RGA

May 2020

Global Financial Solutions Insights

As we wrapped the previous edition of the newsletter, we talked internally about the logistics of our mid-year edition. It should come as no great surprise that we went back to the drawing board in terms of topics and timing. We decided to revise our approach so that we could provide timely information related to the current situation, as well as a little light relief along the way.

In this issue we take a look at some of the measures insurers have taken to manage through the financial uncertainty of the past few months and reflect on ways the insurance industry might evolve as a result of COVID-19. We also offer a quick refresher on how companies can use reinsurance capital solutions to finance a portion of their regulatory total balance sheet requirement efficiently. Last, we shine the spotlight on how our stable value business is helping to provide some calm as Americans respond to the increased volatility and uncertainty impacting their retirement savings.

Our mission within GFS is to support our clients' sustainability and profitability. We sincerely hope that the time you invest in reading this publication will assist you in better addressing today's needs and tomorrow's opportunities. We have a strong and diverse team that is eager to help you commercialize new products, de-risk legacy blocks, and finance your operations. We are also thankful to the two associates who have kindly shared how the pandemic affected their lives in ways they won't soon forget.

Please let us know if we have brought some value to your day. We welcome your feedback, and we look forward to speaking with you, virtually or in person, very soon. ■

What We've Learned So Far: Preparation and Quick Response Matter

As we entered 2020 there were concerns that the decade-long economic growth cycle would slow down. It is, however, very unlikely that anyone had the 20/20 clarity of vision to predict the human, social, and financial toll that COVID-19 has extracted to date. Emerging news of medical developments, containment success, and governmental actions aimed at mitigating the effects of the pandemic has a profound, although often short-lived, impact on investor sentiment. In turn this has resulted in significant year-to-date declines[1] in world equity markets, Treasury rates that are hovering near historic lows, and financial strain across a vast range of industries, leading to fears of increased debtor defaults. Massive amounts of fiscal stimulus globally have provided some calming effect; however, most believe that the timeline for our return to normalcy depends upon widespread immunization with a yet-to-be-developed effective vaccine.

As a large investor and provider of financial security to consumers, the life insurance industry is highly motivated to successfully manage through this situation. Opinions vary widely about whether economic recovery will take the shape of a "V," "W," "L," or even a "√." In truth no one really knows. Business strategies will be tested and will need to adapt. Significant investments made over the past decade in comprehensive own risk and solvency assessments and enterprise risk management should prove helpful. As many leaders have observed, "Now is not the time to panic. We all need to focus on dealing with the situation the best we can." Continued preparation for ongoing uncertainty remains paramount.

Initial impact and response

In my role, I have the good fortune of regularly speaking with a number of leading investment bankers about the actions insurers have taken, or are contemplating taking, as they manage through the financial implications of COVID-19. Clients have also shared with RGA's broader business development team what their organizations have experienced since the outbreak, as well as their goals for 2020 and the associated potential challenges. Compared to the 2008-2009 global financial crisis, companies are being impacted differently, but in general they are better capitalized and have a bigger toolkit now. This article provides insight into some of the bigger financial issues that insurers are currently managing.

[1] Especially within our own industry: As of April 22, 2020, publicly traded North American life insurers were down 38% year-to-date versus the S&P 500's 13.4% decline.

Companies that provide retirement solutions to consumers are focused on the value of their assets under management because that drives much of their revenue. When equity markets declined by 25-30%, it had a significant impact on their expected profitability, especially for those with a relatively higher proportion of fixed costs. This can be exacerbated when their clients migrate from higher-fee equity asset allocations into lower-fee bond and money market funds. Economic stress has also resulted in many plan sponsors suspending their 401(k) contributions, and participants who are casualties of the steep rise in unemployment are withdrawing funds early in order to meet their immediate cash needs. Equity values began recovering some of their losses in the latter part of April, but the gains appear fragile. Analysts largely view this sector as earnings-challenged rather than capital- or liquidity-exposed.

Insurers with heavier concentrations in asset-intensive products that primarily seek to earn spreads from their investment portfolio over the cost of their policyholder liabilities are dealing with very low Treasury rates and volatile credit spreads. Insurers that issue retail products need to respond quickly to dramatic drops in yields while still offering products that deliver value for their customers. Initially some may have accepted lower return expectations in order to keep their distribution machine flowing. As the crisis has persisted, however, some carriers are withdrawing products or repricing them in order to reduce new business volumes. As the first quarter earnings season begins and large U.S. banks have posted significant credit provisions, equity markets are focused on the amount of BBB-rated and structured assets held relative to their equity base.

