

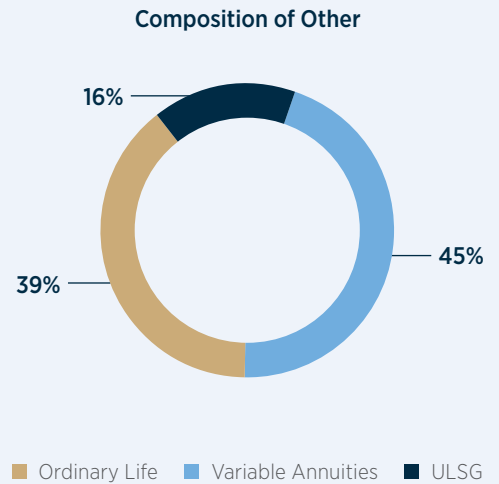
# In Force Reinsurance

## Free Trapped Capital Through Reinsurance

For most of the last decade, large in force reinsurance transactions were typically annuity-based. As the financial markets shift, both carriers' and reinsurers' focus has changed: now the market is concentrating on more complex, often problematic lines of business, where reinsurance can stabilize risk and free capital for other, more profitable uses. Gallagher Re believes this trend will continue.

### An Evolving Market

The graph below illustrates the sharp movement away from annuities and towards complex products, such as universal life with secondary guarantees (ULSG), variable annuities, and COLI/BOLI. After a bumper year in 2021, reinsurance of all individual general account annuities decreased.



Compiled from S&P and other public sources.

# Motivations

## Capital management

The low interest rate environment of 2019–2021 allowed insurers to be particularly opportunistic, realizing capital gains when they sold assets in a reinsurance transaction. While higher rates have made in force annuity transactions less attractive, they have caused increased consumer demand for annuities, making reinsurance flow transactions more appealing.

## Risk management

Problems with complex products such as ULSG, long term care, or variable annuities take many years to emerge. At the same time, accounting practices often understate the degree of deterioration, leaving carriers reluctant to realize a loss by reinsuring the business. However, it appears we have reached a tipping point—reinsurance volume of ULSG so far in 2023 is over twice as much as the prior five years combined.

## Strategic focus

The ability to focus on core business is an important incentive for any carrier looking to exit a line of business. The released risk capital, which may be applied to more profitable opportunities, is also attractive and serves as an important justification—financially and for external messaging—when reinsuring at a loss.

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# Supply-Side Considerations

## Capital supply

Private equity sponsorship of asset-intensive reinsurers is growing and provides abundant capital. The increased capacity is pursuing fewer annuity deals, driving reinsurers to seek new markets.

## Knowledge development

The largest start-up reinsurers are well-established and have developed robust infrastructures. They have the expertise needed to evaluate and structure complex liability transactions and are more than simply “asset players.”

## Portfolio fit

Within the asset-intensive market, investment specialties influence the demand for certain products. Reinsurers with long-term strategies, such as investing in real estate, may find long duration liabilities appealing, while those focusing on shorter assets, such as private loans, may favor fixed annuities.

# Reading the Tea Leaves

In force deals aren't going away, but they are becoming more complex. Gallagher Re believes the next frontier will be long term care—carriers with large legacy blocks continue to be punished in the stock market, which fears the business is under-reserved. However, LTC's asset-intensive nature, coupled with advances in claims management techniques, are likely to reduce the bid-ask spread. We can expect to see large LTC as well as variable annuity and ULSG transactions.

External influences in the financial markets also affect reinsurance capacity. Changes to the funding capacity of private equity investors will affect reinsurers' access to capital. Similarly, any consolidation amongst reinsurers may change the balance, as a reduction of industry capital may result in more selectivity.

## Finding the Right Partner

In this unpredictable setting, carriers looking for an opportunity to clean house, free capital, and focus on core objectives, can benefit from having an experienced advocate working on their behalf. Finding a reinsurance partner that will offer an arrangement tailored to the insurer's requirements can be daunting.

Complex products often require complex structural features, and financial terms can vary widely. It can also be difficult to identify the risks and benefits of each component in a proposed structure, and the ways to mitigate or maximize them.

## Why Gallagher Re

Gallagher Re's Life Solutions team is a dedicated ally from start to finish. We devise and orchestrate a seamless response to each client's challenges, and faithfully represent their interests to the market. We have the experience and market knowledge critical to delivering the right reinsurance solution for each situation. We listen to our client and then put in place a disciplined process that ensures their objectives are met, while identifying elements that increase value and/or reduce risk.

Our team specializes in asset-intensive liabilities with a focus on assisting carriers that seek to improve the performance of their product lines. We are connected to experts throughout the Gallagher organization, so wherever you are in the world, you get the best advisory, analytical, and product expertise we have in our business focused on and dynamically applied to your business—fast.

Learn more about our client-focused, collaborative approach.

Connect with us today at **[GallagherRe.com](https://www.gallagherre.com)**.

**It's the way we do it.**



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