Honorable Mention

By Editorial Staff *Thu, Jun 14, 2018*

A.M. Best sees private equity firms dominating life/annuity M&A; Merrill Lynch penalized for deceiving customers on RMBS sales; MetLife and Brighthouse may release up to $116 million to owners of abandoned retirement plans.

All quiet in US life/annuity M&A… except for private equity firms

Private equity firms have sparked some activity in the otherwise quiet U.S. life/annuity mergers and acquisitions scene, according to a new A.M. Best report.

The Best's Special Report, "Domestic Life/Annuity M&A Fueled by Non-Traditional Players," says that L/A carriers see "valuations from heightened competition" to be the main stumbling block to them getting involved in M&A transactions.

But senior managers at a number of L/A carriers have told A.M. Best that the M&A pipeline is strong, and they have teams looking at a number of deals.

Small- to medium-sized carriers usually try to achieve growth by acquiring liabilities or distributions that can either enhance an existing profile or complement that business. Moreover, small players often lack the money and managerial expertise needed to keep pace with–let alone push ahead of–larger market players in the resource-intensive areas of enterprise risk management, innovation and cyber security.

Of the recent material private equity transactions, most involved the acquisition of variable annuity or fixed annuity businesses. These blocks generally line up well for private equity investors interested in managing the assets of run-off blocks of business. These run-off blocks also can become platforms for private equity firms to buy additional blocks to add to the run-off model and manage additional assets.

A.M. Best expects to see continued interest from private equity funds in the L/A segment. Transactions such as Talcott Resolution and Voya Financial (completed in May and June of 2018, respectively), have piqued buyers' interest in other legacy variable annuity books of business.

Overall, A.M. Best believes private equity ownership remains a positive trend for the L/A industry. Although these ownership structures are somewhat less conservative on investments than traditional insurers, a rise in impairments for portfolios acquired and rebalanced has not been seen. In addition, product pricing for those firms with ongoing franchises has not been considered overly or more aggressive than for some non-private equity owned businesses.

Merrill Lynch penalized for deceiving customers

Merrill Lynch, Pierce, Fenner & Smith Inc. will pay more than $10.5 million back to its customers and about $5.2 million in federal penalties to settle charges that its employees led customers to overpay for Residential Mortgage Backed Securities (RMBS), the Securities and Exchange Commission (SEC) announced this week.

The SEC found that:

Merrill Lynch traders and salespersons deceived the bank's customers about the price Merrill Lynch paid to acquire the securities and convinced them to overpay for RMBS.

Merrill Lynch's RMBS traders and salespersons illegally profited from excessive, undisclosed commissions—"mark-ups"—some of which were more than twice the amount the customers should have paid.

Merrill Lynch failed to maintain compliance and surveillance procedures to prevent and detect this misconduct.

Merrill Lynch traders and salespersons violated antifraud provisions of the federal securities laws in purchasing and selling RMBS and that Merrill Lynch failed to reasonably supervise them.

Without admitting or denying the findings, Merrill Lynch agreed to be censured, pay a penalty of approximately $5.2 million, and pay disgorgement and interest of more than $10.5 million to the affected customers.

Melissa Lessenberry, Thomas Silverstein, and Kelly Rock conducted the SEC investigation, with help from Sharon Bryant, John Worland, and Sarah Concannon. Andrew Sporkin supervised the investigation, with assistance from the Special Inspector General for the Troubled Asset Relief Program and the Department of Justice.

Cleanup of abandoned retirement plans begun

MetLife and Brighthouse Life Insurance Company have agreed to work with the Department of Labor to determine whether more than 2,000 retirement plans in their custody are abandoned.

If the companies find that the plans are found abandoned, the companies will submit them to the DOL's Abandoned Plan Program (APP). This may result in distributions of up to approximately $116 million to 20,000 participants. Ascensus Trust Company submits plans to the Abandoned Plan Program on behalf of MetLife and Brighthouse.

The companies also have agreed to terminate and wind up 400 additional "de minimis" plans, and to distribute the assets to their participants. De minimis benefits are those too small and infrequently provided to be worth tracking.

The DOL's Employee Benefits Security Administration (EBSA) approached the two companies regarding the assets of Employee Retirement Income Security Act (ERISA)-covered individual account plans that had no activity for at least 12 consecutive months.

A plan is considered abandoned if no contributions to or distributions from it have been made for 12 months. Such a plan may be appropriate for the AAP if the sponsor no longer exists, can't be located with a reasonable effort, or can't maintain the plan.

Asset custodians (like MetLife and Brighthouse) hold the assets of abandoned plans but can't terminate them or to distribute their benefits to participants. In such scenarios, it's hard for participants and beneficiaries to claim their money.