Carriers writing life and health protection business are very focused on evaluating what COVID-19 could mean to their in-force and new business. Even though the constant reporting of death tolls in the media has made consumers more aware of the need for insurance protection, social distancing requirements have made longstanding underwriting practices (e.g., conducting paramedical exams, collecting fluids, obtaining attending physician statements) more difficult to complete. Some companies will adapt by implementing alternative procedures, some may temporarily modify requirements, while other insurers will prefer to decline some business. It is also worth noting that one possible effect of the lockdowns may be a reduction in the amount of motor vehicle and other accidental deaths (though drivers speeding on nearly empty roads and highways may largely offset the impact of fewer miles driven). Insurers with significant long term care or payout annuities business may experience shorter benefit payment periods. The ultimate impact on profitability will emerge in the future as the performance of many carriers' much larger in-force businesses will have a greater impact on their 2020 results than their new business volumes will.

Chief financial officers, chief risk officers, treasurers, and chief investment officers have all been called upon to respond to uncertainty on both sides of the balance sheet. In our highly regulated industry, insurance companies need to ensure that they remain well-capitalized and are able to meet their policyholder obligations when they come due. In the early weeks of the crisis, publicly traded life insurers saw their stock prices decline by 35-50%, making the prospect of issuing new equity very unappealing. Regulators in Europe have encouraged banks and insurers to suspend share buybacks and dividends. Some companies may have worried that their weakened market capitalization made them vulnerable to unwanted takeovers. Interestingly, some activist investors across multiple industries tempered their demands, recognizing that exploiting the pandemic-induced situation could be met with very adverse political and societal repercussions.

When combined, an increase in claims, disruption of new business, lower net investment yields, and a higher expense burden can materially constrain insurers' available liquidity. Should such stresses persist or worsen, they may need additional liquidity when availability may be constrained and pricing unattractive. This is one of the reasons why many larger and well-rated insurers recently proactively accessed the public debt markets, issuing securities across the full spectrum of maturities. April saw record public debt issuance across industries. May is on track to see another record month. Bankers have told me that several issuers took this action due to uncertainty as to whether debt markets would be receptive to them in the future. They also noted that some insurers have drawn a portion of their bank lines and accessed Federal Home Loan Banks and repo facilities. Illiquid investments are perceived as offering less relative value and, I am told, have been attracting less of insurers' new and reinvestment money.

External stakeholders including regulators, rating agencies, investors, clients, and distribution and other partners have all been thirsty for additional information. They want to know how organizations' finances have been impacted, how they have responded, and how well-positioned they are to navigate through these uncertain times.

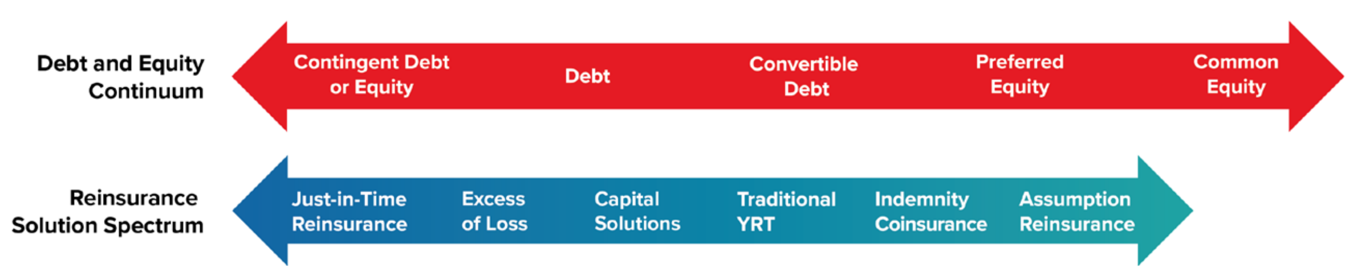
Reinsurance – an important financial tool

In times like these, insurance companies need many tools to cope with quickly emerging financial demands. As a life reinsurer, RGA can share our expertise, experience, and perspective to help insurers de-risk and can provide capital to help them manage their businesses. For instance, RGA's GFS division has implemented "just-in-time" reinsurance solutions whereby clients can quickly increase the amount of in-force or new business ceded, giving them a source of contingent capital.

