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A Flood of ‘Flow Reinsurance’

By Kerry Pechter *Sat, Feb 1, 2025*

Flow reinsurance involves the ongoing, immediate transfer of risks from a life insurer to a reinsurer as soon as annuities are issued. Life/annuity companies have used flow reinsurance for at least 15 years, but it’s growing fast. (Photo: Gullfoss in Iceland.)

“Flow reinsurance,” a type of reinsurance that’s increasingly used by U.S. annuity issuers to manage their capital requirements, reminds me of mortgage lenders’ “originate-to-distribute” model that helped lead to the Great Recession of 2008.

That may sound like a rash assertion, but those who take an interest in the Bermuda Triangle strategy might want to consider it.

The originate-to-distribute model of the early 2000s involved the ongoing, immediate sale of new mortgages from the banks that originated them to “shadow banks.” Flow reinsurance involves the ongoing, immediate transfer of risks from a life insurer to a reinsurer as soon as new annuities are issued.

Flow reinsurance has been around for at least 15 years, but it’s increasing. “By our count… at least 12 of the 19 top writers of fixed and indexed annuities as measured by 2023 direct premiums and considerations will have flow reinsurance capabilities covering at least a portion of their new business production,” according to a December 12, 2024, report from S&P Market Intelligence.

“We expect more arrangements of the kind to come online in 2025 as incumbent annuity writers seek to enhance their competitive position and fledgling players continue to grow their market share,” wrote an S&P analyst.

Given the companies that are using it, and how they use it, flow insurance appears to be a refinement of the Bermuda Triangle strategy. I could be wrong, but it looks like an accelerant of that strategy—enabling U.S. life insurers to skip the step that would otherwise might require them to capitalize new annuity sales *before* reinsuring them. It may be related to the use of sidecars, which are being set up by Bermuda reinsurers to provide “just-in-time” capital for U.S. annuity issuers.

Benefits of flow reinsurance

Like traditional *block* insurance, flow insurance transfers risk from an insurer to a reinsurer. Both can be used to conserve capital. According to a **release** from Gallagher Re, which advises insurers on and arranges various kinds of reinsurance deals, "As a capital management tool, [flow reinsurance] reduces required surplus and new business strain, thereby maintaining balance sheet capacity for sales growth."

Gallagher mentions the acceleration aspect: "The up-front allowances commonly provided by reinsurers may exceed the direct writer's acquisition costs, leading to improved profitability. The combination of accelerated earnings and a reduced capital base substantially enhances a carrier's return on investment," the release said.

Reinsurance Strategy	Production ($M)	Retention	Strain at Issue* ($M)	Internal Rate of Return	Present Value of Distributable Earnings ($M)
No Reinsurance	$100	100%	$5.0	8.5%	$1.4
With Reinsurance— No Change in Sales	$100	50%	$2.5	14.2%	$1.7
With Reinsurance— 25% Sales Increase	$125	50%	$3.1	14.2%	$2.1

*The impact of reinsurance on strain at issue has been levelized.

Illustration of Flow Insurance, from Gallagher Re • In the **first line**, the carrier is retaining all the business expected to be sold at current pricing levels. • The **second line** illustrates the type of improvements that could be achieved by reinsuring 50% of new business sales. We have assumed that 80% of the reinsurer's ceding commission is used to improve product competitiveness, and the remaining portion is used to mitigate strain. • The **last line** indicates the potential for increased sales resulting from improvements in product competitiveness. [Note: A carrier's independent results are dependent on the product design, investment guidelines, target capital, ceding commission structure and other company specifics.]

Many flow reinsurance treaties today are "quota share reinsurance." According to Google A.I., "Quota share flow reinsurance refers to a type of reinsurance agreement where an insurer cedes a fixed percentage of their insurance policies to a reinsurer…." The primary insurer is "essentially 'flowing' a portion of their risk to the reinsurer, with both parties sharing premiums and losses proportionally based on that agreed percentage.”

