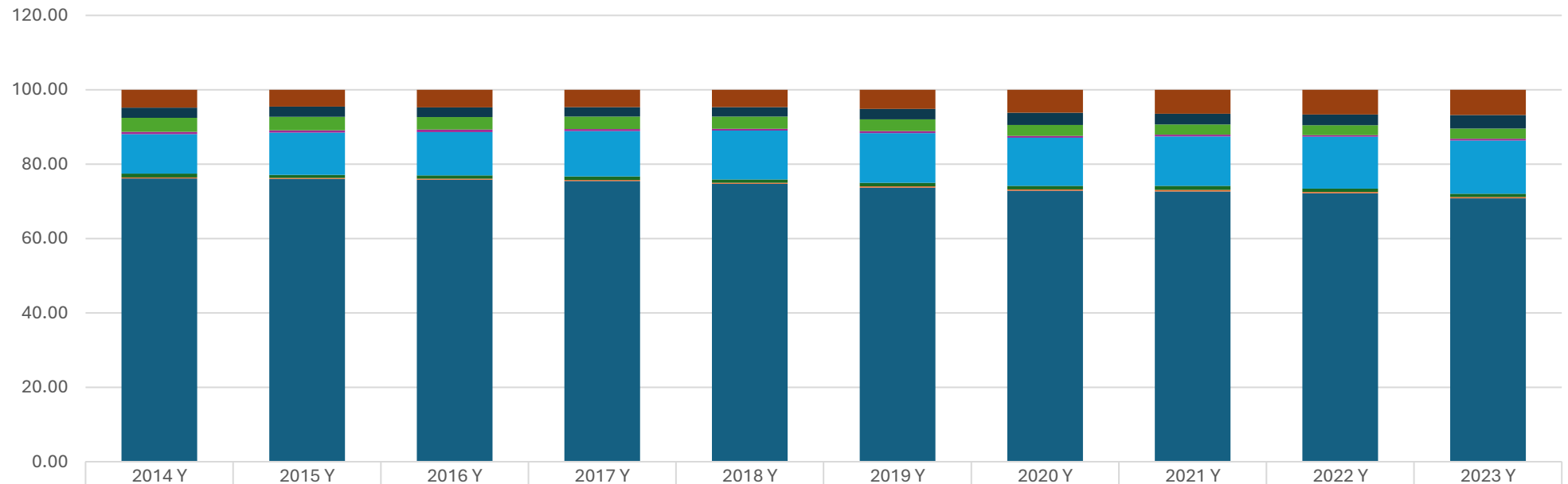
“The time has
come for policy to
adjust”

Inflation is
cooling....
now what?