One advantage of reinsurance over other forms of financing is the favorable treatment that reinsurance receives from rating agencies and regulators. It can also frequently be implemented more quickly, at a lower cost, and more discreetly than other capital management tools as implementation generally is not hampered by "quiet periods" typical of public debt and equity raises.

The following diagram illustrates some of the forms of debt and equity available to insurers from each of the capital markets and reinsurers. Depending on price and capacity considerations, features of the various instruments can also be combined into hybrid solutions or designed to fit different points along the spectrum.

Table 1: Comparative Spectrum of Insurance Company Financing Tools

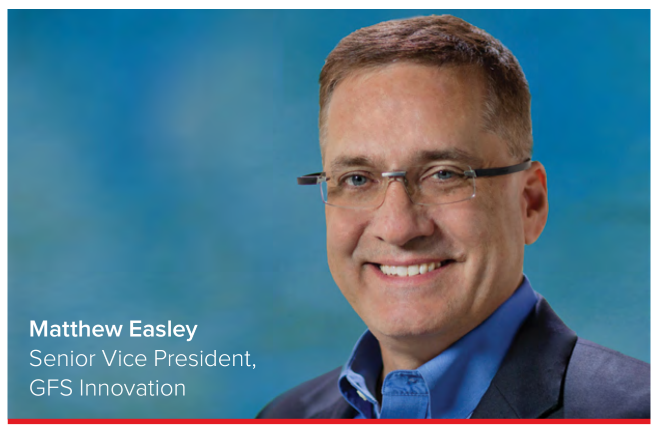


Should today's very low interest rates persist, some insurers' regulatory cash flow testing later this year may reveal a need to bolster reserves and/or capital for their in-force business. Similarly, one large investment bank envisions that a prolonged and deep U.S. recession could result in more than $500 billion of currently investment-grade debt falling to below investment grade, which has the potential for significant earnings and capital impairments depending upon insurers' investment mix. Well-prepared insurance companies understand that reinsurance solutions can be implemented to help restore some of the resulting financial statement gaps.

We look forward to a time when "flattening the curve" while binge-watching Netflix's "Tiger King" are distant memories. It is always important to find a reason to smile (however wryly), especially in a challenging situation such as this. A friend observed what a strange world it is where a roll of toilet paper is worth more than a barrel of oil (which, indeed, was briefly the case in April)! I encourage you to reach out to RGA to explore how we might partner to get through these unprecedented times. I hope we can help each other smile and remain resilient! ■

The World Has Changed. Insurance Companies Will Too.

As I write this article, I am sitting at home finishing my sixth week out of the office. The 10-year Treasury is under 1%. The oil futures for May just went negative because there is no place to put the oil since consumers are not using it. In an era of divided government, the U.S. Senate voted 96-0 to appropriate huge sums to provide relief for those most heavily impacted by the virus and the shutdown. Doctors and nurses are serving on the front lines of the battle to keep people alive while researchers work to create long-term solutions. Travel, sports, and retail are hard hit, with restaurants striving to become takeout and home-delivery experts.



Matthew Easley
Senior Vice President,
GFS Innovation

There is a path out of this situation. Unlike many financial crises, this will be a path that depends more on medical research than on capital investment and consumer sentiment. Treatments will come, hopefully in the near future. Immunizations likely will come as well, although no sooner than mid-2021 according to the experts. Everyone looks forward to dinner out or even a baseball game on television, and fans hope for a football season in the fall. A return to normalcy would be nice, and yet there are indications that things will be changed by this event even after the worst is over.

With that background, I have outlined some of the possible impacts on the insurance industry, including some suggestions for how companies can manage their way out of the crisis. In addition, I offer suggestions for how companies can approach the challenge of dealing with the financial implications of the pandemic.

Longer-term Effects of the Coronavirus Pandemic

People are wondering what the pandemic will leave in its wake. How will society bounce back? What other economic changes may be in store? Here are some possible consequences of the pandemic that may emerge after the immediate health crisis is over.

Insurance policies

Consumers are now aware of what coverage they had and what was not covered. Business interruption policies frequently have exclusions for pandemics. Some insurers may consider adding another type of "dread disease" to critical illness policies.

