

# Catalysts for Reinsurance: Retail Annuities

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# Introductions



**Matt McPhail, FSA**

VP, Life Pricing  
Fortitude Re

Matt is a pricing actuary with Fortitude Re based out of Bermuda. Matt's focus is on M&A transactions, block and flow reinsurance spanning a wide range of product lines and geographical regions. Prior to joining Fortitude Re, Matt held consulting roles supporting insurance companies in modelling, inforce management, and M&A transactions.



**Dario Flood, FIA**

Senior Manager, Life  
Actuarial  
EY Bermuda

Dario is a Senior Manager in EY Bermuda's life actuarial consulting team. During his time in Bermuda, Dario has assisted nearly a dozen new entrants in Bermuda. Dario supports with due diligence for new transactions. Before joining EY Bermuda, Dario worked in the UK, where he supported European insurers with modeling and analytics.

# Agenda

- ▶ Challenges currently being faced by insurers
- ▶ How reinsurance may address some of the challenges
- ▶ Forms of reinsurance in the market

# Challenges being faced

- ▶ Annuity sales continue to rise
- ▶ As yields have been increasing, crediting rates on fixed annuities have been rising as well, making access to strong yields necessary for competitiveness
- ▶ New business strains / Access to capital
- ▶ Policyholder behaviour risk in rising interest rate environment
- ▶ Balance sheet and earnings volatility
- ▶ Alternative asset managers entering the reinsurance space putting competitive pressure on crediting rates

# Annuity sales continue to rise

## Annuity Sales Forecasts by Product Type, 2023–2027 (Dollars in billions)

	2022(A)	2023(F)	2024(F)	2025(F)	2026(F)	2027(F)
<b>Variable annuities</b>	\$102.9 ↓ 18%	\$102 – \$111	\$109 – \$118	\$121 – \$130	\$133 – \$142	\$144 – \$153
Traditional variable annuities	\$61.8 ↓ 29%	\$58 – \$63	\$60 – \$65	\$64 – \$69	\$70 – \$75	\$77 – \$82
Registered index-linked annuities (RILA)	\$41.1 ↑ 6%	\$44 – \$48	\$49 – \$53	\$57 – \$61	\$63 – \$67	\$66 – \$70
<b>Fixed annuities</b>	\$209.9 ↑ 62%	\$202 – \$214	\$172 – \$183	\$179 – \$190	\$180 – \$191	\$181 – \$192
Indexed annuities	\$79.8 ↑ 25%	\$84 – \$89	\$82 – \$87	\$83 – \$88	\$83 – \$88	\$83 – \$88
Fixed-rate deferred annuities	\$113.0 ↑ 113%	\$99 – \$104	\$72 – \$77	\$77 – \$82	\$77 – \$82	\$77 – \$82
Income annuities	\$11.3 ↑ 37%	\$13.0 – \$14.0	\$11.9 – \$12.9	\$12.4 – \$13.4	\$13.0 – \$14.0	\$13.7 – \$14.7
Structured settlements	\$5.8 ↑ 38%	\$5.8 – \$6.3	\$6.1 – \$6.6	\$6.5 – \$7.0	\$6.8 – \$7.3	\$7.2 – \$7.7
<b>Total</b>	<b>\$312.8</b> ↑ 23%	<b>\$304 – \$325</b>	<b>\$281 – \$302</b>	<b>\$300 – \$320</b>	<b>\$313 – \$333</b>	<b>\$325 – \$345</b>

LIMRA is forecasting double digit year or year, with 2023 annuity sales to top \$300bn

Variable annuities and RILAs continue show signs of growth. Fixed rate and indexed annuities maintain the majority market share

The sheer volume of expected sales means c. \$300bn + of suitable matching assets will need to be sourced

(A) = Actual, (F) = Forecast. Green cells = Up from prior year, Yellow cells = Flat from prior year, Orange cells = Down from prior year.