US Treasuries Yield Curve

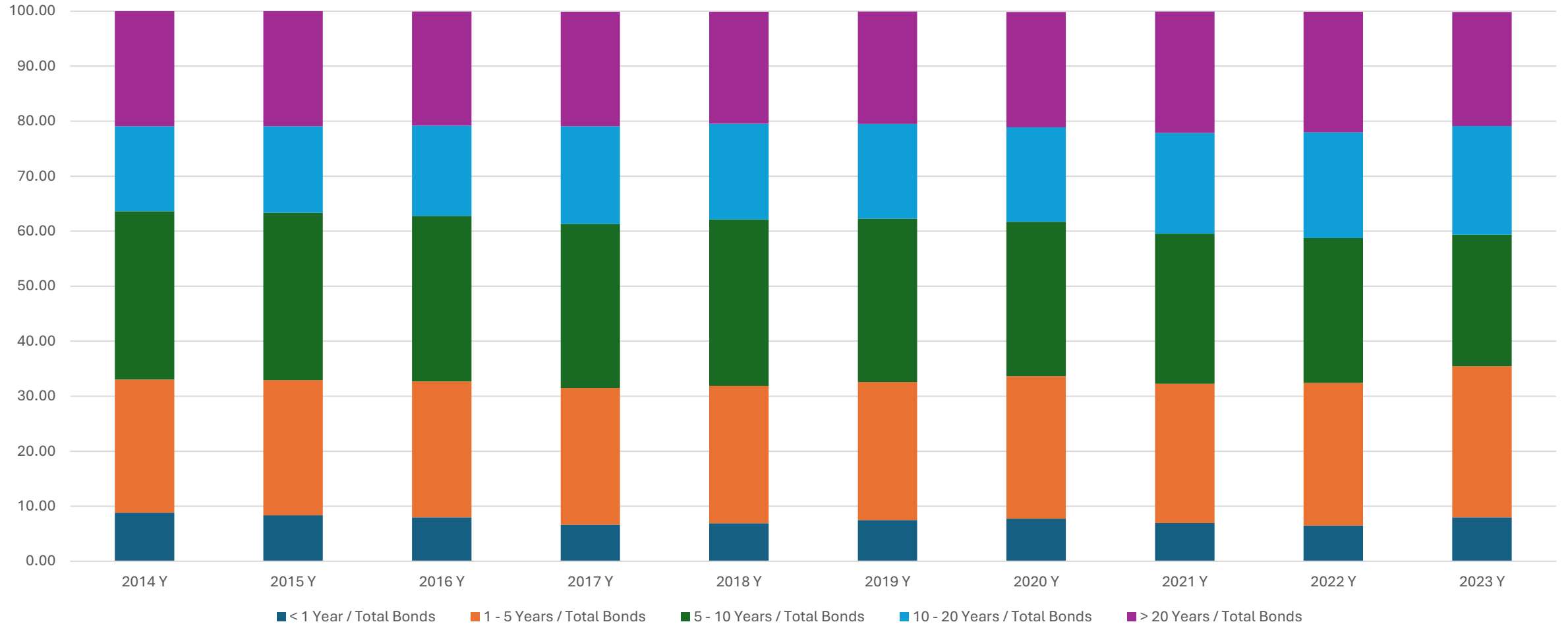


Life Insurers Asset Allocation

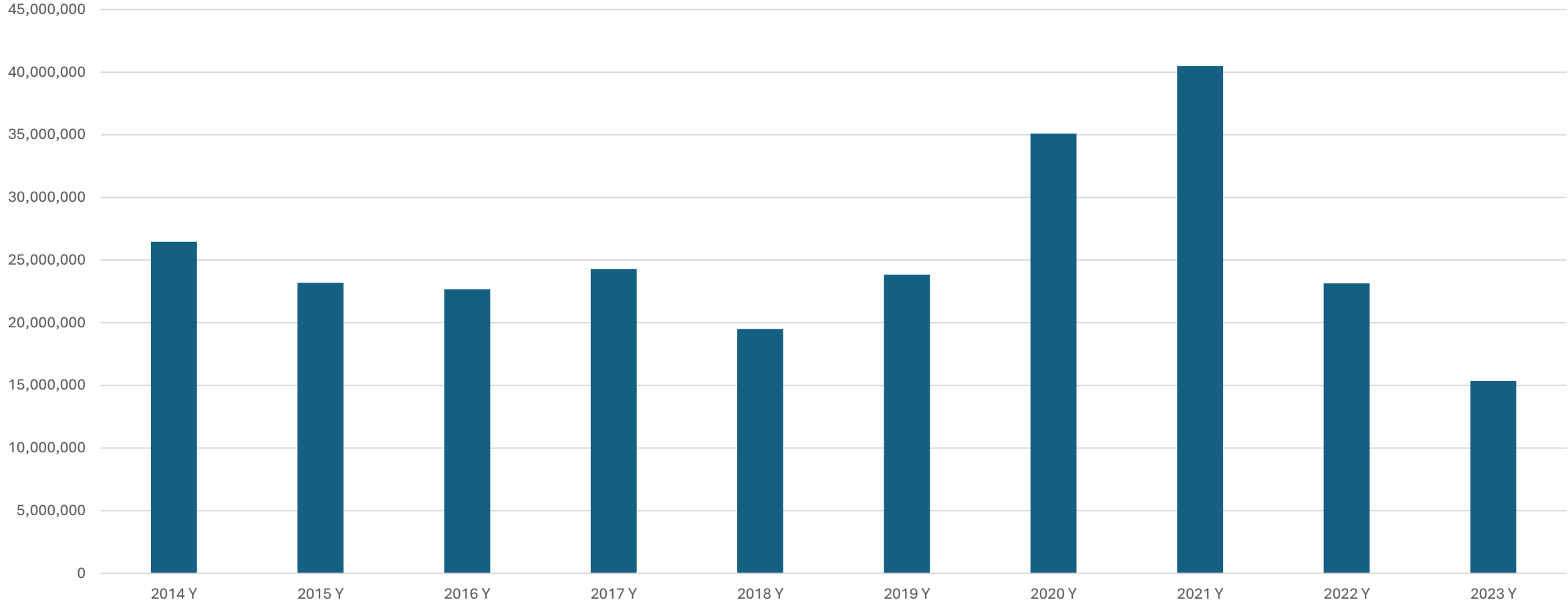


	2014 Y	2015 Y	2016 Y	2017 Y	2018 Y	2019 Y	2020 Y	2021 Y	2022 Y	2023 Y
Unaff. Other Investments / Unaff. Investments	4.76	4.47	4.68	4.62	4.61	5.13	6.15	6.40	6.63	6.73
Unaff. Cash & Short Term / Unaff. Investments	2.76	2.79	2.59	2.56	2.56	2.79	3.28	2.91	2.83	3.64
Contract Loans / Unaff. Investments	3.74	3.57	3.41	3.31	3.27	3.12	2.90	2.74	2.68	2.76
Real Estate / Unaff. Investments	0.63	0.67	0.66	0.61	0.52	0.54	0.50	0.48	0.46	0.45
Unaff. Mortgage Loans / Unaff. Investments	10.66	11.32	11.69	12.18	13.13	13.38	12.97	13.24	13.94	14.35
Unaff. Common Stocks / Unaff. Investments	0.99	0.85	0.88	0.95	0.85	0.98	0.95	1.10	0.92	0.87
Unaff. Preferred Stocks / Unaff. Investments	0.25	0.26	0.24	0.26	0.29	0.30	0.31	0.41	0.33	0.33
Unaff. Bonds / Unaff. Investments	76.22	76.07	75.86	75.51	74.77	73.74	72.93	72.72	72.21	70.86

Life Maturity Distribution

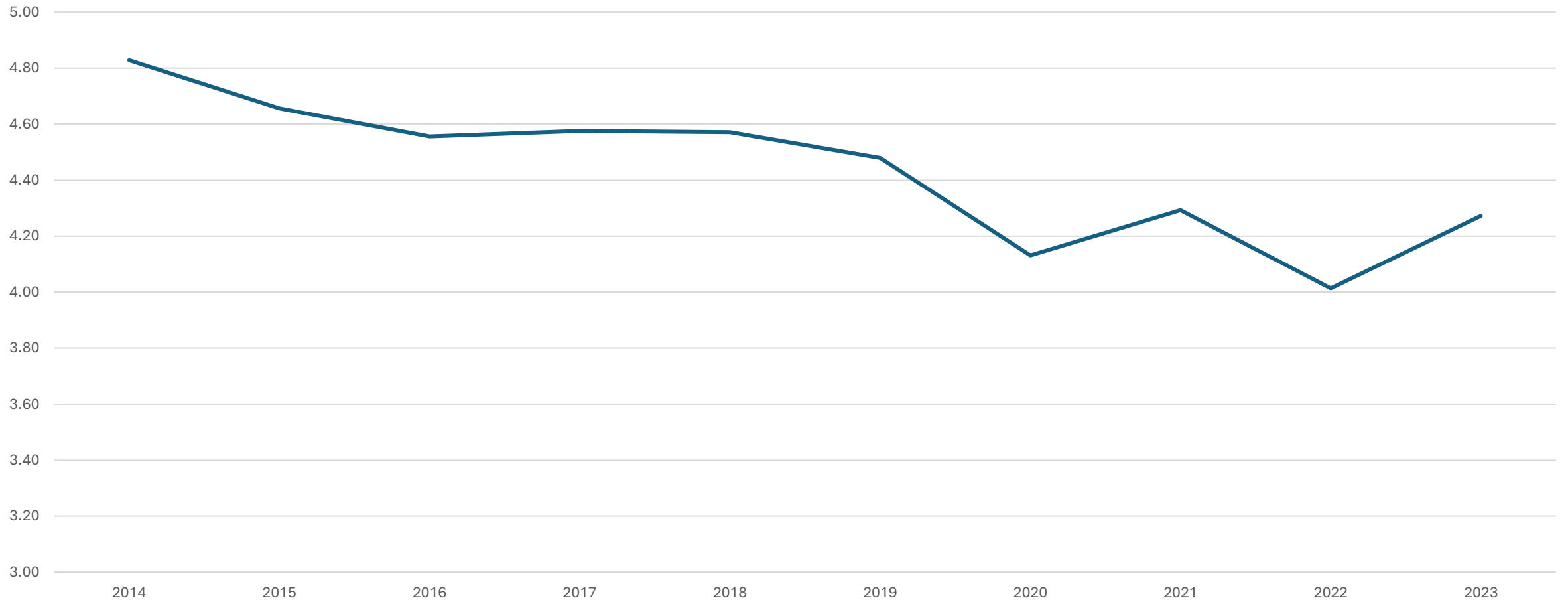


Interest Maintenance Reserve (YoY)

