What a Viable Genworth Means to the LTC Market
Life Annuity Specialist
By: Arthur D. Postal
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This article was updated at 2:25 p.m. Monday (Oct. 2, 2017) to include a breaking news item concerning Genworth's proposed deal to sell itself to China Oceanwide.

A healthy Genworth Financial could give a much-needed boost to a struggling long-term care insurance market. That's why the industry is intently watching to see if LTC's biggest player can complete its proposed merger with China Oceanwide in a timely fashion.

But Genworth's monitored health is not an isolated incident within the LTC market. The entire LTC industry is a grave concern of industry players, which include life and annuity issuers, agents and brokers, state regulators, as well as the people who run state guaranty funds.

There's a reason for that concern, according to Jesse Slome, director of the American Association for Long-Term Care Insurance. "The private LTC insurance market in the U.S. is under severe stress, a condition that continues to worsen."

The China Oceanwide-Genworth merger was agreed upon last October and approved by Genworth shareholders in February. Under the deal, China Oceanwide would inject $1.25 billion into Genworth. However, Delaware regulators and Treasury officials are currently holding up the deal as they study whether China Oceanwide can successfully stabilize Genworth. One issue stems from concerns over the transparency of Chinese companies.

The deal's narrative took another plot turn on Monday morning when Genworth announced that it and China Oceanwide had withdrawn their application to the Treasury Department's Committee on Foreign Investments in the U.S. (CFIUS) in order to try to make the deal more palatable to the U.S. government. This action would start a new 30-day review period, which may be followed by an additional 45-day investigation period.

At the same time, Genworth outlined contingency plans Monday to deal with its debt maturities in order to reassure investors of its solvency in the event the merger cannot be completed. Further, both companies said jointly that the revised application could propose turning over management of Genworth's 1.2 million LTC policies to a third-party provider.

Genworth has been the leading LTC provider in the U.S. market for the last 40 years, according to Slome. The company has approximately 25% of the U.S. LTC market, although it is a declining player, with 1.2 million outstanding policies.

But Slome says Genworth will be able to right its LTC business only "if it receives the stabilizing cash infusion provided by the transaction."

Slome says that only 80,000 traditional policies (stand-alone long-term care insurance, as opposed to hybrid life-LTC offerings that are gaining traction) are expected to be purchased this year. "Genworth is just a small part of that," Slome says, adding that the industry is in "a better place today having Genworth around [because] Genworth is the largest player."

He compares the company's situation to General Motors' plight in 2008. "I think we are much better off with GM around," Slome says. A failure of Genworth "would be the same as GM going out of business."

It is a key issue for agents and brokers, Slome says, "because they will have to explain to their customers what is going on" if Genworth is unable to meet its LTC obligations.

Joseph M. Belth, professor emeritus of insurance at Indiana University, who has studied the viability and problems of the LTC industry for decades, adds that, "I will not speculate on the potentially catastrophic implications of a Genworth failure."

Michael B. Kreider, a Washington State insurance commissioner who was appointed vice chairman in April of a new National Association of Insurance Commissioners Task Force, said in April that the LTC industry has about $100 billion in reserves, but needs two to three times that level to ensure that LTC policy obligations are fulfilled.

In response to questions from Life Annuity Specialist, Kreider said this week that the NAIC has met with Genworth representatives to keep apprised of their business and plans, and that Kreider himself has also met with the company. "Until there is a final decision on the Genworth acquisition, the commissioner believes it's unwise to speculate on Genworth and what it might mean for the industry as a whole," a spokesman for Kreider added.

Long-term care insurance benefits of insolvent insurers are covered under the NAIC Life and Health Insurance Guaranty Association Model Act (MDL 520), a Kreider spokesman said. "The Receivership &

Insolvency (E) Task Force will address any issues and concerns with guaranty fund coverage that develop as a result of new or ongoing discussions and work occurring in other LTCI [Long-Term Care Income] groups," the spokesman added.

Through its Senior Issues (B) Task Force, Kreider's spokesman said, the NAIC is "currently taking a broad look" at recent changes in the LTC market, including shifts in the profile of purchasers, evolution of the types of products being sold, other changes in the marketplace, plus goals of product regulation.

That task force created the Long-Term Care Innovation (B) Subgroup in 2016 "to examine the future of LTCI, what type of LTCI products should be on the market going forward and who should buy those products," Kreider's spokesman said.

Standard & Poor's analysts on Sept. 18th revised their credit ratings of Genworth to "negative" from developing. They also lowered the financial strength ratings of Genworth's life insurance subsidiaries, but affirmed the financial strength rating of Genworth's mortgage insurance subsidiary.

Standard & Poor's views the proposed acquisition as credit-neutral, but cautioned that, "There is potential ratings downside if the acquisition is not completed as planned."

Might other life-annuity insurers be assessed to pay Genworth's LTC liabilities if the company failed? Peter Gallants, president of the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA), said that only Penn Treaty's liquidation in Pennsylvania last March triggered guaranty association (GA) assessments for the LTC business. "No other company writing LTCI business has entered liquidation in at least the last five years," he said.

Gallants added that the liquidation of any life or long-term care insurance company is "an unfortunate development," but fortunately a rare occurrence. He noted also that NOLHGA is "entirely confident" that the guaranty system can and will meet its statutory obligations under any reasonably foreseeable developments.