
Prudential divests \$31 billion block of in-force VAs

By Editorial Staff Tue, Apr 5, 2022

Prudential executive vice president and head of US Businesses Andy Sullivan said his company will focus on selling more of its “protected outcome solutions, like FlexGuard and FlexGuard Income.”

In a deal announced last September 15, Prudential Financial, Inc., has completed the sale of \$31 billion of in-force variable annuity account values to Fortitude Re, a subsidiary of Bermuda-based Fortitude Group Holdings LLC.

The block of assets and liabilities consisted mainly of non-New York traditional variable annuities (VA) with guaranteed living benefits that were issued by Prudential Annuities Life Assurance Corporation prior to 2011, according to a Prudential release.

For several years before and after the 2008 financial crisis, Prudential was a leading seller of variable annuities that carried several types of guarantee that contract owners would receive an income for life, without ever giving up access to their money, even if their own principal was depleted by withdrawals, market volatility, or fees, as long as they agreed to keep their annual withdrawals within certain limits.

As a result of regulation and low interest rates, as well as uncertainty over when or how contract owners might use the benefit—or not use it all—the guarantee became expensive for Prudential to maintain. Other life/annuity companies have been in the same predicament; one solution has been to cut losses and sell the in-force blocks of VA contracts to reinsurers.

Reinsurers based in Bermuda and owned or affiliated with “private equity” or “alternative asset” managers are perhaps the most avid buyers of such blocks. AIG sold its reinsurance division to The Carlyle Group and other investors, who renamed it Fortitude Re, which is based in Bermuda.

RIJ has published a series of articles about this phenomenon, describing it as the “Bermuda Triangle strategy.”

Prudential will continue to service and administer all contracts in the block following the transaction. Prudential also will continue to sell protected outcome annuity solutions through other existing subsidiaries.

“This transaction is another key step in our journey to become a higher growth, less market sensitive and more nimble company,” said Prudential executive vice president and head of US Businesses Andy Sullivan. He said Prudential will focus on selling more of its “protected outcome solutions, like FlexGuard and FlexGuard Income.” Those products are less risky and therefore less capital-intensive for Prudential than VAs with guaranteed lifetime withdrawal benefits (GLWBs).

Debevoise & Plimpton LLP served as legal counsel to Fortitude Re. Sidley Austin LLP served as legal counsel to Prudential, and Goldman Sachs & Co. LLC served as exclusive financial advisor.

Prudential Financial, Inc., is a financial services company and global investment manager with more than \$1.5 trillion in assets under management as of Dec. 31, 2021. It has operations in the United States, Asia, Europe, and Latin America.

The Fortitude Re Group includes Bermuda’s largest multi-line composite reinsurer, with unique competitive advantages and expertise to design bespoke transactional solutions for legacy Life & Annuity and P&C lines.

Fortitude Re is backed by a consortium of investor groups led by The Carlyle Group and T&D Insurance Group of Japan. Fortitude Re holds approximately \$48 billion in invested assets as of Dec. 31, 2021.

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