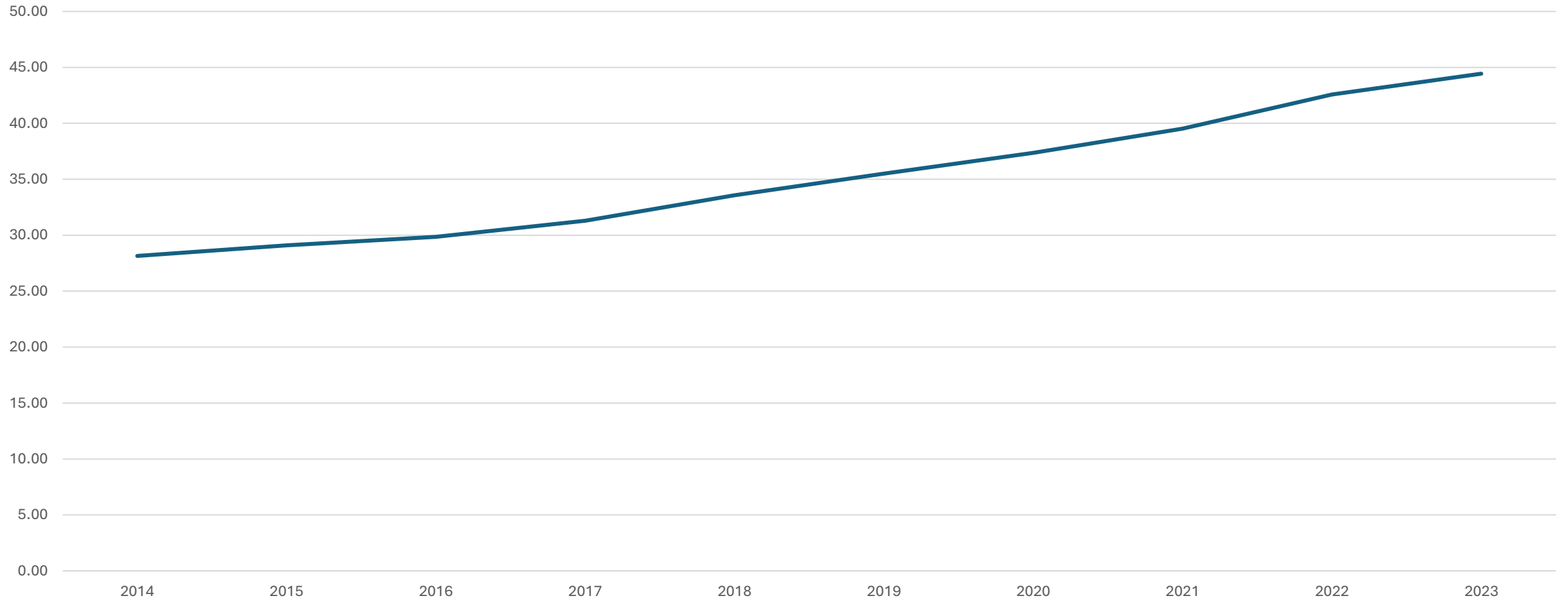


Source: S&P Capital IQ

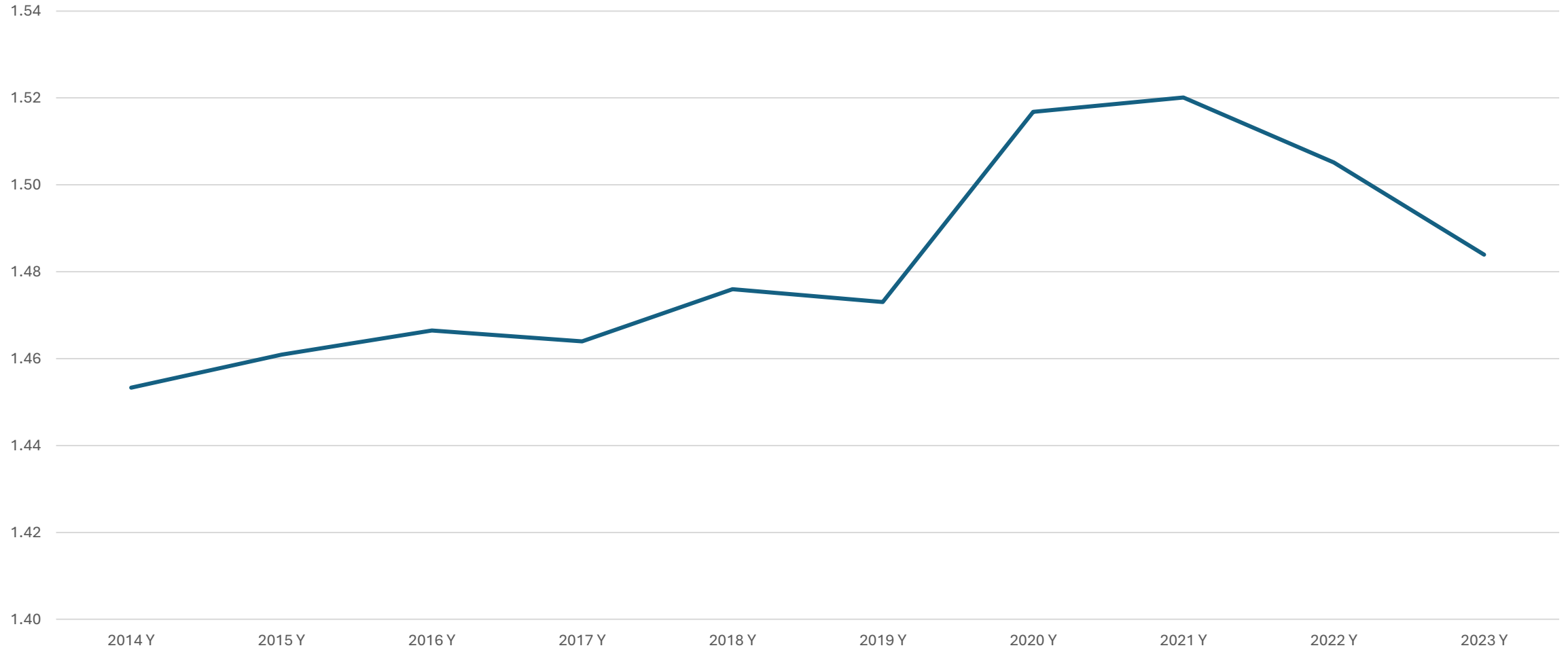
Life Insurers Net Yield



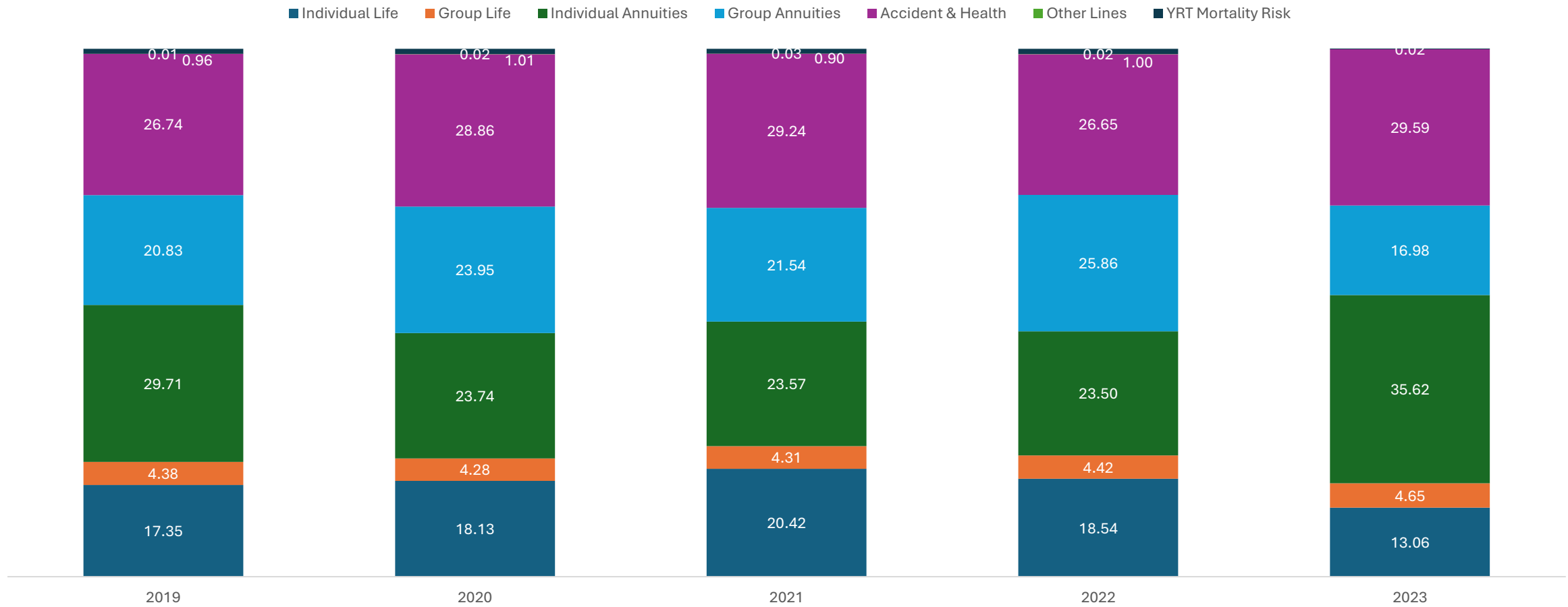
Life Insurers Take Liquidity Risk (Private Placements)



