

Equity-Based Insurance Guarantees Conference

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VA Guarantee Reinsurance Market – Direct Writer’s Perspective

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VA Guarantee Reinsurance Market – Direct Writer’s Perspective

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Monday, November 5, 2018

Session 1B: 1045 – 1215 hours



Agenda

- Background
- Product Design Considerations
- Risk Management Options
- Benefits of Reinsurance
- Conclusion

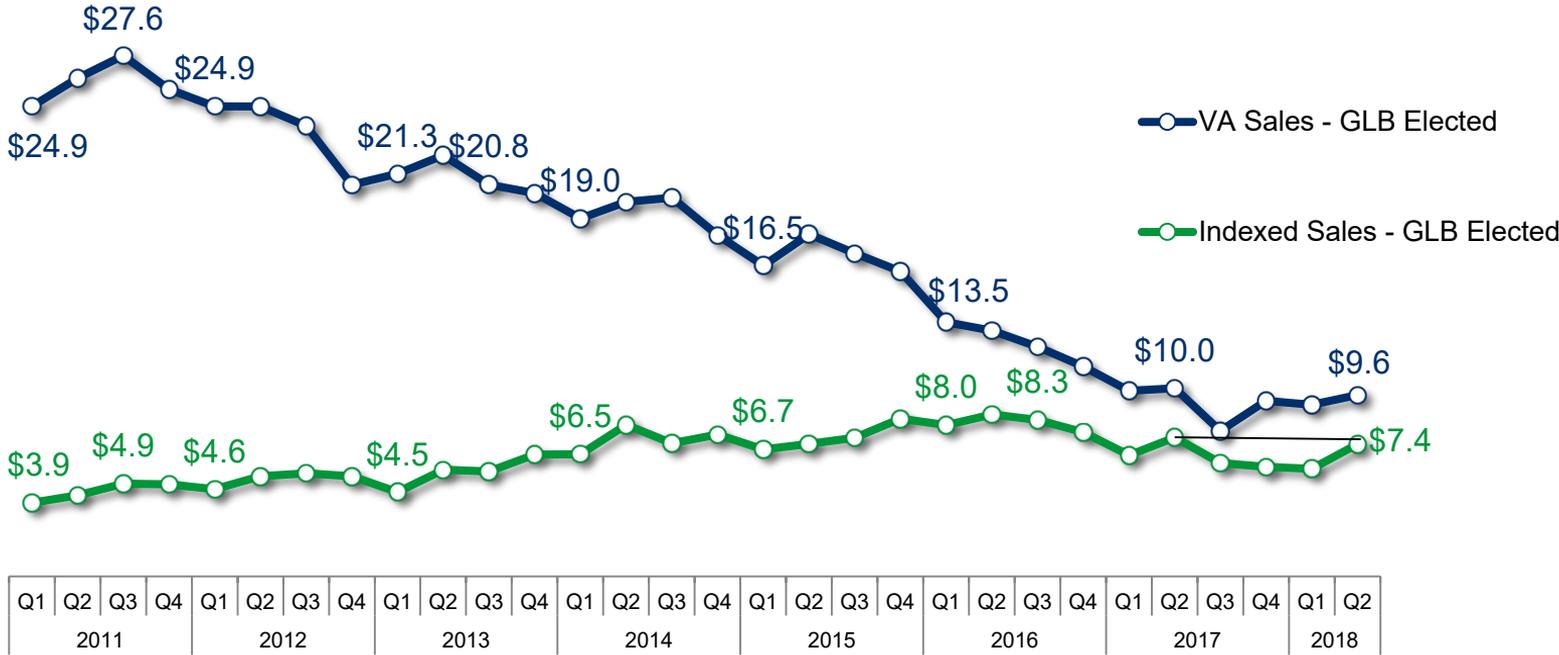
Background

Background

- Historically Focused on Spread Products
 - Life Insurance
 - Fixed Annuities
- 2012 Diversified into Fee Products (% AUM)
 - Mutual Funds
 - Variable Annuities
 - IOVA Focused
 - Limited market
- Desire to Expand VA Presence
 - Hybrid VA – currently not an option
 - Non-GLWB VA guarantees small % of market
 - GLWB space still an opportunity

Guaranteed Living Benefit Sales

(in \$ Billions)