Use of flow reinsurance is now common among many of the largest annuity issuers. S&P named Sammons Enterprises (Midland Life), Allianz, American Equity Investment Life, F&G Annuities & Life, Aspida, Corebridge and other annuity issuers as having set up flow reinsurance agreements, often with their own affiliated reinsurers and often offshore.

Flow reinsurance characterizes much of the reinsurance that forms a key leg of the “Bermuda Triangle strategy.” This often involves the separation of annuity sales, risk management, and asset management to different companies within the same holding company, with the reinsurer based in Bermuda or the Cayman Islands.

The current practice of flow reinsurance can be traced back to the same affiliated companies that pioneered the Bermuda Triangle strategy as we know it today: Apollo Global Management and Athene. Athene Holding and Athene Life Re of Bermuda commenced operations in June of 2009, “entering into two flow reinsurance agreements with a highly rated U.S. life insurance company,” according to Athene Life Re’s website.

Other companies followed suit. To name only a handful: In 2019, Somerset Re, also domiciled in Bermuda, entered into a flow reinsurance deal with Prudential. In 2022, Fortitude Re, Bermuda’s largest multi-line reinsurer, signed a flow reinsurance transaction between its subsidiary Fortitude International Reinsurance Limited and a leading Japanese life insurer. In 2024, Resolution Life announced that its Bermudian reinsurance platform, Resolution Re, entered into a flow reinsurance agreement with a Japanese insurer.

Flow reinsurance is often associated with the relatively new concept of “asset-intensive reinsurance.” It involves transferring the financial risks of the assets backing annuity liabilities (but not the actual investment assets, which in a “modified coinsurance” arrangement the original insurer may continue to hold in trust for the reinsurer) to a reinsurer, who may also be the manager of the assets.

“Asset-intensive, or funded reinsurance, is another trend we are seeing more and more,” according to the European Insurance and Occupational Pension Authority. “It extends beyond traditional underwriting risk to also cover market risk. These contracts frequently involve outsourcing the management of the underlying assets to a reinsurer, which introduces substantial counterparty risk that is usually mitigated through collateralization.”

Similarity with originate-to-distribute lending

These strategies can increase the sales capacities of annuity issuers just as they increased the sales capacities of mortgage lenders 15 to 20 years ago—by reducing the reserve or capital requirements that traditionally go with the acquisition of new risks through lending. Higher sales generate higher fee revenue. But both practices arguably create moral hazard and add to “systemic risk” by removing traditional brakes on overproduction.

That makes flow reinsurance reminiscent of originate-to-distribute mortgage lending. The two, of course, are not identical. Annuity issuers commonly *receive* money in chunks of $100,000 or more from members of the public, while mortgage lenders *lend* money to members of the public. So, what’s the similarity?

Once annuity issuers gather premiums, their asset managers may then reach for yield by lending to low-credit, high-cash-flow borrowers, such as companies involved in aircraft leasing, cellphone towers, or music licensing and distribution. Those “leveraged loans” are analogous to subprime mortgages. Life insurers live or die between the risk they buy when making guarantees to annuity owners and the risk they buy when investing general account assets.

Since flow reinsurance also reduces the demand for fresh capital that new annuity sales traditionally requires (the definition of today’s “capital light,” Bermuda Triangle insurance business model), it could also leave reinsurers or insurers (in cases where they still bear the responsibility for fulfilling financial guarantees to contract owners) without enough surplus to endure a wave of defaults on leveraged loans during some future financial crisis.

The risks of private credit lending are real, and can grow in proportion to the growth in private credit assets. “There is nothing structurally wrong with private credit as an asset class. Its returns should be competitive with other asset classes of comparable risk, *on average, over time*,” wrote financial scholar Larry Siegel, research director of the CFA Institute, in 2024.

“There’s the rub—on average, over time,” Siegel said. “The glory days of any new asset class tend to be early in its evolution. Once a lot of money has poured into the asset class, valuations become stretched, opportunities become exhausted and expected returns decrease. That is what has happened with private credit.”