Lingnan University 嶺南大學 香港 Hong Kong

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Life Insurance and Annuity Pricing during the Financial Crisis, Revisited

We reexamine insurance and annuity pricing during the 2008 financial crisis. We find that the existing narrative—of insurers selling policies at significant economic loss to gain statutory accounting benefits—is false. In fact, a substantial number of contracts were priced below the statutory reserve, a situation that would have decreased, not increased, statutory capital upon sale.

Instead, we argue that the pricing behavior observed is consistent with standard theories of pricing under financial frictions. We show that policies were priced to achieve unusually high rates of return on capital. This outcome was driven by the fact that while nominal policy prices remained relatively stable, the yields on the assets backing these policies rose sharply, meaning that insurers were earning more return on invested premium dollars.

We establish that the 2008 experience was not an isolated event. It mirrored other episodes of bond market stress, such as in 1994, 1999, and 2013, when rapidly rising corporate borrowing rates led to similar pricing dynamics. A key finding across these periods is an inversion of the expected relationship between price and default risk, where—in contrast to the existing narrative—financially weaker companies quoted higher, not lower, prices than their stronger counterparts. This counterintuitive result further supports our conclusion that pricing during the crisis was driven by financial frictions rather than a pursuit of accounting benefits.

George Zanjani is Professor of Finance and the holder of the Frank Park Samford Chair in Insurance at the University of Alabama. Previously, he held the AAMGA Distinguished Chair in Risk Management and Insurance at Georgia State University. Prior to academia, George worked as an economist at the Federal Reserve Bank of New York and as an actuary at Fireman's Fund Insurance Companies. George's published work includes insurance papers in the *American Economic Review, Journal of Financial Economics, Journal of Risk and Insurance,* and *Management Science*. He is an Associate of the Casualty Actuarial Society and holds a Ph.D. in Economics from the University of Chicago. He has served as President of the American Risk and Insurance Association and as the President of the Risk Theory Society. George is recognized as a leading expert in the field of insurance pricing and capital allocation. He has provided expert testimony in various rate hearings and court cases in the United States, and he lectures on insurance topics at various international academic and industry conferences.

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