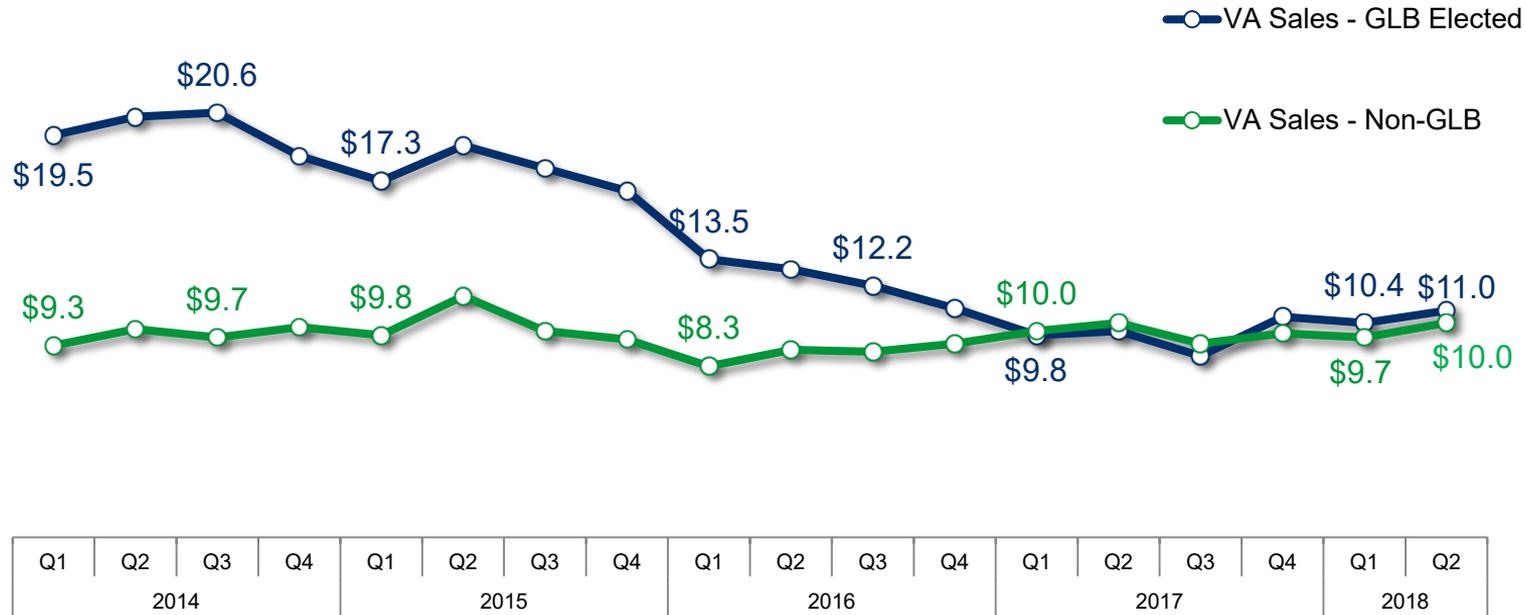


Source: LIMRA Secure Retirement Institute, U.S. Individual Annuities survey, VA & Indexed GLB Election Tracking Survey

VA GLB sales exclude GMAB sales

Analysis includes new/existing sales and excludes sales of FRD annuities with a GLB rider

VA Sales With and Without Guaranteed Living Benefits (in \$ Billions)



Source: LIMRA Secure Retirement Institute, *The Variable Annuity Market, Second Quarter 2018*

GLWB Opportunity

- Drivers of VA GLWB Sales Slide
 - Limited upside – volatility controlled funds
 - Limited benefit levels
 - High fees
 - Competition from FIAs
- GLWB Still About 50+% of VA Sales
 - ~\$45B annual sales
- Need an Innovative Product Design
 - Unique GLWB benefit feature
- Need AV upside potential
 - No volatility control funds

Product Design Considerations

Product Design Considerations

- Focus on GLWB
 - Base VA, no DB
- Unique GLWB Design
 - After a certain date LPAs continue
 - No rider charges
 - AV not reduced for LPAs
 - GLWB Roll-up
 - Unique participating roll-up
 - $2\% + \text{Max}[0, 75\% \text{ of S\&P500}]$
 - Limit the fixed rate component
 - Participating component adds upside potential

Product Design Considerations

- Funds
 - Provide upside potential for the AV
 - No volatility control funds
 - Up to 80% allocation to equity funds
 - Hedgeable
 - All equity funds are tied to S&P500
 - All bond funds are broad based high quality bond funds
- GLWB Rider Charge
 - Set to permit risk management
 - Cover expected hedge costs
 - Cover expected reinsurance costs
 - Ability to change on inforce

Risk Management Options Explored

Risk Management Options Explored

- Go Naked
 - Limit exposure via sales management
 - Limits sales potential
 - Not really risk management
- Outsource Hedging
 - Limited ability to develop internal expertise
 - Need scale to keep relative costs down
 - Retain hedge “breakage” risk
- Build VA Hedging Platform
 - Expensive
 - Long lead time
 - Questionable Cost/Benefit given low early sales
 - Retain hedge “breakage” risk

