

## Prudential Sells \$31bn Annuity Block to Bermuda Reinsurer

By Editorial Staff     Wed, Sep 15, 2021

*Fortitude Re will assume the assets and liabilities of a \$31 billion block of Prudential annuities, and pay Prudential \$1.5 billion. The block consists mainly of variable annuities with living benefits that Prudential sold before 2011.*



Prudential Financial (NYSE: PRU) will sell part of its in-force legacy variable annuity block to Fortitude Re, Bermuda's largest multiline reinsurer, for \$1.5 billion, Prudential announced this week. This deal also releases about \$700 million in surplus capital that Prudential can now use for other purposes. Prudential will continue to issue its FlexGuard series of indexed variable annuity contracts, a release said.

The deal will move about \$31 billion in assets and liabilities to Fortitude Re, whose parent, Fortitude Group Holdings (FGH), was purchased from AIG in mid-2020 by global investment manager Carlyle Group and T&D Holdings, a Tokyo-based life insurance holding company with a 50-year partnership with AIG in Japan. Its T&D United Capital unit, an asset manager, owns 25% of FGH.

Fortitude Re is a key player in what *RIJ* has called the "Bermuda Triangle" strategy. This three-cornered structure involves a life insurer, a big asset manager, and a Bermuda-based reinsurer. It frees surplus capital for the insurer, increases the assets under management of the investment company, and exploits the difference in accounting regimes between Bermuda and the US. Sometimes affiliated firms or close strategic partners control all three facets of the strategy.

### Deal specifics

Under the agreement, Prudential will sell one of its stand-alone legal entity subsidiaries, Prudential Annuities Life Assurance Corporation (PALAC), including PALAC's in-force annuity contracts, to Fortitude Re, for an all-cash purchase price of \$1.5 billion, subject to certain adjustments at closing, plus an unspecified capital release to Prudential and an expected tax benefit.

The PALAC block primarily consists of non-New York traditional variable annuities with

guaranteed living benefits that were issued before 2011. These types of annuities were capital-intensive, in part because it's difficult to predict how policyholders will use them. Those contracts represent about \$31 billion or 17% of Prudential's total in-force individual annuity account values as of June 30, 2021, or about \$180 billion.

Regarding its ongoing individual annuity business, Prudential said in its release:

Prudential will retain its interest in all FlexGuard buffered annuity contracts and PALAC recently issued fixed and fixed indexed annuities through a reinsurance agreement with Fortitude Re and, subject to regulatory approvals, intends to offer those FlexGuard and other recent PALAC customers the option to replace the issuer of their contract with another Prudential subsidiary, with further details to be provided to applicable customers. Prudential will continue to sell new FlexGuard and other protected outcome solutions through additional existing subsidiaries.

"Prudential's individual Annuities business in the US remains an important component of our business mix and organic growth strategy," said Prudential Executive Vice President and Head of US Businesses Andy Sullivan. "Going forward, we will be better positioned to deliver new investment strategies like FlexGuard, which continues to achieve record success, and focus on creating the next generation of protected income solutions."

The ratings agency AM Best reported on the trade yesterday. "The roughly USD 30 billion of variable annuities acquired in the deal will be funded via excess capital and modest debt issuances at FGH." The execution risk associated with the deal will be mitigated partly by "the Fortitude Re management team's extensive expertise in the variable annuity sector, and by the higher certainty around future cash flow patterns resulting from acquiring the business via a secondary market," AM Best said.

While "Fortitude Re is not participating directly in the acquisition, the change in FGH's capitalization could have an impact, as its financial flexibility could become limited if initial assumptions around the acquisition materially change. The transaction is not anticipated to impact the organizations balance sheet strength metrics materially following its anticipated close in first-half 2022," the ratings agency said in a release.

Upon closing, Prudential anticipates a reduction to pre-tax annual adjusted operating income of approximately \$290 million, based on an estimate of lost revenue on the transferred \$31 billion. Proceeds from the transaction are expected to be used for general corporate purposes. The transaction is subject to regulatory approval and other customary

closing conditions. It is expected to close during the first half of 2022.

Fortitude Re “designs bespoke transactional solutions for legacy Life & Annuity and P&C lines. Fortitude Re is an independent company backed by a consortium of sophisticated groups led by The Carlyle Group and T&D Insurance Group. Fortitude Re holds approximately \$45 billion in invested assets as of June 30, 2021,” the release said.

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.

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