# Crediting rates are tightly contested

Source: Cannex, Nov. 1, 2023

Product	Rate	Guarantee Period	Surrender Period	AM Best Rating
<b>ASPIDA</b> Aspida Advisory MYGA	6.25%	5 Years	5 Years	A-
<b>MIDLAND NATIONAL</b> Oak ADVantage	6.00%	5 Years	5 Years	A+
<b>ASPIDA</b> Synergy Choice MYGA	5.85%	5 Years	5 Years	A-
<b>ASPIDA</b> WealthLock MYGA Plus	5.85%	5 Years	5 Years	A-
<b>FIDELITY LIFE INSURANCE COMPANY</b> Safeguard Plus	5.80%	5 Years	5 Years	B++
<b>ASPIDA</b> WealthLock MYGA	5.80%	5 Years	5 Years	A-
<b>ASPIDA</b> Synergy Choice MYGA	5.75%	5 Years	5 Years	A-
<b>National Security</b> MYGA	5.70%	5 Years	5 Years	B++
<b>ATHENE</b> Athene MYG	5.65%	5 Years	5 Years	A

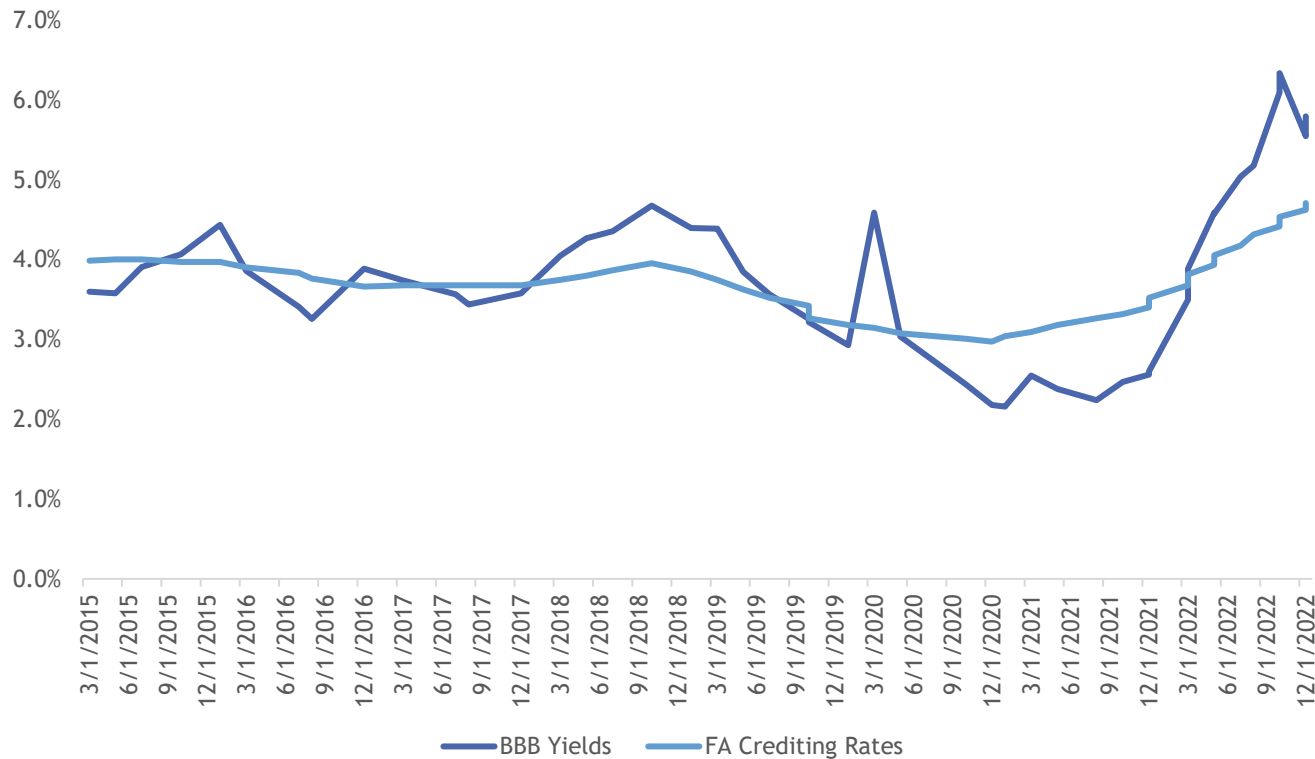
<b>FG Guarantee-Platinum</b>	5.65%	5 Years	5 Years	A-
<b>ATHENE</b> MaxRate 3	5.65%	5 Years	5 Years	A
<b>ASPIDA</b> Synergy Choice MYGA	5.65%	5 Years	5 Years	A-
<b>ATHENE</b> Athene MYG	5.60%	5 Years	5 Years	A
<b>CL Life</b> CL Sundance 2-Year	5.60%	5 Years	5 Years	B++
<b>NASSAU</b> MYAnnuity 5X - No Free Withdrawal	5.60%	5 Years	5 Years	B++
<b>ATHENE</b> MaxRate 3	5.60%	5 Years	5 Years	A
<b>RELIANCE STANDARD</b> Eleas MVA	5.55%	5 Years	5 Years	A++
<b>Sagicor Life</b> Milestone MYGA	5.55%	5 Years	5 Years	A-
<b>AMERICO</b> Platinum Assure	5.55%	5 Years	5 Years	A
<b>AMERICO</b> Platinum Assure	5.55%	5 Years	5 Years	A

