Beyond the Text Podcast

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TRANSCRIPT

Growth in the Annuity Reinsurance Market

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[OPENING MUSIC]

[Alyssa Gittleman (AG)]

Hello and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department. I'm your host, Alyssa Gillman, a director and head of Consulting and Customer Operations here at Conning.

Join me as I welcome analysts and guests to provide insights on recent publications in emerging industry trends. Today, I am here with Scott Hawkins, the head of Insurance Research and a Managing Director at Conning. I wanted to bring him here today to discuss growth in the annuity reinsurance market, which is a trend Conning is closely monitoring.

So, let's get right into it with our first question. Scott, you've stated that annuity reinsurance is crucial for continued growth in the industry. Could you talk a little about that and what you mean?

[Scott Hawkins (SH)] (00:57)

Sure Alyssa. First, you really have to step back and look at the huge opportunity annuity insurers are looking at. More Americans are turning 65 this year than any other year in history. And think about this: there was $25 trillion in the 401(k) and IRA assets at the end of the first quarter of 2024 and retirees are looking to find ways to turn those accumulated assets into guaranteed retirement income.

At the same time, the passage of the Secure Act opens up the 401(k) market to the introduction of annuity-like solutions, and there's another $3 to $4 trillion of assets held in corporate DB plans and many of those plans are looking to annuity insurers to de-risk the plans through pension risk transfers. So, when you put all that together, you're looking at a tremendous opportunity for the annuity industry to capture more assets.

However, that opportunity is really limited by the capital supporting those insurers. We think without a significant amount of capital flowing into the industry, the annuity industry may be constrained in its capacity. And that's where reinsurance is playing a crucial role. By allowing primary annuity insurers to cede annuity liabilities, those primary carriers' capacity is increased.

[AG] (2:08)

That's really interesting. So, what's the annuity reinsurance market looking like for 2024?

[SH] (2:14)

I would characterize the current annuity reinsurance market with three words: competition, expansion and capital. Since the formation of Athene (in 2008), we followed the development of approximately 30 new annuity-focused reinsurers and primary insurers. We've seen these new entrants fall into two broad camps. There are those just focused on reinsurance, either closed blocks or flow reinsurance. The others are new entrants engaging in both reinsurance and issuing new annuity contracts.

Now, over the last decade, these new entrants have been competing for a smaller and smaller pool of annuity liabilities and this has led to an expansion of the types of liabilities these new entrants are looking at. From fixed annuities and index annuities, we've seen VA (variable annuity) liabilities be reinsured, and universal life of secondary guarantees also being reinsured.

With VAs and UL (universal life) secondary guarantees, however, not all annuity reinsurers can provide that capacity. You really need specialized risk-management hedging capabilities to support the embedded risks in those two products and really only a handful of new entrants have those capabilities.

At the same time, some of these larger new entrants have expanded into pension risk transfers and this opened up the DB plan market to new sales and those companies are using reinsurance to support that growth.

Now all of this expansion has led to the third word describing the current market: capital. And here I'd focus on the emergence of sidecars within the annuity market. Sidecars aren't a new idea. They've been on the PC side for a while, but we've seen annuity insurers now introduce them to support reinsurance growth and we estimate that there's enough capital in these sidecars to support approximately $140 billion of reinsured annuity liabilities.

These sidecars are crucial sources of new capital that's going to help support the industry's growth, and we think they're going to continue to grow in number.

[AG] (4:09)

Thank you, that's an interesting point and it kind of leads me to my next question. With the growth of reinsurance, we've seen an increase in scrutiny by regulators and others in the annuity reinsurance market. Could you spend some time going into exactly what we're seeing here from the regulatory front and what that means for the future?

[SH] (4:27)

Sure. You know, with the rapid growth of these new entrants and the market share they've captured, there's been some pushback that's led state and federal regulators to take a close look at these companies.

Now some of that scrutiny is focused on the use of offshore and captive reinsurers; other scrutinies focusing on the types of assets these companies are investing in. But you know from our view, increased regulatory review is not necessarily bad. The relationship between these new entrants and their owners can be quite complex. So, more transparency into those relationships and the assets they're investing in is really a good thing.

However, we also think regulators need to be really cautious in developing any new rules that affect reinsurance.

Because of that historic shift away from DB plans to 401(k) plans, people are increasingly dependent upon generating their own retirement income rather than depending upon a classic pension payment. And the insurance industry is the only industry out there that can provide a financial product that guarantees an income stream to a retiree. So, if regulations are too strict, they can drive away the reinsurance capacity that's really needed to support the growth of guaranteed income solutions for a growing retiree population.

{AG] (5:39)

Thank you for that insight. Before you leave us, could you share any final thoughts on the outlook of the annuity reinsurance market, now going beyond the regulatory implications you just discussed?

[SH] (5:51)

You know, Alyssa, we've been following the annuity reinsurance market here at Conning, along with a growing need to provide guaranteed retirement income, for over 15 years. And over all that time our basic thesis hasn't changed: there is a tremendous growth opportunity for annuity insurers over the next decade. That's why you'll see us forecast continued higher premium growth in our upcoming life annuity mid-year forecast.

Finding solutions that help retirees generate that guaranteed retirement income is a growing opportunity for the life insurance industry. But the question has always been: Can the industry find the capital it needs to support the liabilities that could absorb as boomers, like myself, retire? We know that reinsurance is just one of the ways we've seen the industry respond to that need, and we think that response is only going to continue to grow and we're looking forward to it.

[AG] (6:39)

Thank you so much Scott, for joining me today and going beyond the annuity reinsurance market. And thank you all for listening to today's episode of Beyond the text. If you're interested in learning more about what you heard today, you can purchase our reports at conning.com or you can always send us questions at insuranceresearch@conning.com.

We hope you will subscribe to this podcast and join us for our next episode as we stay up to date on industry trends. Thank you.

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