Life Insurers Average Credit Quality

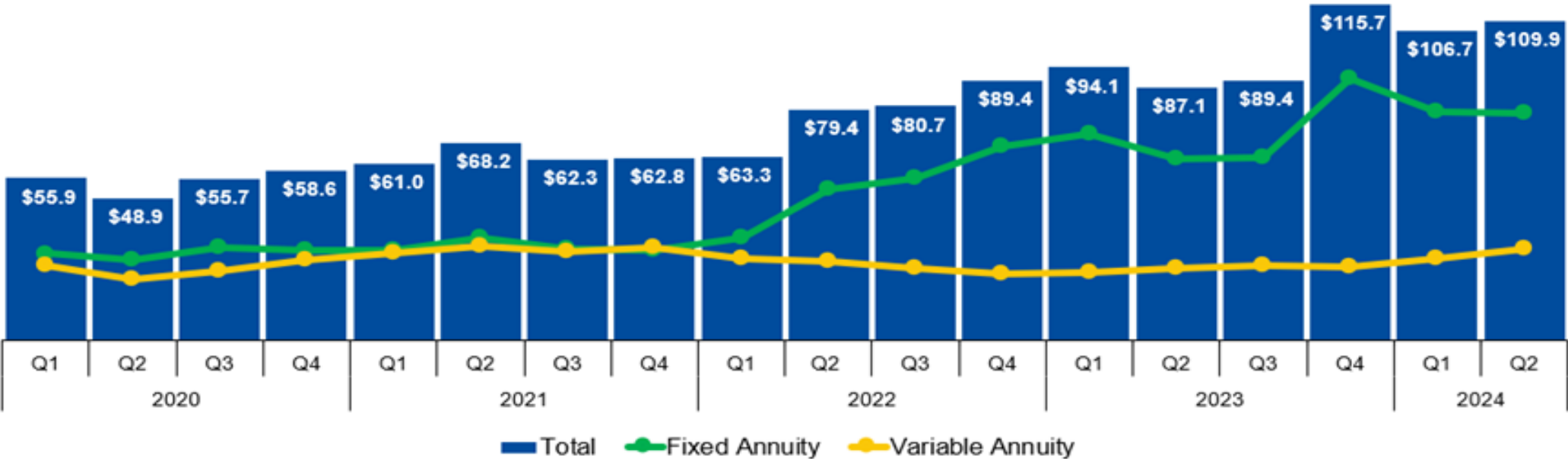


Life Insurers Premium Income



Annuity Sales

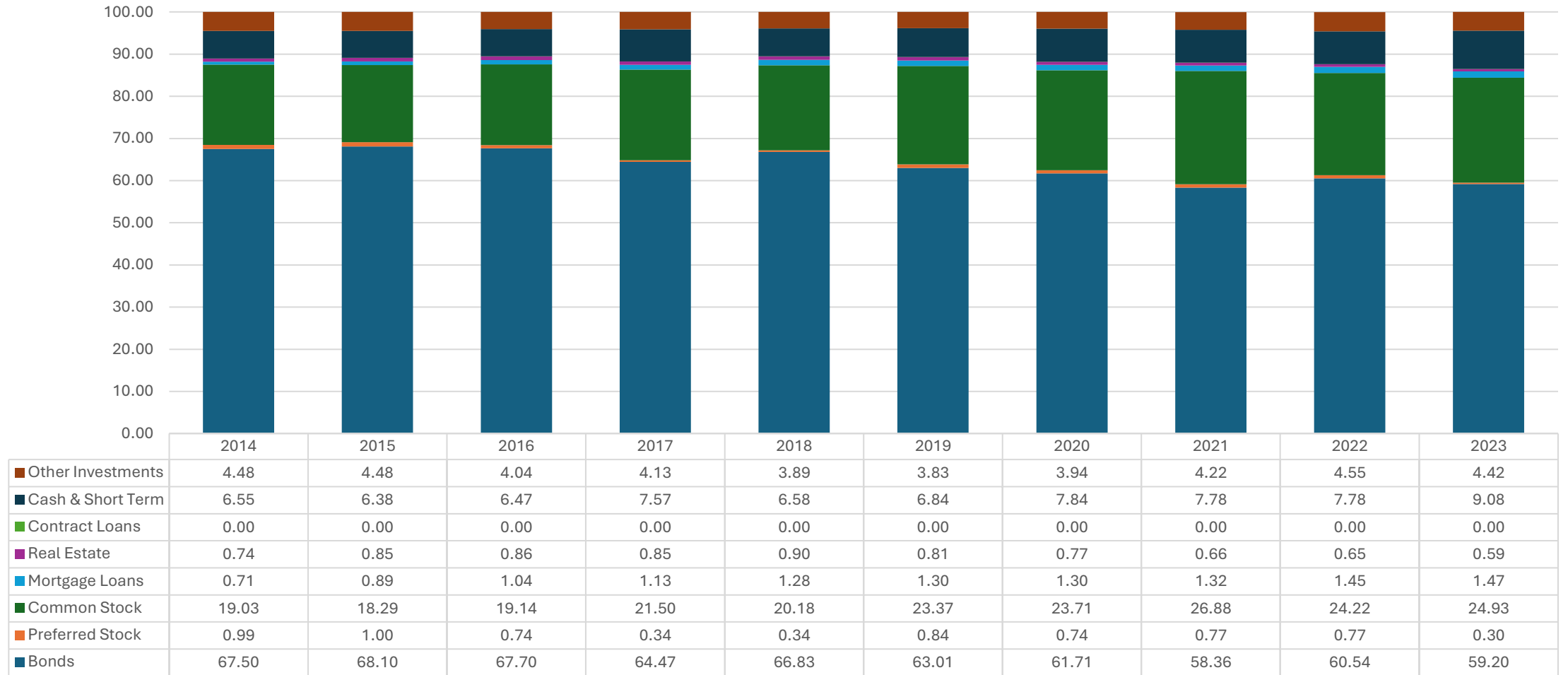
After two consecutive years of record-high sales, total annuity sales jumped 20% in the first half of 2024 to set another record.



