John Hancock transfers VA risks to Venerable

By Editorial Staff *Thu, Nov 18, 2021*

Venerable Holding will reinsure $22 billion worth of in-force variable annuity contracts issued by John Hancock Life. The deal releases $2 billion in capital for Manulife, which will put $1.3 billion into a comfort trust to back the liabilities.

Venerable Holdings, Inc., a specialist in reinsuring blocks of variable annuity contracts, announced that it will reinsure a block of about US $22 billion worth of variable annuity business issued by John Hancock Life, a subsidiary of Toronto-based Manulife, between 2003 and 2012.

The reinsurance covers contracts with guaranteed minimum withdrawal benefits (GMWB). A small block of policies with only guaranteed minimum death benefits (GMDB) is also included. John Hancock will continue to administer the block and provide service for policyholders. The deal covers about 75% of John Hancock's legacy variable annuity block, a Manulife release said.

For Manulife, about $2.0 billion of capital will be released, including a one-time after-tax gain of approximately $750 million to net income attributed to shareholders, validating the conservatism of our reserves, and the release of approximately $1.3 billion of net LICAT required capital.

Manulife intends to deploy a significant portion of the capital released to buy back shares in order to neutralize the impact of the transaction on diluted EPS and core EPS2. The transaction is expected to lower annual earnings by approximately $200 million in 2022 and the impact is forecasted to decrease as the block runs-off.

Manulife said it "remains committed to its medium-term financial targets including core EPS2 growth of 10% to 12% and core ROE2 of 13% plus."

"The deal, which is expected to close in the first quarter of 2022, will reduce our exposure to US VA Guaranteed Value and net amount at risk by more than 75%, and our equity market sensitivity from our variable annuity guarantees by roughly 54%7, greatly lowering our go forward risk profile," said Naveed Irshad, Global Head of Inforce Management.

Venerable's Corporate Solutions Life Reinsurance Company is providing the reinsurance. "The transaction will increase Venerable's "assets under risk management" by about $22 billion, to $94 billion, according to a release this week. But most of those variable annuity assets are in separate account assets—tax-favored mutual funds—whose market risk is largely borne by the individual policyholder, not John Hancock Life.

John Hancock is transferring the risk that a) a greater-than-expected number of annuity contract owners might exercise the optional income-for-life rider (the GMWB) and b) their withdrawals during retirement might empty their separate account assets before they die. That would represent a loss for John Hancock; the risk of such losses is the risk that Venerable Re is assuming.

To back that risk, John Hancock will contribute $1.3 billion to a comfort trust. "Under the terms of the agreement, Venerable's reinsurance obligations will be secured by a comfort trust with assets in excess of statutory reserve requirements. An initial deposit of approximately $1.3 billion of assets will be transferred to the trust on closing," a Manulife release said.

Wells Fargo Securities, LLC is serving as financial advisor, and Sidley Austin LLP is serving as legal counsel to Venerable in connection with this transaction.

Venerable is a privately held company created by an investor group led by affiliates of Apollo Global Management, LLC, Crestview Partners, Reverence Capital Partners, and Athene Holdings, Ltd. Venerable owns and manages legacy variable annuity business acquired from other entities. It has business operations based in West Chester, Pennsylvania and Des Moines, Iowa.

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As of September 30, 2021, this block included approximately 143,000 policies with a GMWB rider and approximately 20,000 with a Guarantee Minimum Death Benefits ("GMDB") rider, as well as $2.3 billion of IFRS reserves, representing 76% of Manulife's US VA net amount at risk.