Re: Allianz Life, F&G, Oceanview Re

By Editorial Staff *Thu, Dec 9, 2021*

Three items: Allianz unlocks $4.07 billion in surplus through $35 billion FIA reinsurance deal with units of asset manager Sixth Street; AM Best affirms F&G's 'Excellent' strength rating but notes potential vulnerabilities; Andrew Kanelos rises at Oceanview Re.

Allianz, the Munich-based global financial services firm, announced December 3 that its US life insurer, Allianz Life of North America, will reinsure $35 billion worth of in-force fixed index annuities (FIAs) with Talcott Resolution Life Insurance Company and Resolution Life, both owned by Sixth Street, a global asset manager.

The reinsurance deal releases €3.6 billion (US$4.07 billion) in surplus cash that had been backing those annuities. Talcott Resolution's website said Allianz Life would reinsure $20 billion of fixed indexed annuity liabilities with Talcott and one of its Bermuda affiliates.

The unlocking of surplus stems from the fact that reinsurers in certain jurisdictions, such as Bermuda, the Cayman Islands and a few US states, can use a different accounting regime from the one used in the US (**GAAP** instead of **SAP**). Relative to SAP, GAAP allows the reinsurer to estimate the value of future obligations at a lower price, allowing the reinsurer to reserve less against them.

The reinsurer passes the savings back to the original annuity issuers as a "reserve credit." This form of regulatory arbitrage, coupled with investment partnerships with asset managers that have expertise in private credit, has given financial relief to publicly traded annuity issuers whose profitability has been squeezed by the protracted low interest rate environment in the US.

RIJ has called this the "Bermuda Triangle" strategy. (See today's feature, "**A Revolt Against PE-Led Annuity Issuers.**") Allianz Life will continue to manage administration of the policies in the portfolio and will remain responsible for fulfilling its obligations to policyholders.

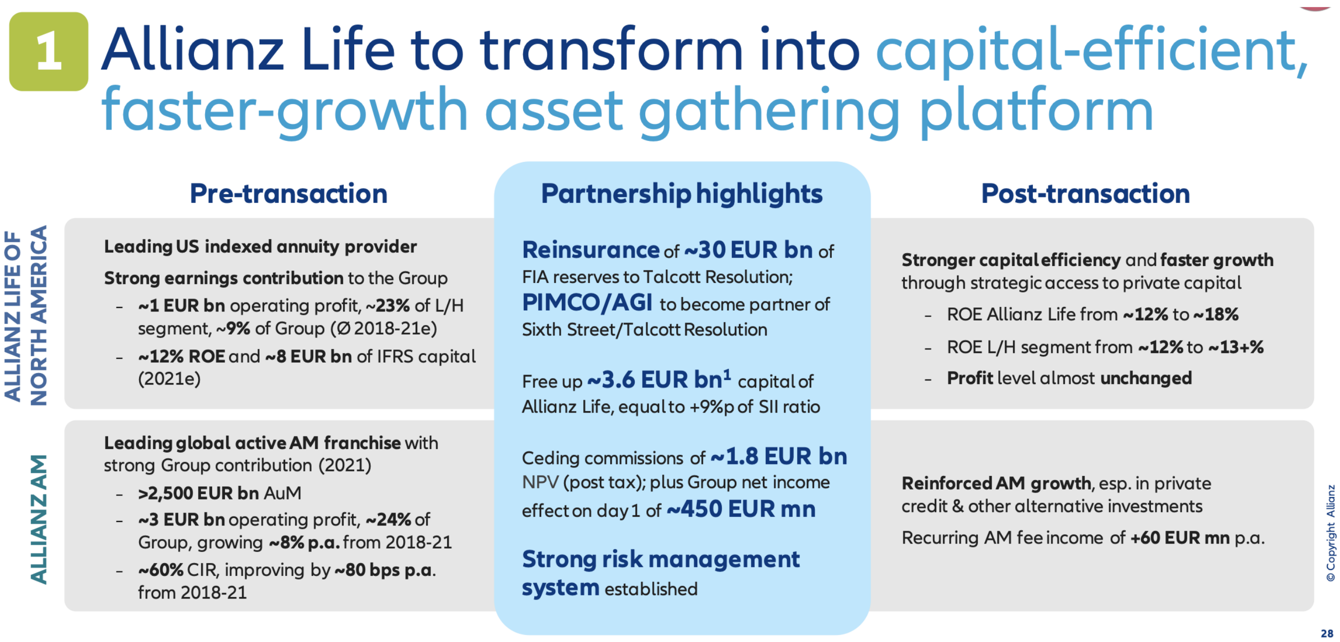
"The agreement… signals the sustainable growth proposition for Allianz's life insurance segment through capital-light business models and alignment with its asset management businesses, PIMCO and Allianz Global Investors," Allianz said in a release.

An Allianz Life manager in Minneapolis told RIJ that the company is still committed to selling FIAs, a product that it has been a leading seller of ever since Allianz bought FIA specialist LifeUSA from entrepreneur Bob MacDonald in October 1999.

