
Moody's and A.M Best disagree on GM-Prudential deal

By Editor Test Wed, Jun 13, 2012

Differing signals from ratings agencies are feeding speculation about GM's huge pension risk transfer to Prudential Financial, and about the longevity and other risks associated with the unprecedented deal.

Moody's Investor Service Inc. has said that the June 1 agreement between General Motors and Prudential Insurance Co. (Prudential) to provide income annuities for GM white-collar pensioners is a "credit negative" for the Newark, NJ-based financial services company, according to a report in *LifeHealthPro*.

Some industry experts, including Prudential CEO John Strangfeld, now expect other companies to make similar deals, though of lesser size.

When asked during a June 7 event in Washington, D.C., if more deals like the GM one were anticipated, Strangfeld answered, "Yes. It is the shape of things to come" and that there would be "more of this to follow."

But in its *Weekly Credit Outlook*, Moody's called the transaction a "credit negative" for Prudential because the contract, valued at almost \$30 billion, will now comprise 5% of Prudential's general account holdings.

Such a high percentage poses a significant risk concentration due to the challenges of managing a long-duration portfolio, the low-yield environment, and the difficulty in estimating longevity risk.

On the other hand, Prudential's investment and actuarial expertise, along with its experience in asset liability management, put it in a good position to handle the risks associated with the deal, Moody's said.

A.M. Best Co., meanwhile, has affirmed the financial strength rating of A+ (Superior) and issuer credit ratings of "aa-" of the domestic life/health insurance companies of Prudential Financial, Inc. (Concurrently, A.M. Best has affirmed the ICR of "a-" of PFI and all existing debt ratings of the group. All domestic life/health companies of PFI are collectively referred to as Prudential. The outlook for all ratings is stable.

Referring to the GM deal, "A.M. Best notes that with the recently announced pension risk transfer transaction with General Motors, fixed annuities (both group and individual) will represent an increasing component of total statutory general account reserves. A.M. Best believes that, in general, annuities are a less creditworthy line of business compared to ordinary life insurance products. It is noted, however, that Prudential has established a track record of successfully managing, and to some degree, mitigating many of the risks inherent in its various annuity product lines."