US life/annuity insurers cede $1.74 trillion to reinsurers, 2016-23

By Editorial Staff *Wed, Sep 4, 2024*

New capital keeps flowing into the reinsurance segment, primarily via reinsurers owned by investment managers focused on annuity business, AM Best analysts write. These newer entrants co-insure assets that can be rolled into high-yielding public, private or alternative fixed income products.

Fueled by strong annuity growth on higher interest rates, U.S. life/annuity (L/A) insurers have doubled their ceded reserves to $1.74 trillion between 2016 and 2023, with an increasingly larger portion headed offshore, according to a new AM Best report.The *Best's Market Segment Report*, "Strong Annuity Growth Continues Shift to Bermuda Reinsurers," is part of AM Best's look at the global reinsurance industry ahead of the Rendez-Vous de Septembre in Monte Carlo.

According to this report, nearly 47% of ceded L/A reserves were transferred offshore in 2023, after climbing steadily from the 26% level in 2016. AM Best believes this growth is likely to continue, as more companies may look to reinsurance to manage growth and capital levels. "With new company formations, partnerships, and private capital entering the market, the reinsurance market remains competitive and a larger share of business is being ceded to affiliates," said Jason Hopper, associate director, AM Best.

The report notes that the vast majority of $103.2 billion in ceded reserves stemming from the 10 largest transactions of 2023 involved offshore transactions. Bermuda accounted for over a third of all in-force business, as well as 60% of new business, in 2023. Many private equity-owned insurers have started creating offshore reinsurance entities in recent years; approximately two-thirds of reserves ceded offshore go to affiliates. Companies with asset manager/private equity sponsors account for almost 44% of reserves ceded to offshore affiliates.

Bermuda and the Cayman Islands have gained in popularity due to their stable political and economic environments and regulatory landscapes, as well as access to talent (mainly legal and financial professionals). They also have flexible accounting regimes and can choose which system works best, whether that involves IFRS 17, GAAP, modified GAAP, or even a statutory approach.

Life/annuity reinsurance companies have benefited from higher interest rates and favorable mortality trends, an earlier AM Best report says. But firms backed by alt-asset managers or large private equity firms have intensified the level of competition in that niche.

The *Best's Market Segment Report*, "Life/Annuity Reinsurers Face Growing Competition as Conditions Improve," is part of AM Best's look at the global reinsurance industry ahead of the Rendez-Vous de Septembre in Monte Carlo.

Other reports, including AM Best's ranking of top global reinsurance groups and in-depth looks at the insurance-linked securities, Lloyd's, health and regional reinsurance markets, will be available during August and September.

New capital continues to flow into the reinsurance segment, primarily via reinsurers owned by investment managers focused on annuity business, AM Best analysts write. These newer entrants have sought to coinsure assets that can be rolled into high-yielding positions, mainly in public, private or alternative fixed income products.

"These reinsurers also can offer attractive ceding commissions based on higher anticipated investment returns once the transferred assets are rolled into a wider set of investment opportunities," AM Best said.

Overall, L/A reinsurers are well-capitalized and their risk-adjusted capitalization is expected to remain healthy through 2025, despite risks that remain in investment portfolios and elevated mortality for some. Reinsurers owned by asset managers benefit from their parent companies' expertise in structured products, mortgages, private credit, and other alternatives.

"How newer entrants will alter their strategies over the long term depending on macroeconomic trends, availability of deals and regulatory changes remains to be seen. But by all indications, this 'new capital' is here to stay, with billions more committed but on the sidelines waiting for the next opportunity," said Ed Kohlberg, director, AM Best.

Historically, the U.S. life reinsurance market had been pressured as primary insurers transferred less risk to third-party reinsurers, which led to a long decline in cession rates. More recently, rising interest rates led to robust annuity sales, which has motivated some primary carriers to reinsure incremental business.

While annuities are a very capital-intensive product, asset managers have thus far supported rapid growth by providing the needed capital and not constraining growth with material dividends.

Bermuda, and to a lesser extent, the Cayman Islands, have gained popularity based on the stable economic environment and regulatory landscape, as well as political stability and access to legal and financial talent. They also have flexible accounting regimes and can choose which accounting system works best.

“The notable annuity growth is likely to continue, and more companies may look to reinsurers to manage growth and capital levels. With new company formations, partnerships and private capital entering the market, the reinsurance market remains competitive with a larger share of business ceded to affiliates and third-party reinsurers,” said Stratos Laskarides, senior financial analyst, AM Best.