Risk Management Options Explored

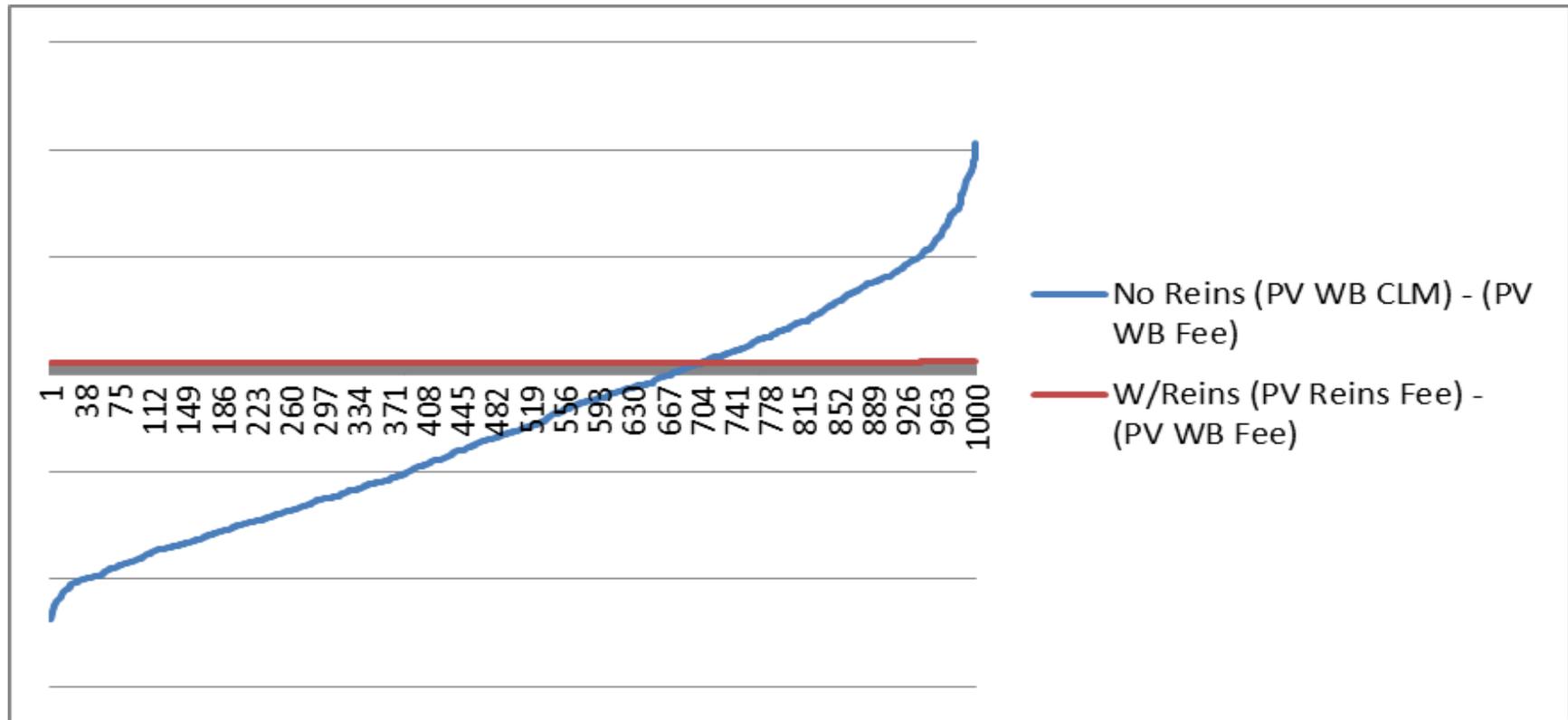
- Capital Markets Reinsurance
 - Investment Bank offered solution
 - Does not cover actuarial risks
- Traditional Reinsurance
 - Coinsurance across entire VA contract
 - Does not modify risk profile
 - Includes base VA - prefer to retain that exposure
 - Coinsurance on GLWB only
 - Coverage limited to risk of concern
 - Covers capital market risks
 - Covers actuarial risks