Mortality acceleration

There are also questions about how many people who would have died in the next few years will have already died in 2020. We see a pattern of this illness focusing on people with existing health problems, and this shift in the timing of death will distort the pattern.

Mortality trends

The impact of COVID-19 will extend beyond the havoc it is creating in 2020. Echoes will be felt in the mortality experience for several years. Outbreaks will continue to pop up, and coronavirus season may be added to flu season in the years to come. The impact of the pandemic will vary by country based on the speed of distribution of immunizations once they are developed, the level of medical care available for those who get seriously ill, and the ability to practice social distancing in the absence of medical solutions.

Attitudes toward mortality risk

After the 2008-2009 financial crisis, many companies reassessed the amount of capital deployed against asset-oriented products. The liquidity crisis of that time made the risks of those products tangible for investors and boards. Today, it is hard to imagine that the same people will not reexamine mortality risk. As bad as this pandemic is, it is equally clear that it is not a worst-case scenario, at least based on the evidence to date. New reserve stress tests and new regulatory requirements for capital may reinforce this reaction. This may also impact the availability and cost of reinsurance.

Contagion

In addition to the deaths and cost of care resulting from this disease, there is a contagion factor in the impacts to the balance sheet. The impact on equities, interest rates, liquidity, and other factors is happening at the same time, and with a more immediate impact to the balance sheet, as the impact of COVID-19 on mortality and morbidity. Downgrades on assets will increase required capital, with special pain from those bonds that fall below investment grade. Diversification is a powerful risk management tool, but it can weaken in times of crisis. Longevity exposure stands out as one risk that moves in the opposite direction.

Inflation and taxes

After so many years of uneconomic (low) interest rates, will positive real rates return? For the U.S., the enormous relief efforts will increase the size of the debt. Rising interest rates might put more stress on the budget. It is possible that inflation (or even stagflation) could be reignited by this combination of events. Another potential outcome may be an increase in taxes to pay for the relief efforts and the cost of public health initiatives.

Insurance sales channel

People have been forced to learn new ways to buy and have expanded their use of shopping from home. This has implications for the brick-and-mortar establishments that have been forced to shut down. It seems likely that this trend could extend to insurance. There is likely to be tension between simplified/digital underwriting methods and the increased scrutiny on mortality as a risk.

Preparedness & reevaluation of exposure

Perhaps the other lesson insurers will learn from this crisis is how to be ready for the next time. In the same way companies in other industries will be reexamining supply chains, insurance companies will be looking at the size of their exposures. Rapid response plans will be created to react more effectively to the next threat.

What Actions Can Companies Take to Get to the Other Side of the Crisis?

Short-term issues require attention during a period of crisis. Many companies have been working to get a better picture of where they stand financially, with liquidity and capital being paramount. Identifying actions to take to mitigate problem areas is the next logical stage in the process. Determining those that will place the company in the best position over the long term will be desirable as long as they preserve the company through the crisis.

Scenario testing

No one knows what the ultimate outcome of the pandemic will be, and it is necessary to consider possibilities long before finding out. Identifying scenarios to review, including a best estimate and various alternatives, will be important. Given the number of different parts of the company being impacted, these scenarios are likely to include both biometric and economic assumptions. This may be a time when running massive numbers of scenarios should take a back seat to a limited number of integrated scenarios that will yield insights to the senior leadership team.

Risk mitigation

Risk mitigation comes in many shapes and sizes depending on the problem areas that emerge. Investment challenges may lead to redeployment out of certain asset classes. Capital challenges may lead to tighter underwriting, capital infusions, or reinsurance solutions to lessen the burden on the existing capital. Liquidity challenges may lead to increased borrowing or shifting new asset purchases into more-liquid asset classes. Creating a framework to identify necessary actions and the cost of various alternatives can help senior management make the hard choices.

Implementation

After identifying the necessary actions, creating a plan for implementation and getting the right people mobilized to act are crucial. With people working remotely and multiple requests hitting the finance team simultaneously, this may take more decisive action than usual. Identifying additional resources to help with the process may be money well spent, and seeking support from trusted partners can ease the burden.

Monitoring

The situation is extremely fluid. Setting a plan in place is not enough. An agile process must be created to update the plan to adjust to changes in the situation. This is not just for adverse scenarios; it might also apply to lowering the cost of mitigation if things start to take a turn for the better. Having a plan in place allows monitoring to be more effective, with a point of departure for comparison.

