
Reinsurance once again available to VA issuers: Fitch

By Editorial Staff *Fri, May 16, 2014*

But “it is unclear how much of an impact this will have on the risk profile of VA writers,” a Fitch release said.

Improved pricing and less aggressive investment guarantees are leading to a re-opening of the reinsurance market in the variable annuity space, giving writers of VAs a risk mitigation alternative to in-house VA hedging programs, according to a new report from Fitch Ratings.

But “it is unclear how much of an impact this will have on the risk profile of VA writers,” a Fitch release said. “It could result in a reduction in the industry’s exposure to VA risk or, conversely, it could simply allow insurers to sell more VAs than they otherwise would. Fitch expects the ultimate answer to lie somewhere between the two extremes.”

Like the equity markets, the supply of VA reinsurance market has been volatile in recent decades, Fitch said. It was very active in the 1990s, dried up after the correction in 2000-2002, sprang back to life in 2006-2007, and dried up again after the 2008-2009 financial crisis.

Fitch said it has seen an increase in reinsurance transactions involving VA risk. CIGNA, previously a reinsurer of variable annuity risk, entered into a reinsurance transaction in February 2013 with a subsidiary of Berkshire Hathaway on an in-force book of variable annuities.

In the fourth quarter of 2013, Lincoln National Corp.’s (LNC) largest insurance operating subsidiary entered into a reinsurance treaty with Union Hamilton Reinsurance, Ltd., a Bermuda-domiciled subsidiary of Wells Fargo & Co. This transaction was particularly notable in that the reinsurance agreement involved future new business. Under the terms of the treaty, Union Hamilton will reinsure the living benefit guarantee on 50% of new VA sales from Nov. 1, 2013 through Dec. 31, 2014, up to \$8 billion of new living benefit guarantee sales. LNC will retain 100% of the product cash flows, excluding the living benefit guarantee.

Fitch believes that more VA writers are exploring potential opportunities to cede a portion of the risk associated with their VA guarantees, but no other significant announcements of such treaties have yet emerged.

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