Source:  
<https://www.annuity.org/annuities/rates/>

Crediting rates are tightly contested, with a number of the highest rate offerings coming from companies with reinsurance affiliations such as Aspida, Athene, and Sagicor Life

# Crediting rates have been rising

BBB Yields vs. FA Crediting Rates



Historically, FA crediting rates have been “stickier” than public bond yields

When rates are decreasing, insurers have been hesitant to be the first to lower offered rates

When rates are increasing, insurers have been hesitant to be the first to cede away additional upside

# Reinsurance can address these challenges

## Access to capital

Reinsurance platforms are often partnered with private equity groups with robust capital raising capabilities

## Access to asset yields

Reinsurance platforms are often partnered with asset managers having asset origination capabilities earning higher yields and illiquidity premium

## Diversification benefit

Reinsurers often act as risk aggregators allowing for diversification of risks to enhance capital efficiency

## Economic balance sheet

Some reinsurers operate in offshore jurisdictions allowing for greater alignment between the statutory reserve and the company's economic reserve



# Reinsurance in the market

Fortitude Re inks \$28bn reinsurance deal with Lincoln National

03-05-2023

Global Atlantic raises over \$2.4bn for second co-investment vehicle

⚡ 10th July 2023 - Author: Cassandra Jimenez-Sanchez

Global Atlantic announces \$19.2 billion reinsurance agreement with MetLife

05/25/2023

NEW YORK, NY — May 25, 2023 — Global Atlantic Financial Group ("Global Atlantic"), a leading insurance company

Prudential Financial and Warburg Pincus launch Prismic Life Re

⚡ 8th September 2023 - Author: Saumya Jain

Prudential Financial, Inc. and Warburg Pincus have announced the launch of Prismic Life Reinsurance, Ltd, a licensed Class E Bermuda-based life and annuity reinsurance company.