RIJ asked Allianz Life this week if the announcement meant that the company would be shrinking its exposure to annuities. Adam Brown, senior vice president of product development at Allianz Life, replied in an email:

"Those comments from our parent company were referencing global products developed for much higher interest rates which have higher guarantees. Allianz Life's currently offered FIA products are specifically designed to be resilient for low and potentially negative interest rate environments.

"For example, our top-selling product, **Allianz Benefit Control**, was specifically designed to add strong consumer value while continuing to be sustainable in challenging interest rate environments. Allianz Life's current portfolio offering of FIA and RILA products are both examples of capital-light products for which we have ambitious growth targets."



From Allianz Life's Capital Markets Day presentation, December 3, 2021.

Under the terms of the transaction, Talcott Resolution and its Bermuda affiliate will assume

$20 billion of the FIA liabilities while Resolution Life will assume the remaining $15 billion. The credit ratings of the members of Talcott Resolution Group remain unchanged following the announcement, AM Best said in a release.

The transaction is Talcott Resolution's first acquisition in recent years of a significant block of in-force annuities. It follows Talcott's recent variable annuity flow reinsurance (that is, of new contracts as they are sold) transaction with Lincoln National Corporation that covers business written by LNC from April 1, 2021, through June 30, 2022, to a maximum of $1.5 billion.

Talcott Resolution was recently acquired by Sixth Street, a global investment firm with over $55 billion in assets under management and committed capital from a consortium of investors.

"The transaction will significantly expand Talcott Resolution's balance sheet," AM Best noted. But the ratings agency "expects the company will continue to maintain a very strong balance sheet strength position, with the support of its parent and potential future investors."

Under its new ownership, AM Best anticipates that Talcott Resolution will engage in future transaction activity as it executes its strategy of engaging in reinsurance flow transactions and block acquisitions.

Upon closing, which is expected by year-end 2021, Talcott and its affiliates will manage approximately $111 billion in liabilities and surplus on a pro-forma basis. Allianz Life will continue to manage administration of the policies in the portfolio with Pacific Investment Management Company, LLC (PIMCO) and Allianz Global Investors remaining the primary asset managers of the reinsured business.

In other "Bermuda Triangle"-related news:

Despite high ratings, F&G's quality of capital is 'diminished': AM Best

AM Best has affirmed the Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of "a-" (Excellent) of Fidelity & Guaranty Life Insurance Company (Des Moines, IA) and Fidelity & Guaranty Life Insurance Company of New York, (New York, NY).

The ratings reflect Fidelity & Guaranty Life Group's balance sheet strength, which AM Best assesses as strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management, the ratings company said.

AM Best also cautioned, “While risk-adjusted capital remains strong, the group’s overall quality of capital is diminished by the significant increase in reinsurance leverage, the use of captive financial solutions, as well as the use of surplus notes.”

Fidelity & Guaranty Life Group continues to maintain a strong level of risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), despite a significant increase in new annuity sales and a decline in capital surplus in 2020 due to merger-related transaction costs and negative mark-to-market impacts within its investment portfolio in the pandemic environment.

Fidelity & Guaranty Life Group benefits from the financial resources and diversification benefits provided by Fidelity National Financial, Inc., which also guarantees the group’s senior notes. Additionally, the group maintains more than adequate liquidity with strong operating cash flows and additional borrowing capacity through the Federal Home Loan Bank.

As Fidelity & Guaranty Life Group continues to grow at a rapid pace, AM Best believes there is an increased level of execution risk in accessing new capital to fund this growth and will continue to monitor the group’s ability to maintain the current level of risk-adjusted capitalization.

The group has also experienced some volatility within its statutory net operating results due to reinsurance transactions, impacts from market volatility and other one-time events. However, interest rate spreads have remained favorable due to steady investment yields despite the low interest rate environment as the company repositioned its investment portfolio into higher yielding structured securities.

AM Best expects overall statutory and GAAP operating results to improve over the near to medium term due to continued premium growth and the maintenance of adequate interest rate spreads within its core fixed annuity business.

Kanelos named executive chairman of Bermuda-based Oceanview Re

Reinsurance Ltd., a Bermuda Class E insurance company, today announced that Andrew Kanelos has been appointed Executive Chairman and Chief Governance Officer, effective December 13, 2021. Kanelos will be based in Hamilton, Bermuda.

He will be responsible for directing the management activities of Oceanview Re and will become a member of the Board of Directors of Oceanview Re, said Bill Egan, Chairman and Chief Executive Officer of Oceanview Holdings Limited, corporate parent of Oceanview Re.

Most recently, Kanelos served as managing director of Transamerica Life Insurance’s Offshore Companies, where he oversaw five of Transamerica/Aegon’s Bermuda life and reinsurance entities. He also has experience in market research, product pricing, annuity reinsurance solutions and captive management at Merrill Lynch, the Chubb Group and consulting services engagements with ING’s Institutional Financial Products Division.

Oceanview Reinsurance Ltd. is rated A- (Positive) by A.M. Best and is a wholly owned subsidiary of Oceanview Holdings Ltd. Oceanview Re provides customized reinsurance solutions for fixed annuities and other asset intensive life insurance liabilities.