

## Surge in VA sales leads to capacity questions

Advisers wonder whether insurers are becoming top-heavy

**By Darla Mercado**

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After a surge in variable annuity sales last year, financial advisers are curious about just how much more business the largest sellers can handle without biting off more than they can hedge.

Industrywide, sales were up 10% at the end of last year, reaching \$140.5 billion, according to LIMRA. That has advisers asking questions, and some of the top insurers, including Prudential Financial Inc. and MetLife Inc., have revamped their communications to answer them.

The issue centers on transparency. Insurers don't want to provide too much detail about how they manage portfolio risk, but curious advisers are still looking for answers from wholesalers.

Add to this the fact that ratings agencies, such as Moody's Investors Service, place a premium on companywide diversification, monitoring whether insurers are loading up too much on one business line.

"It's very difficult to know exactly what the insurers are doing," said John V. Picone, an adviser with Picone Financial Partners.

"We spend time asking the wholesalers questions about the products," he said. "It's hard to get a clear answer on finances unless you look at them yourself."


Having an up-close and personal look is exactly what at least one major VA producer did.

Marc Silverman, president of Silverman Financial Inc., flew to Prudential Annuities' headquarters in Shelton, Conn., to learn about the insurer's risk management strategies.

"We pulled the contracts apart and put them back together; there's nothing to hide," he said.

For advisers without that kind of pull, insurers provide literature outlining their risk management programs.

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MetLife's offering depicts the diversity of its business lines and sources of revenue, and gives a bird's-eye view of its hedging strategies. The insurer started this practice during the financial crisis, and though it no longer participates in quarterly calls with its advisers, the hedging literature is updated every six months.

Jackson National Life Insurance Co. has a risk management white paper that addresses many concerns in a question-and-answer format. It covers its use of equity futures, options and interest rate swaps to hedge its benefits and says that Jackson runs its hedging models weekly, based on market conditions.

The literature is intended only for advisers, not the general public.

Prudential recently published a white paper for advisers, providing a general walkthrough of how guaranteed-minimum-income and lifetime-withdrawal benefits have exposed insurers to longevity and market risk, and how hedging and modeling have helped insurers contend with it.

Prudential Annuities also is giving advisers a continuing-education course on hedging, according to Bryan Pinsky, senior vice president of product development.

The three insurers share about 40% of the VA market, according to Morningstar Inc.

Advisers have good reason to learn about VA concentration risk, insurance analysts said. For in-stance, one of the ratings drivers that Moody's uses for insurers is the percentage of total statutory liabilities attributable to VA business, said senior vice president Scott Robinson.

That doesn't mean that insurers will go out of their way to give up their secret recipes, however.

Often the nitty-gritty about the way insurers are able to take on new business each year is kept under wraps because the material is considered proprietary and is shared only with analysts and ratings agencies.

"Some companies are very specific, and some are a little more vague about risk management," said Caleb Callahan, vice president of investment marketing at ValMark Securities Inc. "But before you get into the deep dive of risk committees and dynamic hedging, you have to look at the high level: What are your overall natural hedges, given your product mix?"

In MetLife's case, sales of annuities and retirement products account only for 9% of revenue, said Curtis Wohlers, national sales manager for the company's independent-planner channel.

"We get the question as to whether there's a ceiling to how much variable annuity business you can write," he said.

"Our chief executive [C. Robert Henrikson] has responded that he loves the business but isn't in love with it. You don't want to have this be the lion's share of your company, because

of stock market and interest rate risk," Mr. Wohlers said.

What MetLife doesn't provide, however, are the specifics of the hedging instruments they use or the lapse rates for their variable annuities, he said.

"We don't get that detailed, simply because advisers aren't looking for that level of detail," Mr. Wohlers said.

"They ask about capacity, but not necessarily in dollar form," Mr. Pinsky said.


"We don't want any one of the slices of the pie to get too large. There's no exact metric that we disclose publicly," Mr. Pinsky said.

"The VA business is just a sliver of the overall business at MetLife and Prudential; that's what we like," Mr. Picone said.

"We don't want a company that's big in one thing. The more businesses you have, the more you reduce your risk."


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