
MassMutual flies into the 'Bermuda Triangle'

By Kerry Pechter *Fri, Jan 14, 2022*

MassMutual has all the pieces--a life insurer that issues fixed annuities, a stake in a Bermuda reinsurer, a big in-house asset manager, and various partnerships--that should enable it to compete with Athene and Global Atlantic.



MassMutual is now active in what *RIJ* calls the “Bermuda Triangle” business. There’s no reason why a strategy that’s been productive for publicly traded life insurers can’t work for a big mutual company. And, since buying Great American, MassMutual sells fixed indexed annuities—a key input of the triangle play.

This week, the 160-year-old giant mutual insurer helped launch Martello Re Limited, a licensed Class E Bermuda-based life and annuity reinsurance company. A consortium of MassMutual, Centerbridge Partners, Brown Brothers Harriman, and Hudson Structured Capital Management Ltd. capitalized Martello Re with equity of \$1.65 billion.

Centerbridge, an alternative asset manager, and Barings—MassMutual’s own \$300 billion investment arm—will act as asset managers for Martello Re, “providing access to extensive public and private asset origination and underwriting capabilities across all asset classes.”



Roger Crandall, chairman,

president and CEO of
Massachusetts Mutual Life
Insurance Co.

MassMutual, based in Springfield, MA, and its subsidiaries will initially reinsure approximately \$14 billion of general account liabilities with Martello Re and also enter into a flow arrangement to reinsure new business. Both transactions are expected to close in February 2022 and have received regulatory approval.

By reinsuring those liabilities in Bermuda, MassMutual will likely see a big drop in its required surplus, which means it will suddenly have perhaps hundreds of millions of dollars freed-up for new uses. Many publicly traded life insurers are spending their “released capital” on share buybacks. It’s not clear what a mutual insurer, which has policyholders rather than shareholders, might do with such a windfall.

Martello Re “will initially focus on providing MassMutual and its subsidiaries with reinsurance capacity on current product offerings, after which it will offer its services selectively to other top insurers in the life and annuity space,” according to a release.

All three corners of the Bermuda Triangle strategy are here: A life insurer that gathers lots of fixed-rate and fixed indexed annuity premiums each year; a well-capitalized reinsurer in a jurisdiction with a GAAP accounting regime; and an alternative asset manager that originates customized private credit instruments.

In the first half of 2021, MassMutual sold \$1.7 billion worth of fixed-rate annuities, \$618 million worth of fixed indexed annuities (FIAs) and \$553 million of payout annuities (immediate income annuities, deferred income annuities, and structured settlements) in the US, according to LIMRA. In May 2021, MassMutual paid \$3.5 billion for Great American, a well-established FIA builder. In the first half of 2021, MassMutual and Great American combined for \$1.85 billion in sales of FIAs—enough to rank fifth in FIA sales overall.

In the strategy, the life insurer sells annuities, then reinsures the liabilities (releasing priceless surplus capital as a result) and sends the money to the alternative asset manager for deployment. The asset manager lends that money to credit-starved businesses (currently underserved by banks), using its financial engineering skills to turn those loans into sophisticated assets with a variety of risk/return profiles.

Some of those assets—collateralized loan obligations, senior tranches of mortgage backed

securities—are held by the original life/annuity company. But the asset managers are also feeding an enormous global demand from endowments, family offices, corporations and other insurance companies who can no longer get the yield they need by buying plain-vanilla corporate bonds in the public markets.

What's confusing is that life insurers appear in different roles at different times in this drama—sometimes as the targets of acquisition, as clients of alt-asset managers, often as purchasers of exotic risk-managed products, and sometimes as part of a holding company that brings the whole business under one roof—thus enjoying all sorts of synergies, efficiencies and, sometimes, conflicts of interest.

Martello Re will be led by CEO Dennis Ho, a 22-year industry veteran and life actuary who most recently founded Saturday Insurance, an online insurtech platform. Prior to founding Saturday, Ho held a range of other leadership roles including CEO for Longitude Re, Managing Director at BlackRock Solutions, and Head of US Life Insurance Solutions at Deutsche Bank.

Martello Re will be overseen by a Board of Directors made up of investors and Martello Re's CEO. The initial members of the Martello Re Board of Directors will include Chairwoman Ellen Conlin from MassMutual and Michael Baumstein of Barings, Matthew Kabaker and Eric Hoffman from Centerbridge, Jeff Meskin and Taylor Bodman from Brown Brothers Harriman, and Mr. Ho.

Following MassMutual's announcement, AM Best commented, "The credit ratings of Massachusetts Mutual Life Insurance Company and its life/health subsidiaries, remain unchanged following the Jan. 12, 2022, announcement that it has launched a licensed Class E Bermuda-based life/annuity reinsurance company, Martello Re Limited (Martello Re)."