Sumitomo Life subsidiary launches Symetra Bermuda Re

22-12-2022

Fidelity Investments forms retail annuities and pension risk transfer focused reinsurer

⚡ 17th July 2023 - Author: Luke Gallin

BUSINESS

Bermuda company to acquire West Des Moines' American Equity for \$4.3 billion



Tyler Jett  
Des Moines Register

Resolution Life completes strategic transaction with Farmers New World Life Insurance Company

# Private capital entering the reinsurance space

APOLLO

 ATHENE

 ARES  ASPIDA



 **Global Atlantic**  
FINANCIAL GROUP

 **SIXTH STREET**

 TALCOTT

CARLYLE **FORTITUDE RE.**

 Blackstone

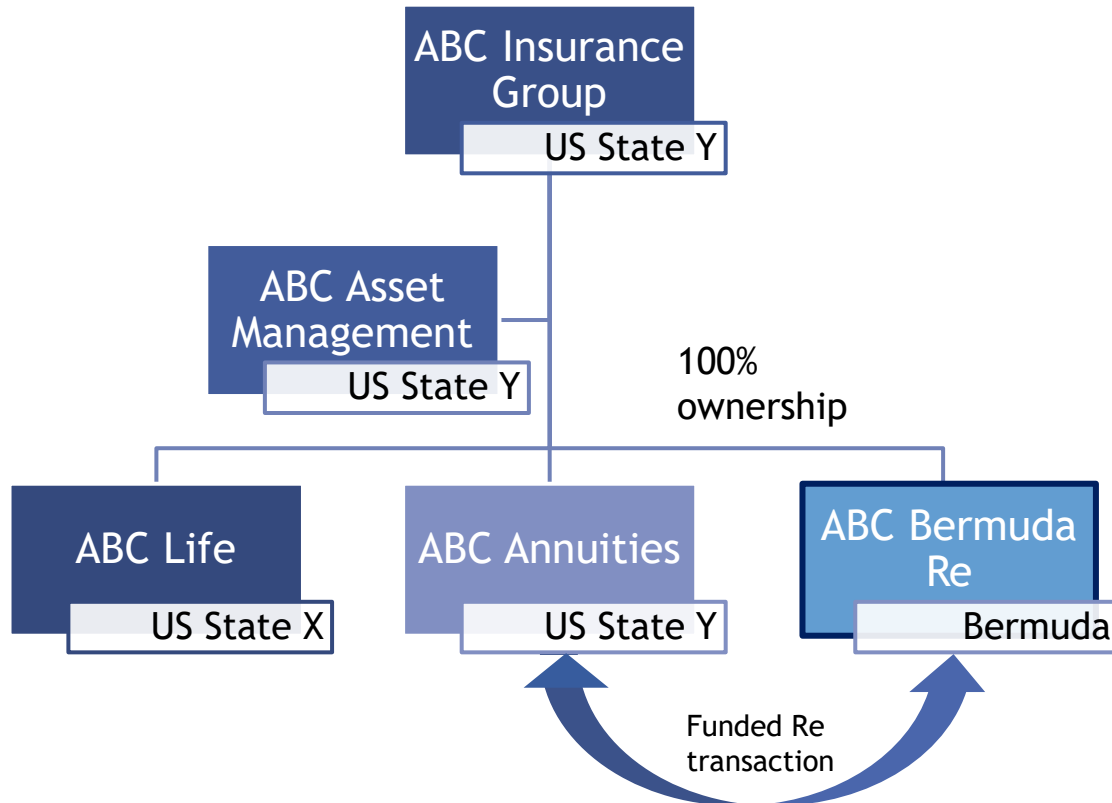
 **Resolution**

**Brookfield** NORTH END RE LTD.

# Typical reinsurance strategies

- ▶ Captive / wholly-owned affiliate
- ▶ Sidecar
- ▶ Reinsurance to a 3<sup>rd</sup> party