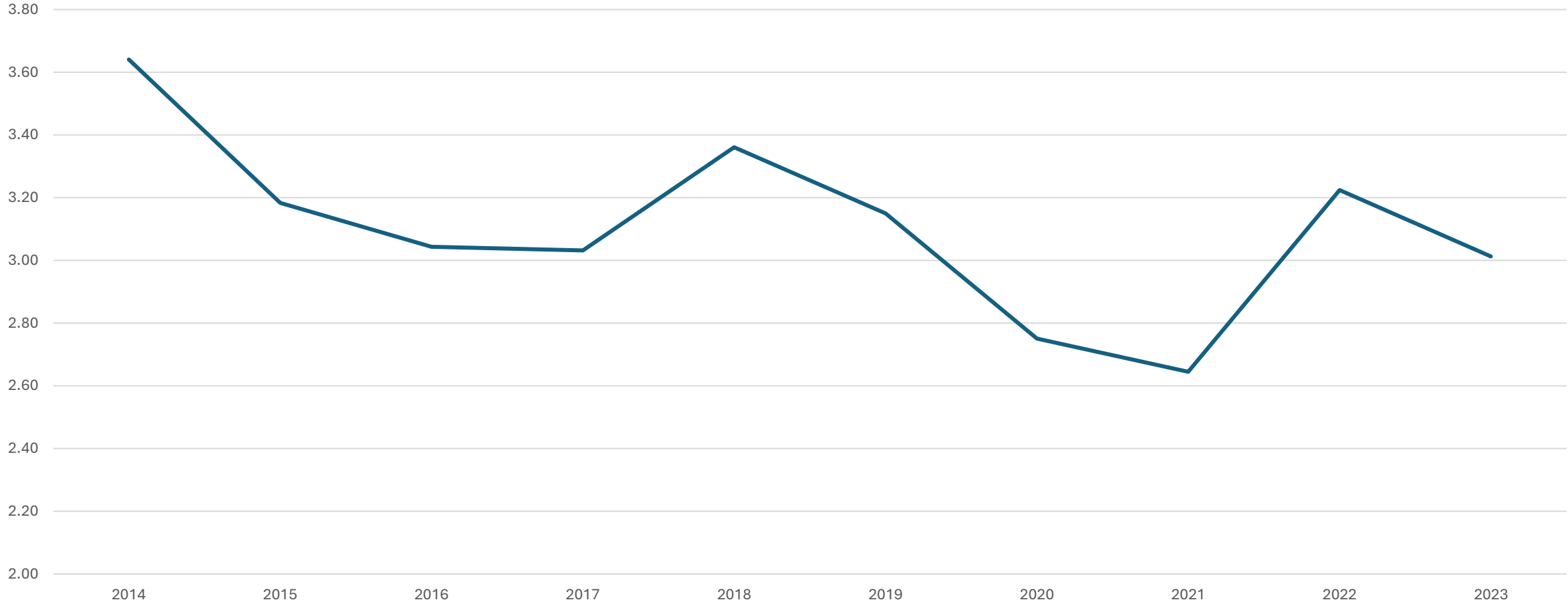
Source: LIMRA U.S. Individual Annuities Sales Survey