New business

No one wants to take a hit to new business, but this list would not be complete without addressing this issue. There is an increase in protection sales activity, reflecting greater awareness of the need for coverage. For non-strategic products, slowing the pipeline to take the pressure off capital and investments might be beneficial. For strategic products where years of effort have gone into creating distribution, reinsurance of a larger portion of the flow can offer a better answer than actions to reduce sales. Financial reinsurance alternatives can help with capital issues if the company is equipped to handle the underlying risks.

Conclusion

The “new normal” has become a popular phrase. The changes that will come from this crisis and the reactions to it will change the landscape in the same way as previous events. But the first order of business is managing through the crisis, and the ideas shared here can serve as a guide for how to approach the different business challenges that the COVID-19 situation presents. ■

Capital Solutions, Or How to Optimize Capital and Increase Sales

RGA has 40 years of experience providing capital solutions to improve the capital efficiency of our insurance company clients. Capital solutions are referred to by many names, including financial reinsurance, capital-motivated reinsurance, surplus relief, and reserve relief. Capital solutions are low-cost tools used to improve returns on regulatory capital or increase insurers' capital ratios. By enabling insurance companies to better manage regulatory capital, reinsurers help client companies offer consumers more competitive insurance products with lower insurance rates and higher benefit amounts.


Michael Frings
Senior Vice President,
North America Pricing, GFS


Xueli Zhang
Vice President & Managing Actuary,
North America Pricing, GFS

Common characteristics across different forms of capital solutions

While typically structured as reinsurance, capital solutions can take many forms. Generally, they have four characteristics:

1. Client companies hold less net regulatory liabilities and/or capital with negligible impact on the economic balance sheet.
2. Regulatory risk transfer requirements are met.
3. The reinsurer receives a fee to cover its cost of capital.
4. Solutions are often highly customized.

A common goal is to finance the excess of total regulatory balance sheet requirements over the total economic balance sheet requirement. This excess is often called Tier II capital. Client companies benefit by financing Tier II capital at lower costs and with more flexibility.

Time is risk, as the range of potential outcomes widens with a longer time horizon. Therefore, to keep financing costs low, the reinsurer and client company often start by agreeing on the expected length of time or maturity of the capital solution. Then, they structure the capital solution to effectively amortize the capital benefit and/or incentivize refinancing at anticipated maturity. It is important to remember, however, that amortization is typically contingent on actual regulatory profit emergence and that a reinsurer cannot force termination of a capital solution. Also, the client company often has a "right to recapture," which is similar to having an option to prepay the financing provided by the reinsurer.

Multiple benefits for insurance companies

Capital solutions offer many financial and non-financial benefits to insurers:

Effective capital leverage. Unlike debt financing, which increases future obligations of the firm, capital solutions increase available financial resources by transferring risk, which reduces regulatory liabilities and/or capital. Furthermore, the amount of financial support can be designed to quickly respond as needs change. Often, the result is to release Tier II capital and to make it available for more attractive uses.

Less expensive source of capital. Capital solutions often rely on future regulatory profits to produce a form of secured lending that is independent of today's market sentiment. Reinsurers, such as RGA, are experts in estimating the present value of future profits across a wide variety of blocks of business and are adept in structuring transactions to reduce contagion risks. By narrowing the scope of possible outcomes, capital solutions can offer a lower cost of financing than debt instruments. Such expertise and analysis make reinsurers more comfortable with taking an asymmetric risk profile—one in which upside is limited to the risk fee, but potential downside risks are much greater. Profits, in excess of the risk fee, from the underlying business are returned to the client company through experience refunds.

Private and flexible solution. Capital solutions create regulatory surplus either by increasing balance sheet assets or by reducing net liabilities and associated regulatory required capital. Commercially sensitive information necessary to evaluate risk need only be shared between the transacting parties.

Broad coverage of risks. Capital solutions can be applied to various risks: biometric (e.g., mortality and morbidity), policyholder behavior, and market/asset.

By enabling insurance companies to better manage regulatory capital, reinsurers help client companies offer consumers more competitive insurance products with lower insurance rates and higher benefits.

Simple execution. Common forms of capital solutions can be easy to apply and are well-practiced. New forms take more time but can deliver a more tailored, effective solution. RGA has closed hundreds of capital solutions and has decades of experience.

