MetLife To Let VA Liabilities Go

By Kerry Pechter *Thu, Jan 14, 2016*

Whether MetLife can or will avoid designation as a Systemically Important Financial Institution is uncertain, but it is clear "that MetLife will no longer write new U.S. retail life and annuity business—a significant strategic shift for the firm," said Fitch Ratings.

Citing its desire to avoid a SIFI designation as the motivation, MetLife, Inc., this week said it would separate from a large part of its U.S. Retail segment, including three life insurance companies and their variable annuity businesses, either selling the companies or creating an independent firm with a new public offering.

MetLife bet big on the variable annuity with living benefits in 2011, writing a record-setting $28.4 billion. Today, MetLife has VA assets of $165 billion, the most among retail VA writers and second only to TIAA-CREF's group variable annuity assets. MetLife's VA assets, and the hard-to-control liabilities attached to them, will move to the new entity.

The move doesn't necessarily mean that MetLife can or will avoid designation as a Systemically Important Financial Institution, according to Fitch Ratings. "It remains unclear if the proposed restructuring will result in MetLife shedding its SIFI designation as the U.S. Financial Stability Oversight Council has not yet to provide an 'exit ramp' for designated firms," Fitch said in a release this week.

But it is clear that "MetLife will no longer write new U.S. retail life and annuity business—a significant strategic shift for the firm," the Fitch release said, as the parent company pursues "a separation of a substantial portion of its U.S. retail life and annuity business that would be subject to enhanced capital requirements under yet-to-be-announced U.S. nonbank SIFI prudential standards."

On Wednesday, Fitch placed the financial strength ratings of MetLife Insurance Company USA and General American Life Insurance Company on Rating Watch Negative. Yesterday S&P also downgraded the financial strength ratings of MetLife Insurance Company USA and General American Life Insurance Company one notch to "A+" (5th highest), while placing the ratings on a negative outlook.

David Paul, a principal at ALIRT Research, said some distributors who have sold MetLife VA contracts have had questions about whether the restructuring will affect the safety of the guarantees.

"Nothing has changed at the life insurance subsidiaries that issued the contracts," Paul told RIJ. "They're just as strong or as weak as they were. All that's changed is the implicit support from the parent. Everyone has been programmed to believe that if you have a well-branded parent, that it's forever.

"But that's not true," he added. "The idea that the parent will always be there, you have to take off the table. We issue scores, which are proprietary, to eight MetLife insurance subsidiaries, and those scores range from strong to quite weak."

ALIRT put the MetLife move in the context of several moves by other VA issuers in after the financial crisis (see chart). "We also note the recent pressure that activist investors (led by Carl Icahn and John Paulsen) are placing on AIG to separate into three operating units, for either spin-off or sale, citing in part the regulatory burdens of the SIFI-designation," an ALIRT **release** said.

- Sun Life Financial's exit from most of its U.S. retail business and ultimate sale of Sun Life Assurance Company of Canada (U.S.) – December 2011/August 2013,
- Hartford Financial's sale of its Individual Life, Retirement, and Individual Annuity businesses, following pressure from activist investors – January 2013,
- ING spinning off its U.S. units in an IPO (new company VOYA Financial)– May 2013,
- Aviva plc's sale of its U.S. business to Athene Holding Ltd. (and Athene's concurrent sale of Aviva's life business to a subsidiary of Global Atlantic) – October 2013,
- Allstate Corp's sale of Lincoln Benefit Life to a newly established professional run-off firm, Resolution Life Holdings Inc. – April 2014,

MetLife Executive Vice President Eric Steigerwalt will lead the new business, according to MetLife release. MetLife said it will spin off or sell MetLife Insurance Company USA, General American Life Insurance Company, Metropolitan Tower Life Insurance Company and several subsidiaries that have reinsured risks underwritten by MetLife Insurance Company USA.

"The parts of the U.S. Retail segment that would stay with MetLife are: the life insurance closed block, property-casualty, and the life and annuity business sold through Metropolitan Life Insurance Company (MLIC). MLIC would no longer write new retail life and annuity business post-separation," the release said.

Approximately 60% of current U.S. variable annuity account values, including 75% of variable annuities with living benefit guarantees, are in entities that would be a part of the new company. The new company would also contain approximately 85% of the U.S. universal life with secondary guarantee business.

The Company's other reporting segments – Group, Voluntary and Worksite Benefits (GVWB), Corporate Benefit Funding (CBF), Asia, Latin America, and Europe, the Middle East and Africa (EMEA) – would remain part of MetLife.

"Currently, U.S. Retail is part of a Systemically Important Financial Institution (SIFI) and risks higher capital requirements that could put it at a significant competitive disadvantage. Even though we are appealing our SIFI designation in court and do not believe any part of MetLife is systemic, this risk of increased capital requirements contributed to our decision to pursue the separation of the business." An independent company would benefit from greater focus, more flexibility in products and operations, and a reduced capital and compliance burden.

"This separation would also bring significant benefits to MetLife as we continue to execute our strategy to focus on businesses that have lower capital requirements and greater cash generation potential. In the U.S., it would allow us to focus even more intently on our group business, where we have long been the market leader. Globally, we will continue to do business in a mix of mature and emerging markets to drive growth and generate attractive returns."

The new company would represent, as of September 30, 2015, approximately 20% of the operating earnings of MetLife and 50% of the operating earnings of MetLife's U.S. Retail segment. The new company would have approximately $240 billion of total assets, including $45 billion currently reported in the Corporate Benefit Funding and Corporate and Other segments.

The complete management team of the new company, as well as its board of directors, is to be defined over time as preparations for the transaction take shape.

Steven A. Kandarian, MetLife chairman, president and CEO, said, "At MetLife our goal is to create long-term value for our shareholders and deliver exceptional customer experiences. As a result of our Accelerating Value strategic initiative, MetLife has been evaluating opportunities to increase sustainable cash generation and is directing capital to businesses where we can achieve a clear competitive advantage and deliver a differentiated value proposition for customers. This analysis considers the regulatory and economic environment in each market where we do business. We have concluded that an independent new company would be able to compete more effectively and generate stronger returns for shareholders. Kandarian concluded, “It is important to note that this is just the first step in the process. We will provide more information as the transaction unfolds, consistent with U.S. securities laws.”

Any separation transaction that might occur will be subject to the satisfaction of various conditions and approvals, including approval of any transaction by the MetLife Board of Directors, satisfaction of any applicable requirements of the SEC, and receipt of insurance and other regulatory approvals and other anticipated conditions. No shareholder approval is expected to be necessary. Because the form of a separation has not yet been set, the Company cannot currently provide a specific potential completion date. If the separation takes the form of a public offering, the Company expects that it would file a registration statement with the SEC in approximately six months. No assurance can be given regarding the form that a separation transaction may take or the specific terms thereof, or that a separation will in fact occur.

The Company is also undertaking preparations to complete the required financial statements and disclosures that would be required for a public offering or spin-off. The completion of a transaction taking the U.S. Retail segment public would depend on, among other things, the U.S. Securities and Exchange Commission (SEC) filing and review process as well as market conditions.

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