P&C Insurers Asset Allocation

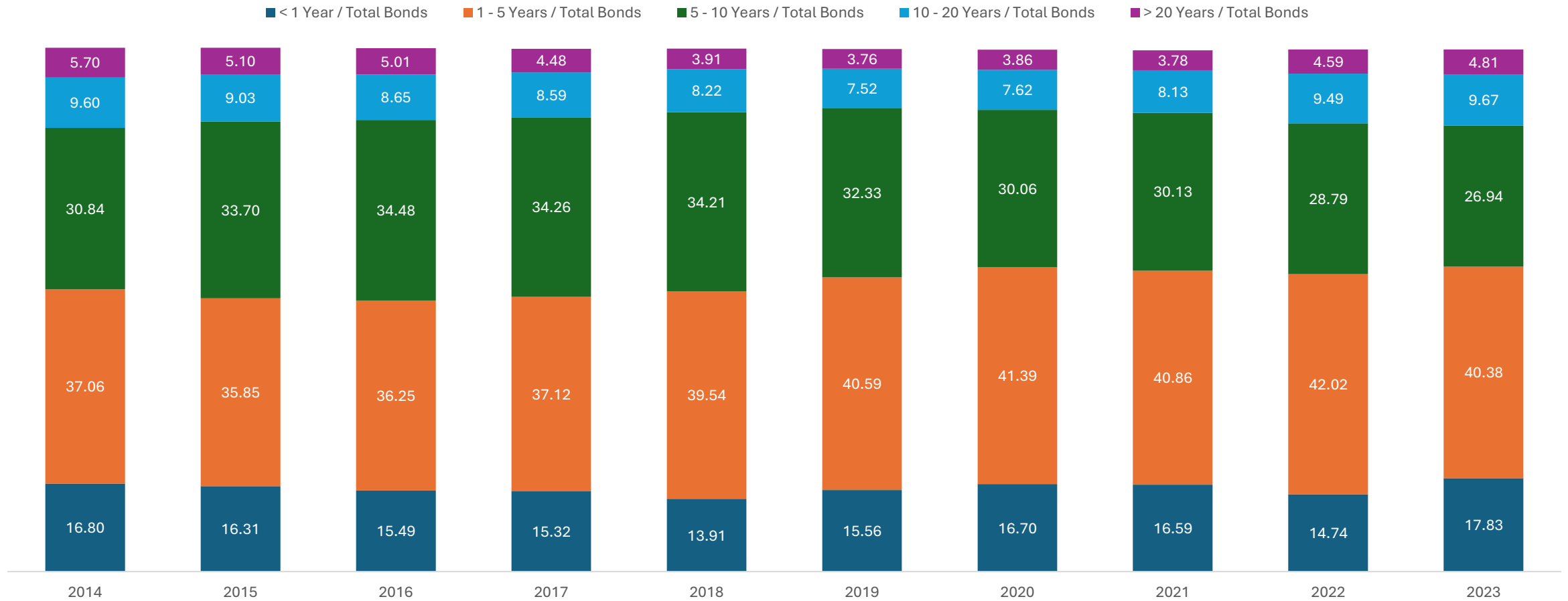


P&C Net Yield

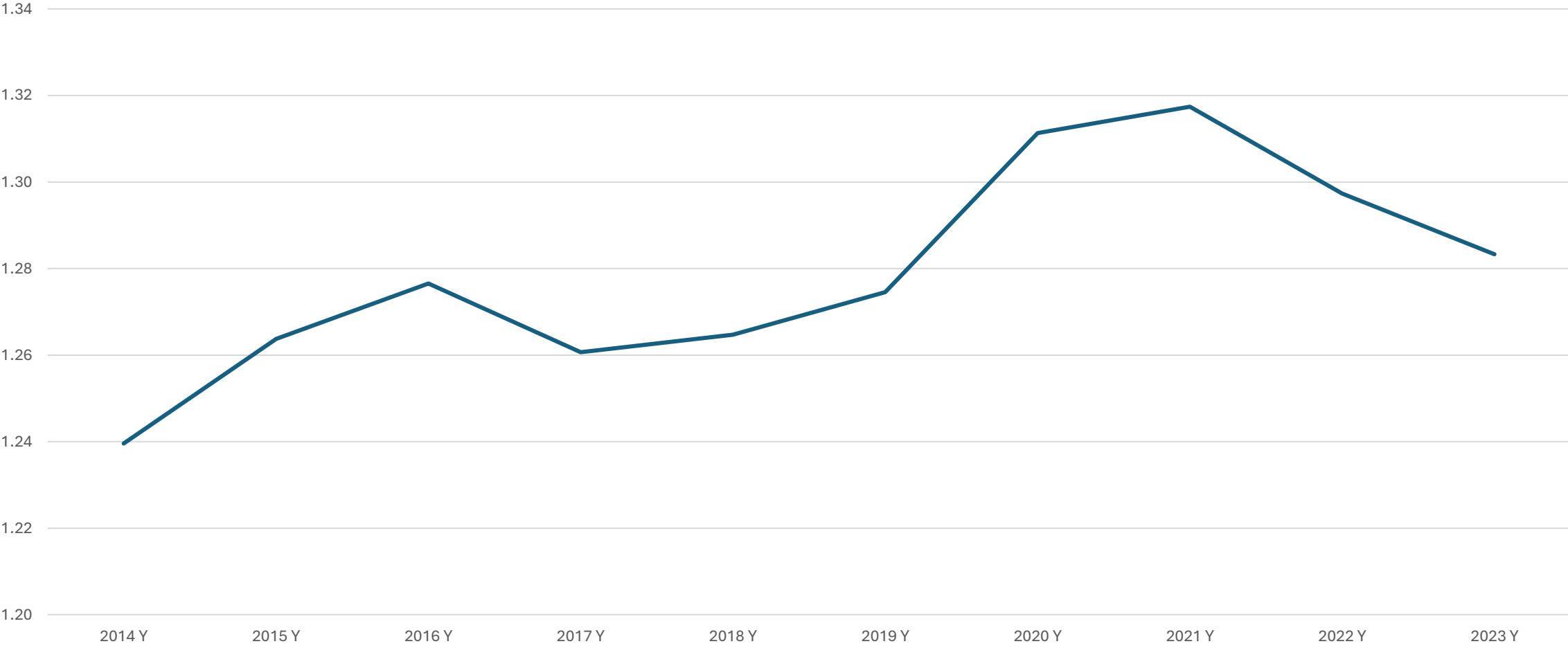


Source: S&P Capital IQ

P&C Maturity Distribution

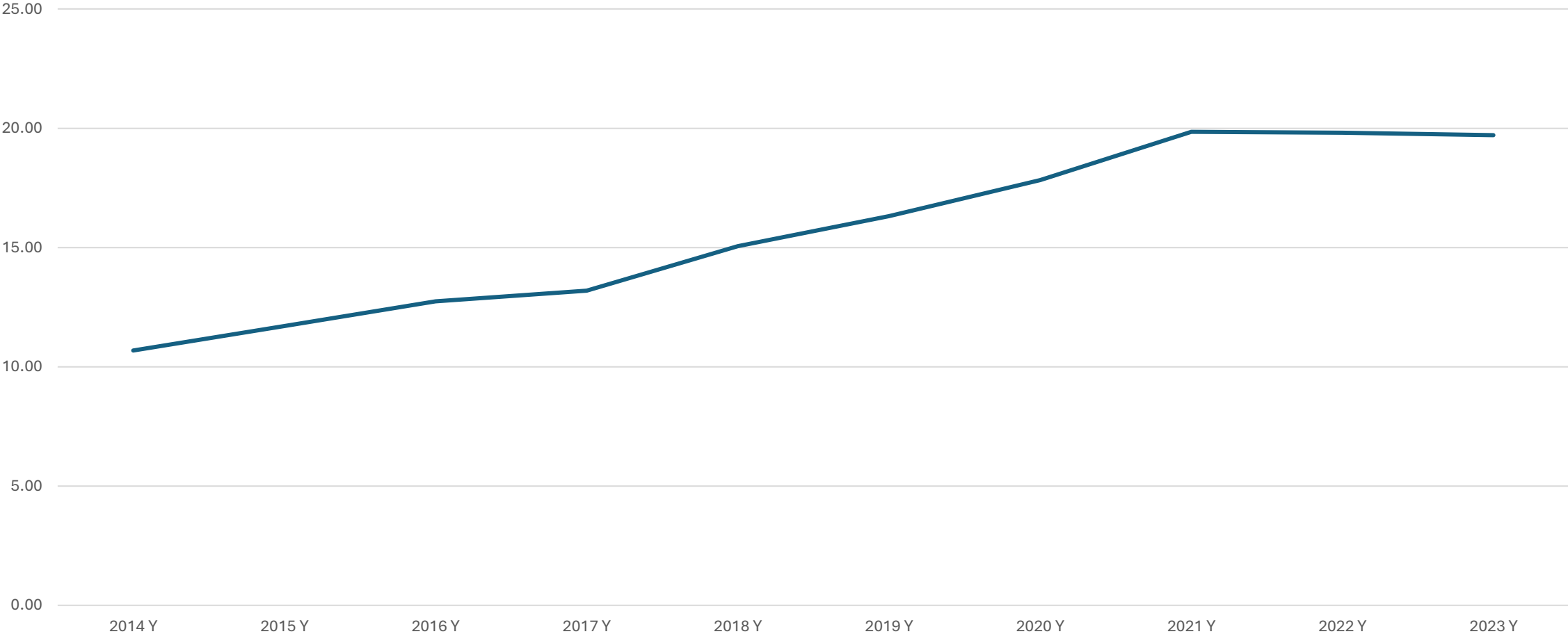


P&C Insurers Average Credit Quality



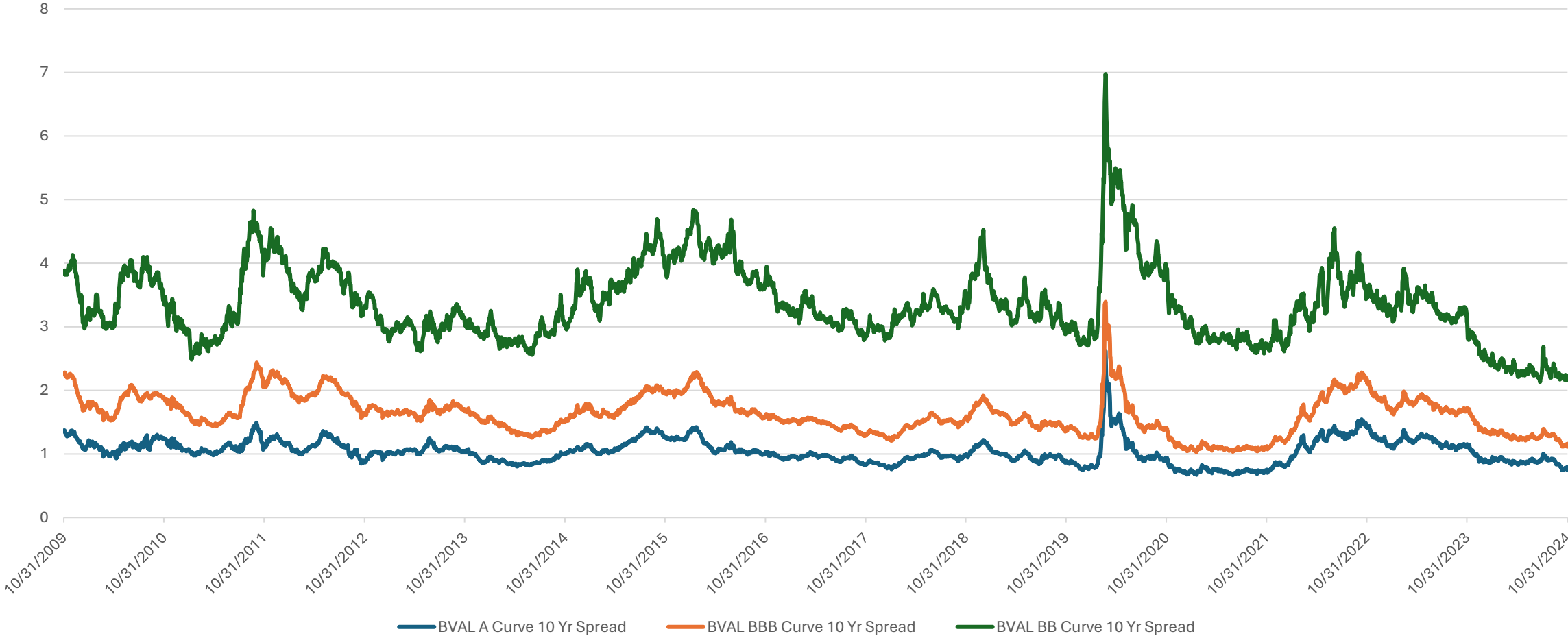
Source: S&P Capital IQ

P&C Insurers Take Liquidity Risk (Private Placements)



