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Voya's $54B Annuities Selloff Escalates Industry 'Sea Change'

By Warren S. Hersch December 22, 2017

The Voya Financial building in Windsor, Conn.

A secular trend is underway that could shake up the life-annuity industry for years to come: the divestiture of low-margin, capital-intensive retail products by carriers keen to redirect their focus for more profitable businesses, including the burgeoning employee benefits space. **Voya Financial**, following in the footsteps of **MetLife** and **The Hartford**, has now turbo-charged the trend with its blockbuster sale of variable, fixed and fixed indexed annuities in a multi-party, private-equity-backed deal, as reported yesterday by *Life Annuity Specialist*.

And as with the MetLife and Hartford deals, Voya's strategic move is also a smart one. That's the assessment of analysts, who say the whopping $54 billion transaction frees the New York-based insurer to intensify sales in three segments it sees as core to its future: non-retail retirement, employee benefit and asset management businesses.

Meanwhile, Voya Financial's sale of $19 billion in profit-generating fixed and fixed indexed annuities to Athene was, says one analyst, needed to clinch the offloading of a closed block of variable annuities valued at $35 billion to the Apollo-backed investor consortium.

"This is a credit-positive transaction for Voya," says **Deep Banerjee**, a director at **S&P Global**. "Companies are facing pressures due to the continued low interest rate environment. They have to take steps to let go of businesses that aren't core to their strategy."

Adds **FitchRatings** Managing Director **Doug Meyer**: "Voya is exiting exposure to a volatile closed block VA business. That's a good thing because it was a very capital-intensive business that had significant tail risk — the prospect of meaningful losses in an adverse capital market scenario."

The analysts' positive assessments are reflected (mostly) in revised ratings of Voya in the wake of the deal. S&P Global affirmed its 'BBB' long-term issuer credit rating on Voya Financial and Voya Holdings Inc. Also maintained is the 'A' financial strength and long-term issuer credit ratings on the group's remaining operating

subsidiaries (among them **Voya Retirement**, **Midwestern United**, **Reliastar Life** and **Security Life of Denver**).

Fitch affirmed ratings for Voya Holdings ('A+' for senior, unsecured notes) and the company's subsidiaries, ('A') though downgraded to "negative" from "stable" the outlook for the holding company. **A.M. Best** "placed under review with developing implications" the financial strength rating of 'A' (Excellent) and long-term issuer creating rating of 'a+' for Voya's life units.

Factors Driving the Sales

As reported in *Life Annuity Specialist* on Wednesday, Voya's offloading of $54 billion in annuity assets held by Voya Insurance and Annuity Company (VIAC) — including a closed VA block valued at $35 billion to an **Apollo Global Management**-backed investor consortium; plus $19 billion of fixed and fixed indexed annuities to **Athene** through a reinsurance deal — paves the way for the New York-based carrier to exit the market for retail annuity products.

The sale is in keeping with the carriers' strategic direction in recent years: enhancing its focus on more profitable lines, including retirement, asset management and employee benefits businesses. The deal also aligns with a common theme of other recent transactions: the need to jettison capital-intensive businesses that, in the current low interest rate environment, are not generating the high returns of other segments.

Deep Banerjee, a director at S&P Global.

Thus, MetLife spun off individual life and annuity products earlier this year to the now independent **Brighthouse Financial**, enabling the industry titan to cater to higher-margin employee benefits. Likewise, The Hartford is intensifying its focus on the worksite market, having earlier this month sold $2.05 billion in life and annuity blocks of **Talcott Resolution** to an investor group led by **Cornell Capital** and **Atlas Merchant Capital**.

Sales of the closed VA blocks also come at a propitious time for both Voya and The Hartford. One reason is the increasing involvement of cash-rich private equity players in the VA business, as they see opportunities to generate continuing fees managing the products' investment subaccounts. Another factor is the booming equities market — the Dow rocketed more than 5,000 points between January 1 and December 18. The rise makes the products' income guarantees less costly to sustain, and thus more attractive to an outside buyer.

Also, as with MetLife's spinoff of individual life-annuity lines to Brighthouse, Voya is selling to Athene products — fixed and fixed indexed annuities — that continue to be manufactured. Analysts differ, however, about whether Voya would have kept the fixed products in its portfolio if their inclusion in the deal were not a (presumed) condition of Apollo and/or Athene.

In the view of Banerjee, jettisoning the fixed lines was needed to sweeten the deal. A stand-alone sale of the closed VA block would have been more challenging absent the fixed products, which continue to generate earnings.

"The fixed and fixed indexed annuities were actually profitable for Voya," says Banerjee. "In order to sell a volatile and risky VA block of business, they had to give up businesses — the fixed and fixed indexed lines — that were doing comparatively well. The inclusion was, we believe, essentially a cost of the transaction."

Fitch's Meyer concurs on the product lines' profitability, noting that they generate a "meaningful source of earnings" for Voya Financial. Their loss also reduces the carrier's "product and cash flow diversification," but Meyer insists that the reinsurance pact with Athene dovetails with Voya's vision of narrowing its focus to the higher-margin group retirement, employee benefits and asset management spaces.

The deal, the analysts note, yields other benefits for Voya. Among them: a 9.9% interest that the carrier will have in a newly created investor group, **Venerable Holdings**, that will manage the closed VA block. Voya additionally stands to garner $400 million in ceding commissions paid by Athene as part of the reinsurance agreement. Upshot: a partial gain to offset the loss of the fixed lines.

Post-Deal Ripple Effects

With products in motion, what happens now to the Voya people — those engaged in management, product development, sales, marketing and administrative functions — charged with overseeing the divested annuity blocks?

A spokesperson for Voya says that a "number of employees aligned with these businesses" will transition to Venerable, to be located at VIAC's current headquarters in West Chester, Pa.; the business' existing U.S. operations will be consolidated in Des Moines, Iowa. He added that details will be ironed out "over the next few months," including the expected headcount at the new firm.

He noted also that, though Venerable will hold only the variable annuities in Voya's VA block, the new group will "administer most of the fixed and fixed indexed products" to be reinsured by Athene. Once the deal is finalized, Voya will "no longer be manufacturing retail fixed and fixed indexed products."

According to an Apollo Global Management press statement, VIAC's top executives (including **Patrick Lusk**, **David Wiland** and **Timothy Brown**) will "remain in place at Venerable and will continue to perform the same functions." Venerable will also set up a team "focused on risk management and operational efficiency."

Doug Meyer, a managing director at FitchRatings.

Still to be determined, says S&P Global's Banerjee, is the ultimate fate of the sold blocks; and whether the transaction will have proved a wise one for the acquirers, including companies in the Apollo-led consortium, **Crestview Partners** and **Reverence Capital Partners**.

For Banerjee, outstanding questions about the deal include the new owners' go-to-market strategy for Venerable; future hedging and risk management strategies for the closed VA block; and the level of ongoing support Venerable can expect from its investor-backers. Pending reassuring answers to these questions, S&P has downgraded VIAC's financial strength and long-term issuer credit ratings to 'BBB-' from 'A.'

As to the growing engagement of private equity players in gobbling up annuity businesses, most especially legacy VA blocks, he foresees no slowdown in the trend.

"There's a growing interest among private equity players in the annuity business because it helps them gather more assets, as compared to the life insurance business, which is really a mortality play," he says. "I wouldn't be

surprised if there were more transactions among PE players in buying annuity blocks in the coming year.”

Fitch's Meyer echoes the forecast. "I expect we'll start hearing about sales of other closed VA blocks in 2018," he says. "A lot of legacy businesses are out there that carriers will be happy to exit from. These aren't one-off transactions."

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