Benefits of Reinsurance

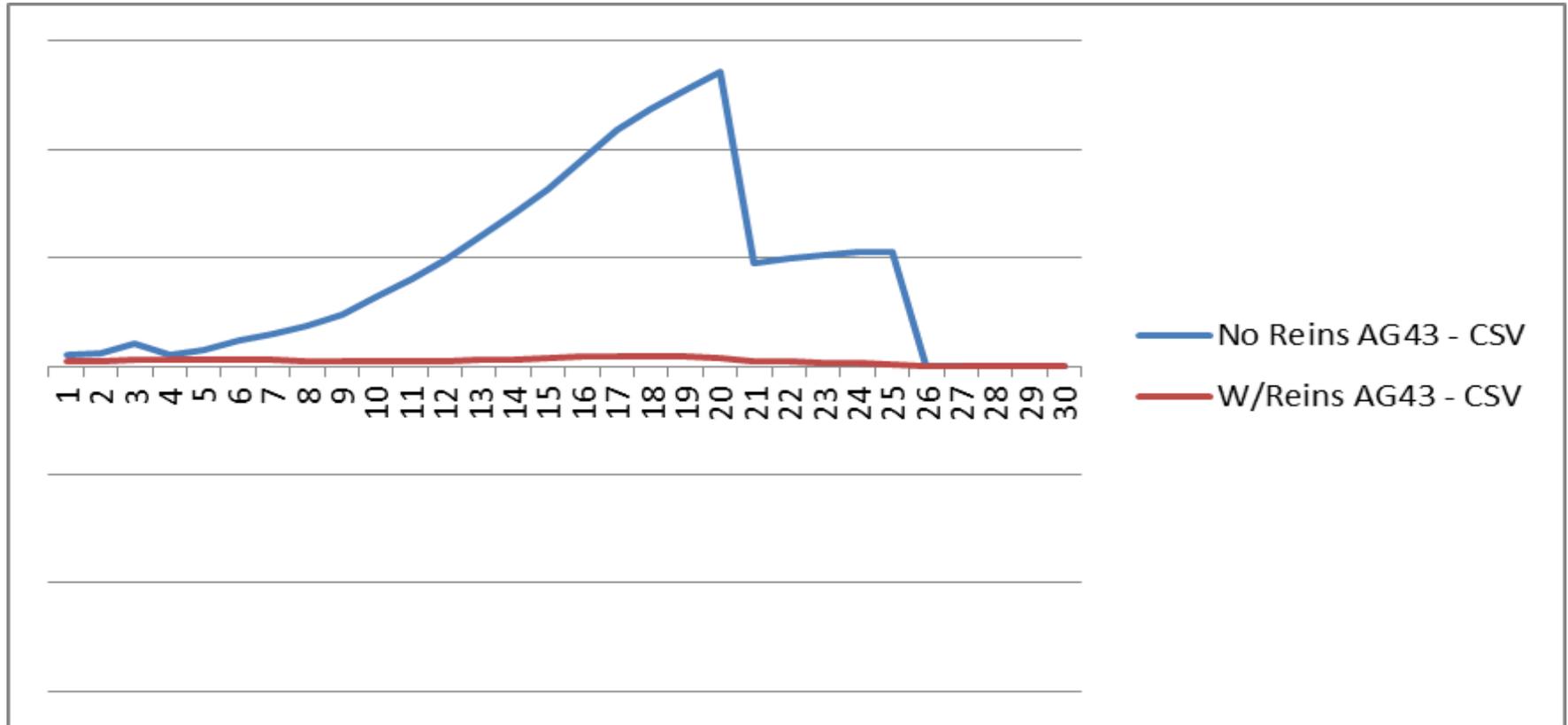
Benefits of Reinsurance

- Entered into Coinsurance on GLWB only
 - Provide desired economic coverage
 - Does not include transfer of base VA economics
 - Covers GLWB Claims
 - Reinsurance fee set at contract issue
 - Minimize the uncertainty of GLWB claims cost
 - Includes actuarial assumptions
 - Cover funds' basis risk
 - Reserve Credit
 - Reduces uncertainty of reserve impact under uncertain future market conditions
 - Certified Reinsurer in domiciliary state
 - Meet risk transfer requirements (A-791)
 - Meet NAIC guidelines "Credit for Reinsurance Model Regulation"

Economic Profile Without and With Reinsurance



Statutory Reserve Profile Without and With Reinsurance



Conclusion

Conclusion

- Invested Partner
 - Structured Reinsurance to Meet Our Objectives
 - Covered GLWB claims risk (LPAs payments made by us)
 - Meet Risk transference requirements (reserve credit)
 - Indirect Pricing Validation
 - Actuarial assumptions
 - Pricing scenarios
 - Pricing models
 - Provides Avenue for New Entrant/Small VA Player
 - Lower upfront costs and less lead time than building internal hedge program
 - More certainty than hedging



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