Source: S&P Capital IQ

Corporate Spreads



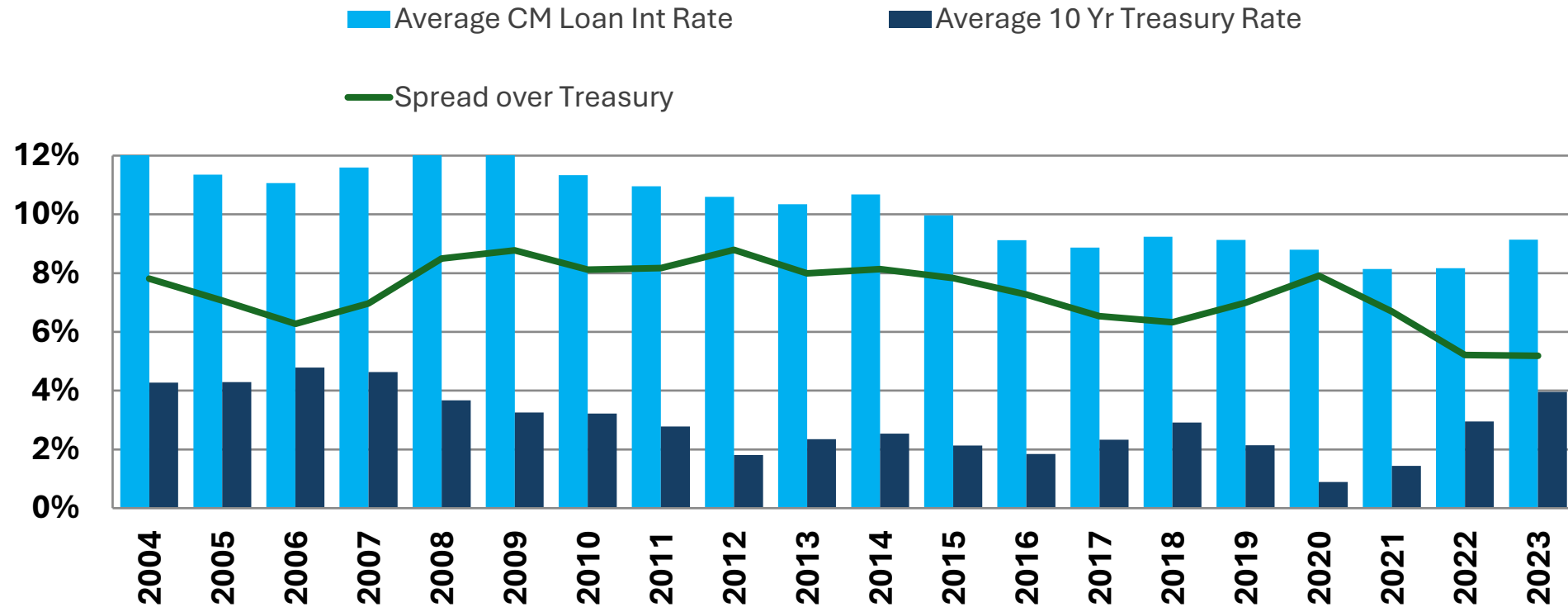
Source: Bloomberg

Commercial Mortgage Lending (Opportunity?)

- A mortgage loan is much like a bond
 - Typically, 1st lien collateral
 - Residential or commercial
 - A relatively common investment for larger insurers
- Favorable Statutory treatment
 - Unlike a traditional bond which goes on Schedule D Part-1, a mortgage loan goes on Schedule B
 - Comparable withholding for AVR
 - Excess yield
- Potential Risks
 - Liquidity
 - Default

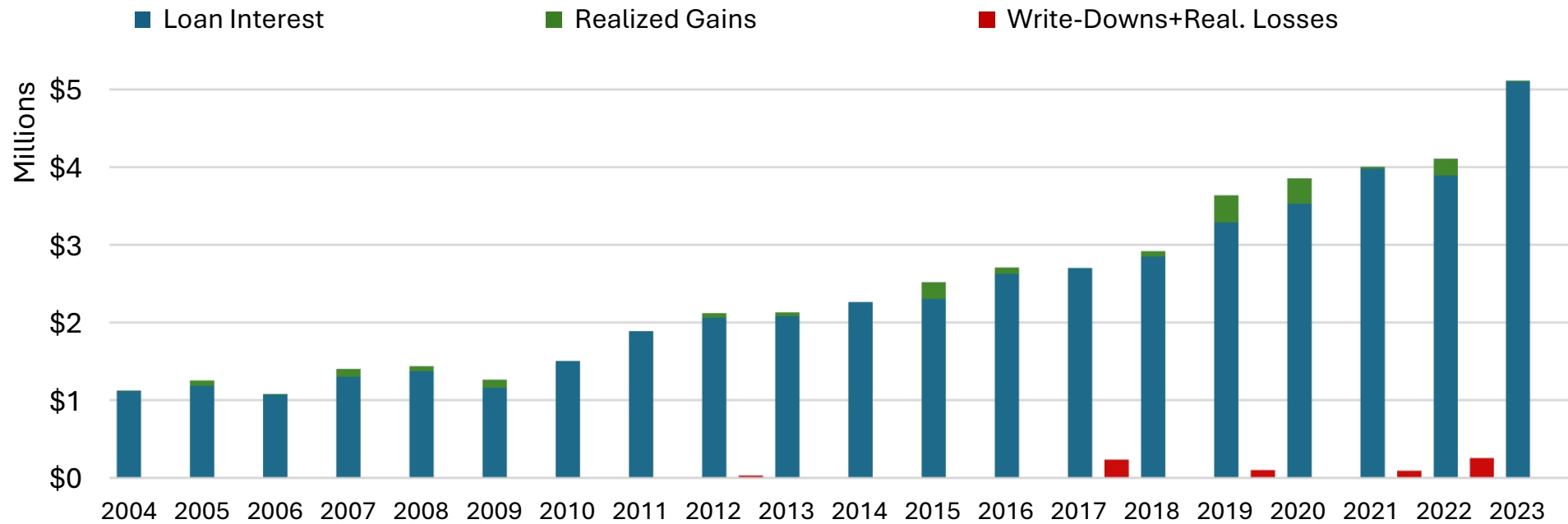
Commercial Mortgage Lending (Excess Spread)