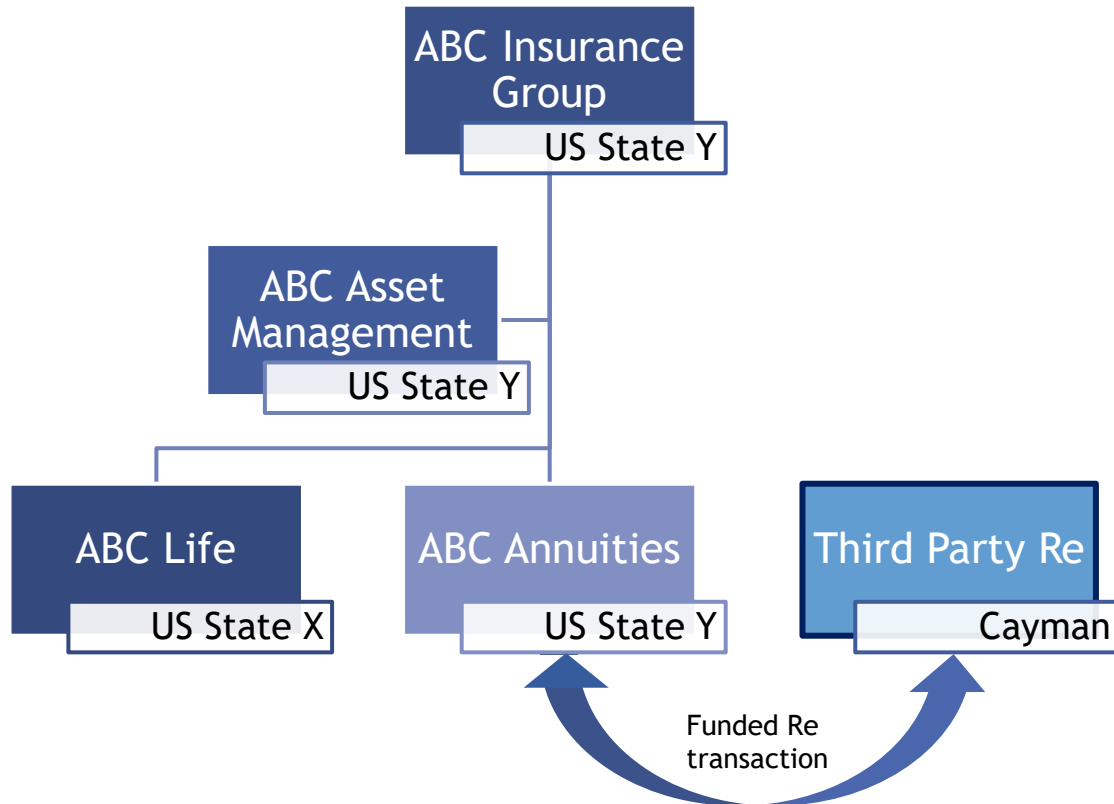
# Captive / Wholly-owned affiliate



## What is it?

- ▶ Reinsurer set up within the insurance group
- ▶ Wholly owned by the direct writer
- ▶ Consolidates into the insurance group
- ▶ Does not bring in external capital
- ▶ Does not bring in additional asset management expertise
- ▶ Does not shift profits to a 3rd party

