Voya hires Milliman to hedge its closed VA block

By Editorial Staff *Thu, Jun 5, 2014*

In 2010, Voya Financial stopped actively writing new retail variable annuity products with substantial guarantee features and separated its closed block of VA business from its ongoing businesses, according to a release.

Voya Financial, Inc. (formerly ING U.S.) has agreed to outsource the actuarial valuation, modeling and hedging functions for its Closed Block Variable Annuity (CBVA) segment to Milliman, the companies said in a release this week.

Milliman will calculate the financial reporting and risk metrics, and the analytics used to determine hedge positions. Voya will oversee and manage the CBVA segment and retain full accountability for assumptions and methodologies, as well as the setting of hedge objectives and execution of hedge positions, according to the companies.

In the release, Michael Smith, chief executive officer, Insurance Solutions and manager of Voya Financial's CBVA segment, said:

> "Following our move to cease offering variable annuities with guarantee features in 2010, and having also completed significant work to ensure the CBVA segment is appropriately managed to protect regulatory and rating agency capital, we are now taking an appropriate next step by outsourcing certain functions for this run-off block. Our agreement with Milliman allows us to create a more streamlined framework for the CBVA segment and achieve a more variable cost structure for this run-off block."

Voya Financial, which has had a long-term relationship with Milliman, will complete parallel financial closing actions with Milliman prior to final implementation. The transition is expected to be completed in 2015. At the end of 2013, ING Group had about $71 billion in VA assets, according to Morningstar. But that amount is said to have shrunk considerably since then.

In 2010, Voya Financial stopped actively writing new retail variable annuity products with substantial guarantee features and separated its CBVA segment from its Ongoing Businesses. This run-off segment is classified as a closed block and is managed separately from Voya Financial's Ongoing Businesses – Retirement Solutions, Investment Management and Insurance Solutions.

Milliman manages about $100 billion in closed variable annuity business for about 15 life insurance companies, according to Deep Patel, a Milliman principal who is involved in the project.

Once a block is in run-off, it gradually shrinks to nothing. Its guarantees are still sensitive to interest rate risk and equity market risk and have to be hedged, however. But companies typically want to focus their IT budget and best IT personnel on new and growing parts of their businesses. So it makes sense for them to outsource the maintenance of a shrinking business.

For Milliman, on the other hand, hedging is a core business. “This is our bread and butter,” Patel said. He added that hedging a closed block of VA guarantees isn’t much different from hedging new business. Both require a lot of computing power, hard-to-find financial engineers and costly redundancies. “We have double everything. For our internet connection, we’ll have AT&T and Verizon.”

VA hedging has also evolved in a way that makes it more appropriate for outsourcing, he said. “The way that companies see VA hedging has changed a little over the years. They used to see hedging as a strategic tool and a competitive advantage. But now it’s seen as an ongoing operation or service. When something is strategic, you tend to keep it in house. When it’s just operational, you might not.”