More-competitive new business offerings. All the above benefits enable client companies to offer more-competitive new insurance products. Moreover, reinsurers may offer ceding commissions to help offset acquisition costs. Additionally, capital solutions can be scaled in size to the amount of new business written.

Good blocks for capital solutions

Good blocks have the following characteristics:

1. High redundancy in liabilities and/or capital, and a resulting elevated level of statutory earnings.
2. Diversified sources of profit – earnings are robust even when stressed.
3. An identifiable and measurable risk profile.

Notably, the client company should be able to demonstrate – both qualitatively and quantitatively – why there are high redundancies. A goal is to finance as much of the redundancy as possible; however, financing the entire redundancy is rare.

Furthermore, it is important for client companies and reinsurers to "be on the same page" and to have similar motivations when entering capital solutions.

Jurisdiction

In the U.S. and Canada, insurance liabilities and assets may have significant redundancy due to conservative regulatory valuation and capital requirements. Client companies can reduce such redundancies by partnering with a third-party reinsurer and may have expanded access to capital at potentially lower cost. Furthermore, global reinsurers have the ability to place business in jurisdictions with lower capital requirements or in vehicles financed by lower-cost third-party capital.

Satisfying regulatory requirements

Since capital solutions result in the client company releasing capital, its regulatory authority will want reasonable assurance that the reinsurance capital will be available to absorb ultimate losses. In the U.S., the National Association of Insurance Commissioners Accounting Policy and Procedures Manual contains the statutory accounting principles that need to be met. In Canada, the Office of the Superintendent of Financial Institutions has published similar requirements. While many of the regulatory requirements have been codified, there can be principles-based nuances that require the application of professional judgment and open dialogue with relevant regulators. Many capital solutions receive regulatory approval or non-disapproval before execution. We encourage clients to discuss potential solutions with their regulators and routinely support them in these discussions.

While risk transfer is always present, the ultimate probability of loss to the reinsurer should be low, consistent with the expectation of redundant reserves and/or capital. In entering a capital solution, the reinsurer and ceding company evaluate the risks by using severe stress tests to ensure that the probability of loss under the structure is expected to be low and that the fee is sufficient for the resulting risk and capital held by the reinsurer.

Capital Solutions: An Example

Consider an example where a capital benefit is provided through reinsurance. In this example, returns on capital improve significantly due to the capital benefit, and returns on assets remain virtually unchanged.

Table 1: Before Reinsurance

Year	Regulatory Liabilities (1)	Regulatory Capital (2)	Pre-Tax Profits (3)	Return on Regulatory Capital (4)	Return on Assets (5)
0	100,000	15,000			
1	88,500	13,300	1,100	8.3%	1.1%
2	78,000	11,700	900	7.7%	1.0%
3	68,500	10,300	900	8.7%	1.1%
4	60,000	9,000	800	8.9%	1.2%
5	52,000	7,800	800	10.3%	1.3%

Assume 80% of the business is reinsured on a modified coinsurance structure. Regulatory liabilities held by the client company remain unchanged; however, 80% of the capital requirement is transferred to the reinsurer.

Table 2: After Reinsurance

Year	Regulatory Liabilities (1)	Regulatory Capital (2)	Pre-Tax Profits Before ER (3)	Experience Refund (ER) (4)	Pre-Tax Profits After ER (5)=(3)+(4)	Return on Regulatory Capital (6)	Return on Assets (7)
0	100,000	3,000					
1	88,500	2,660	220	760	980	36.8%	1.1%
2	78,000	2,340	180	610	190	33.8%	1.0%
3	68,500	2,060	180	630	810	39.3%	1.1%
4	60,000	1,800	160	560	720	40.0%	1.2%
5	52,000	1,560	160	570	730	46.8%	1.4%

In return for accepting the risk and capital requirements, the reinsurer collects a risk fee out of its profits on the transaction. Any remaining profits are returned to the client company as experience refunds. The result is that the client company receives the same amount of profits as before, less the risk fee.