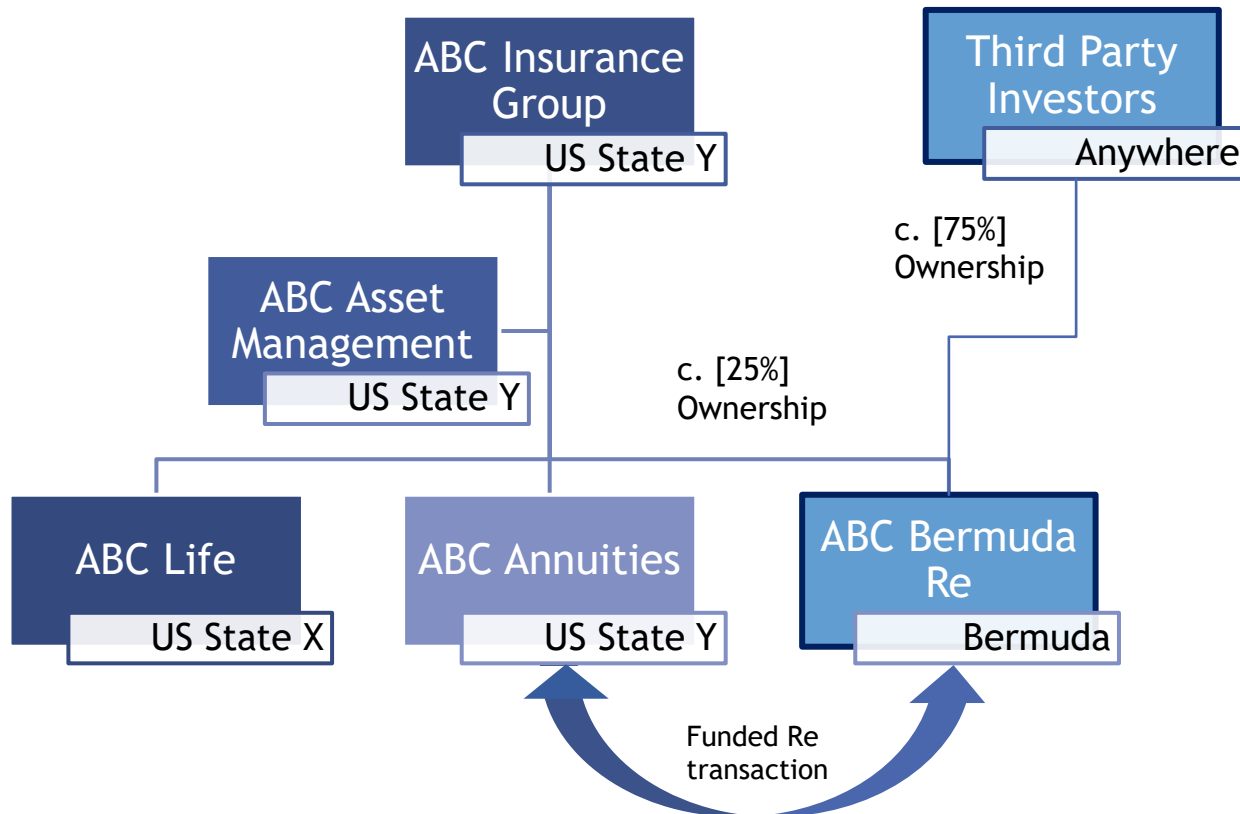
# 3rd party



## What is it?

- ▶ Reinsure to 3rd party reinsurer
- ▶ Reinsurer could be domiciled anywhere, i.e., in the US, Bermuda, Cayman,
- ▶ Would need to qualify for reserve credit under US State law
- ▶ Requires minimal capital by the insurer
- ▶ Exposure to counterparty risk
- ▶ Simple to execute “turn-key” solution
- ▶ Minimizes earnings volatility

# Sidecar



## What is it?

- ▶ Reinsurer typically set up by direct writer, but not wholly owned
- ▶ Partly owned by direct writer / insurance group and 3rd party investors
- ▶ 3rd party investors inject capital in return for a share of future profits
- ▶ 3rd party could bring in additional asset management expertise
- ▶ Could take advantage of an alternative jurisdiction

# Reinsurance Structure Scorecard

	Access to Capital	Access to Asset Management	Earnings Volatility	Governance/ Management Control	Participation in Economics
Captive Reinsurance				✓	✓
3rd Party Reinsurance	✓	✓	✓		
Sidecar	✓	✓	✓	✓	✓

# Summary

- ▶ Direct writers in the US are facing increasing challenges
  - ▶ Increased sales volumes putting pressure on capital ratios
  - ▶ Losing market share to insurers with access to superior asset management capabilities that are able to offer more competitive pricing
  - ▶ Evolving regulatory environment increasing return volatility and expenses
- ▶ Reinsurance may address some of these pressures and support the competitiveness of direct writers in the US
  - ▶ Provides capital to support sales
  - ▶ Allows access to asset management capabilities to support stronger pricing
  - ▶ Reduce earnings volatility



# Q&A

- ▶ Thank you for listening!