Spread: CM Loan vs. 10-Yr Treasury Int. Rates

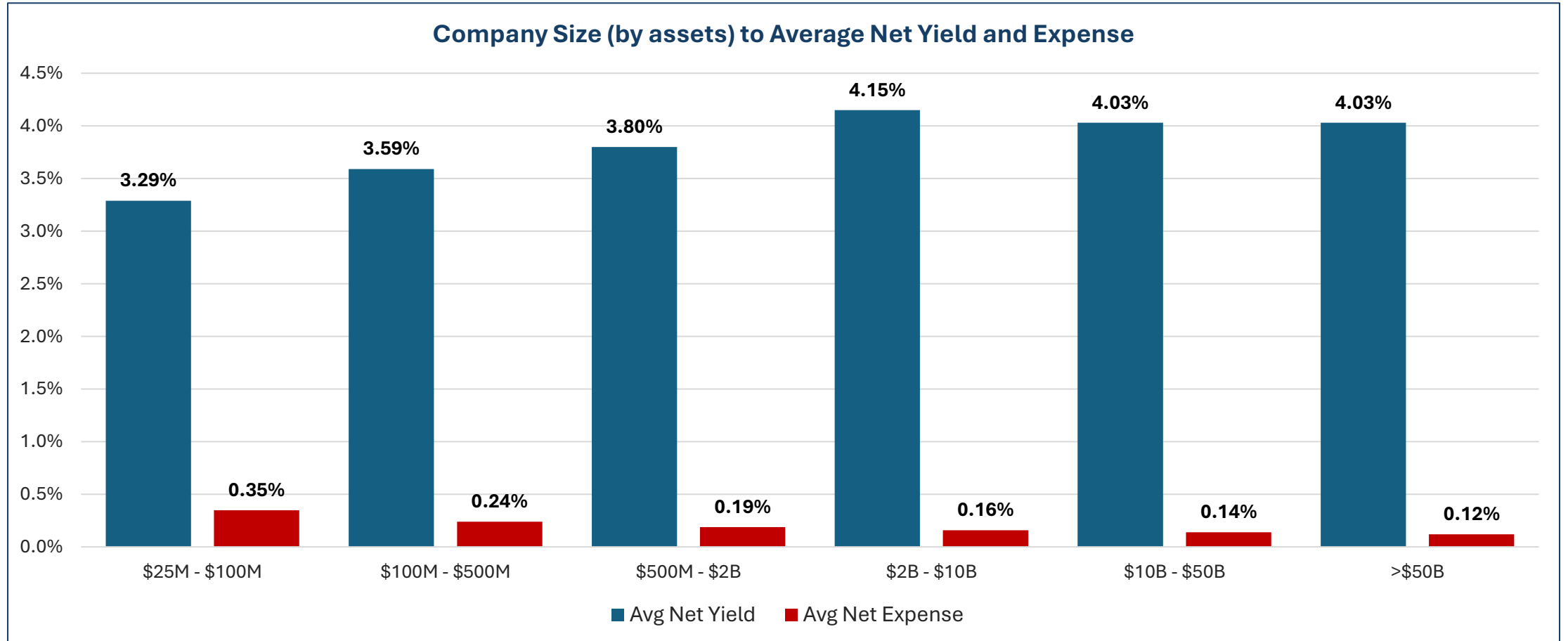


Commercial Mortgage Lending (History)

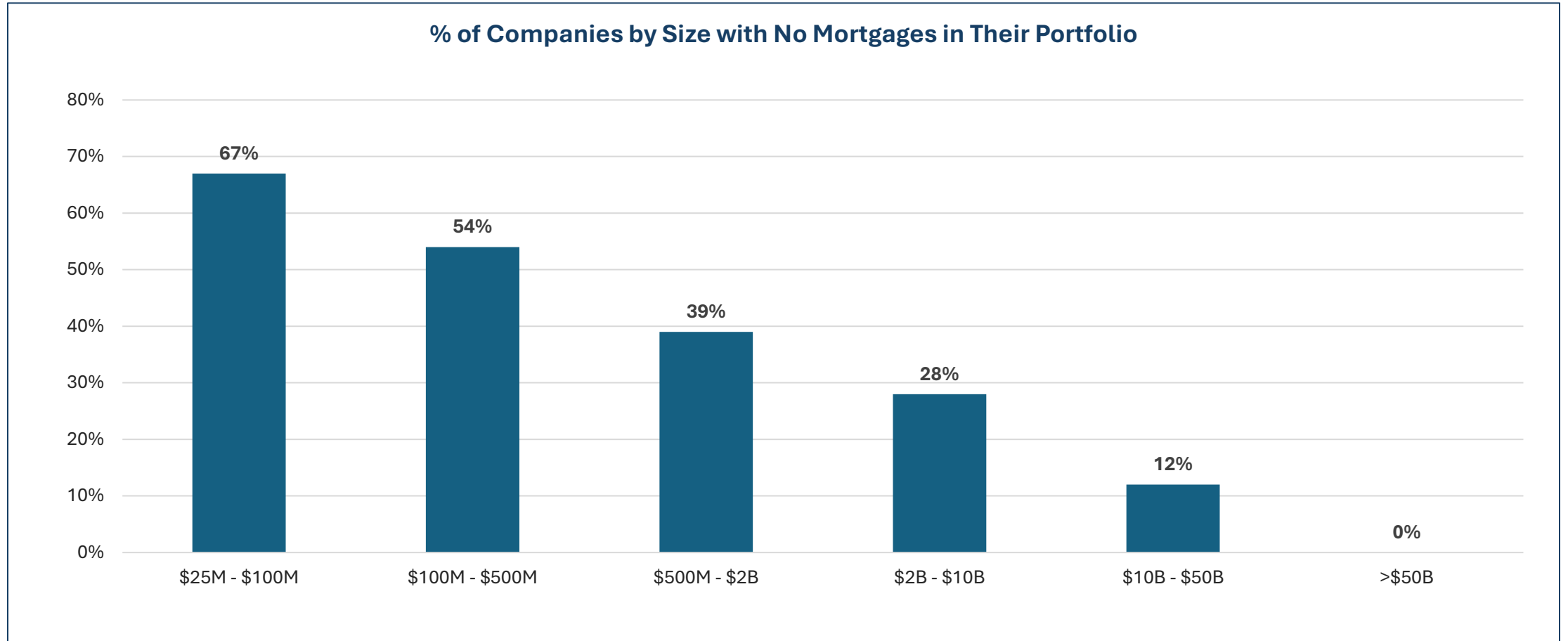
**Loan Interest + Realized Gains vs.
Loan Write-Downs + Realized Losses**



Yields by Insurer Size



Commercial Mortgage Lending (Allocation)



Commercial Mortgage Lending (RBC)

BONDS			COMMERCIAL MORTGAGES		
Bond Ratings	S&P Rating	RBC Charge	RBC Charge	Loan Ratings	Loan Ratings
1.A	AAA	0.00158		Office, Industrial, Retail, & Multifamily	Hotels & Specialty Commercial
1.B	AA+	0.00271			
1.C	AA	0.00419			
1.D	AA-	0.00523			
1.E	A+	0.00657			
1.F	A	0.00816	0.00900	CM1 DSC >= 1.50 LTV < 85%	CM1 DSC >= 1.85 LTV < 60%
1.G	A-	0.01016			
2.A	BBB+	0.01261			
2.B	BBB	0.01523	0.01750	CM2 DSC >= 0.95 LTV < 75% -OR- DSC < 1.50 LTV < 55%	CM2 DSC >= 1.45 LTV < 70%

Takeaways & Recommendations (Lifeco)

- Equity markets will remain volatile
 - “be fearful when others are greedy and be greedy when others are fearful” Warren Buffett
 - Reduce exposure and allocate to fixed-income, reposition with P&I
- The yield curve is normalizing and short-term rates will continue to decline, especially IF we enter a recession
 - Lock in higher rates while you can
 - Assuming ALM immunization, maximize yield
- Take Prudent risks to remain competitive
 - If you are looking to be competitive in the annuity space, your balance sheet will have to look different than it did 5-10 years ago
 - “Securitized Product” continues to be attractive, ~100 basis point pickup over equivalent corporate
 - Be cautious of corporations with excessive leverage
 - Liquidity risk is likely one of the more sensible risks to bear

Takeaways & Recommendations (P&C)

- 2022 was a historically bad year for investments
 - The market is improving for P&C insurers
 - As a result of the underwriting year, many insurers had to make unfavorable investment decisions
- Take equity gains and reallocate to fixed-income
 - Extend duration, moderately
 - Stay liquid- depending upon needs
 - Be cautious of corporations with excessive leverage
- Equity Allocations
 - The stock market has largely been driven by the S&P, more specifically the MAG 7
 - Dovish monetary policy should benefit small cap stocks