Table 3: Benefit and Cost

Year	Capital Benefit	Risk Fee
0	12,000	
1	10,640	120
2	9,360	110
3	8,240	90
4	7,200	80
5	6,240	70

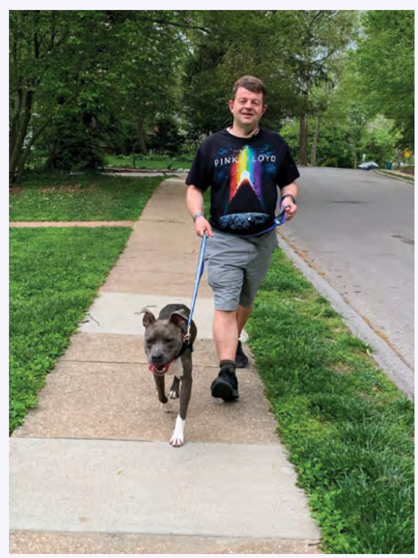
As demonstrated by this illustration, capital solutions can improve financial metrics for a relatively modest fee.

RGA: An experienced, trusted partner in capital solutions

RGA has a strong record of success in providing capital solutions. We employ our sophisticated pricing and structuring abilities to achieve our clients' objectives within their unique constraints. Our risk philosophy focuses on a thorough understanding of all risks and the regulatory requirements. As insurance product features and regulatory requirements evolve, a deep understanding of capital solutions and novel approaches are keys to success. Permissible practices vary by jurisdiction, which is one reason to work with an experienced reinsurer like RGA. Therefore, insurance companies should consider capital solutions when looking at ways to manage their business. ■

On the Road (with apologies to Jack Kerouac)

David Addison Senior Vice President
Business Development, North America



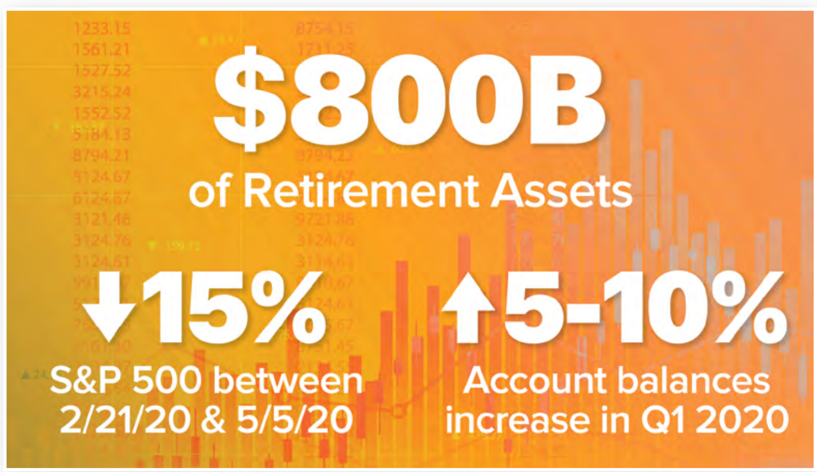
Like everyone else, I've experienced many changes while working from home. I am usually on the road, and a big part of my time away is spent visiting old friends from across the industry and meeting new people. I'm still spending a lot of time on the road now, but with a difference. At the start of the lockdown, my daughter thought it would be a good idea to foster a rescue dog. "For a couple of weeks," she said. We are now in week six of Ascot the labrador retriever/pit bull mix's stay with us. He is a very energetic animal, if maybe a little too enthusiastic when it comes to interacting with squirrels, bicycles, and especially skateboards. I'm now going out for walks two or three times a day, and I haven't failed to meet my Fitbit step goal any day for five weeks and counting. (Now if I would only stop thinking that this additional calorific expenditure entitled me to greater energy consumption of the hops and grain variety I might even show signs of this new fitness regime.) Dog fostering has been a great experience for our family. We have never owned anything more exciting than a guinea pig before, so this has been a wonderful new adventure, providing some of the most vivid memories that will stay with me when we return to whatever normal turns out to be.

Stable Value Fund (SV) – A Steady Product for Unsteady Times

Recently the stable value industry, like nearly every other industry around the world, has been responding to the impact of the COVID-19 pandemic. Because SV is a conservative investment option, uncertainty and volatility in equity markets create growth opportunities for SV balances in the short term as participants seek a flight to quality. Between February 21, 2020, and May 5, 2020, the S&P was down 15%, and SVs have experienced record inflows during that time. RGA's three largest managers recorded inflows of approximately $10 billion during the first three months of the year, which represented a 5-10% increase in balances in just one quarter.

