
VA Rider Hedging Has Been 94% Effective—Milliman

By Editor Test *Wed, Aug 5, 2009*

The financial crisis has prompted VA writers to reevaluate their entire risk management strategies and become more self-reliant, the Seattle-based consultants say.

Milliman Inc., the Seattle-based independent consulting firm, has published a sequel to its December 2008 report on the state of the variable annuity business. In this [July 2009 report](#), actuary Peter Sun finds that:

- Based on Milliman's study of VA writers with hedging programs, the hedging programs have been about 94% effective in achieving their designed goals during the November 2008 through March 2009 period.
- Significant refinements and expansions of existing hedging programs have been explored and implemented. These changes enhance the earnings of VA writers through better management of basis mismatch, interest rate hedging strategy, volatility assumptions, and investment strategy of hedge assets.
- The arms race in richness of product features has ceased as a result of the financial crisis. Simpler product designs with higher fees are becoming the new product trend.
- There was a flurry of mergers and acquisitions (M&A) activities, with no successful transactions. That dynamic is bound to change. The financial crisis stands to weed out weaker players in the market, and leave stronger and bigger surviving VA writers with viable products and robust hedging programs.

Reinsurance and structured derivative solutions became less available again as a result of the financial crisis. This has prompted VA writers to reevaluate their entire risk management strategies to be more self-reliant.

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