Kara Marr
Vice President
Stable Value

In addition to the growth in balances, the SV industry is stepping up to support participants during this unprecedented time. Retirement savings are a source of security for many Americans, and the pandemic has created uncertainty for many plan participants and retirees because of the steep decline in equity markets. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, to address some of the financial challenges individuals are currently facing as a result of the pandemic. The CARES Act liberalizes hardship distribution rules by removing the 10% tax penalty on early withdrawals and increasing the loan limits allowed from retirement plans for individuals who have been impacted by COVID-19. RGA, along with other wrap providers, has been supportive of these measures to help participants weather the financial impact of the pandemic.



We are in constant dialogue with our clients as we manage through these uncertain times. Client calls have become more personal in nature as we exchange stories of working from home, quarantine in our communities, and homeschooling challenges. We know that during times of crisis we are all human beings first and business partners second. We appreciate our strong client relationships and are fully committed to the SV business and growing our balances with each of our SV managers. RGA is focused on helping investors in this ▶

asset class through this challenging time, and ensuring we are stronger together on the other side of this pandemic.

What are stable value funds?

Stable value funds are a conservative investment option offered by more than 75% of defined contribution plans in the U.S., accounting for more than $800 billion in retirement assets. Balances in SVs account for approximately 15% of defined contribution balances in plans where the asset class is offered. SV balances have largely remained unchanged over the last 10 years due to the popularity of target date funds as the default investment option in most plans. SVs have a primary goal of principal preservation, liquidity for participant-related transactions, and a steady yield for participants. SV managers invest in short- and intermediate-term, high-quality, fixed income securities and the SV purchases insurance contracts to wrap the fixed income assets, which help to maintain the principal stability for the fund. The SV wrap provides the fund with a steady crediting rate that amortizes market value gains or losses from the underlying portfolio according to a contractually specified formula. The crediting rate resets monthly or quarterly and provides conservative investors with a more consistent yield without market volatility.

SVs are an important asset class in the U.S. defined contribution market, and RGA is proud of our role in supporting this market. We are a highly rated company providing exceptional customer service, focused on supporting SVs through the various economic and business cycles. RGA is part of a group of 15 active wrap providers offering insurance contracts that support 32 investment managers in the SV industry.

RGA: An SV wrap provider for more than $14.5 billion in account value

RGA entered the SV wrap market in the second quarter of 2012 to bring much-needed capacity to the market. At the time, the SV industry was in need of wrap providers as several banks exited the business after the 2008 financial crisis. To date, our SV team has placed business with six SV managers and 10 sub-advisors. RGA currently wraps approximately $14.5 billion in SV balances covering 401(k) plans, 529 plans, and commingled pooled funds. The product is managed by a staff of seven professionals fully dedicated to SVs, averaging almost a decade of experience with this asset class, and supported by legal, investments, risk, and other associates within RGA. Wrap contracts are complex legal documents negotiated with SV managers that provide guidance on withdrawal provisions, termination rights, reporting requirements, and permissible investments. The SV risk team underwrites each plan to ensure it meets select risk parameters before a contract is issued and re-underwrites each plan at least annually. In addition to underwriting, our risk team produces monthly reports monitoring market-to-book ratios and withdrawals for each contract and tracks investment guideline compliance for all of our SV managers. ■

SVs are an important asset class in the U.S. defined contribution market, and RGA is proud of our role in supporting this market.

Love in the Time of COVID-19

J.D. Sabio Global Acquisitions Analyst

Along with generating apprehension and uncertainty about the future, COVID-19 has also inspired us to lean on the strength of our personal relationships. One testament to this is how my business school sweetheart Kirsten and I reimagined our wedding, which was originally scheduled for March 28, 2020 – an event 20 months in the making. As the coronavirus spread, our plans had to change, and those 20 months of careful planning went out the window in a matter of days. Thus, an intimate outdoor ceremony with a repurposed photo booth backdrop became our nuptial livestream, and our dog Isaiah became our ring bearer. It was perfect. My wife and I have yet to experience marriage outside of quarantine, yet we are so thankful to have each other's love and support.

If you have any questions or would like to discuss these articles in further detail, please reach out to your GFS business development contact or any of the following:

Gary Seifert
SVP, North America, GFS
gseifert@rgare.com
+1 (636) 736-7553

Richard Leblanc
SVP, Global Acquisitions
rleblanc@rgare.com
+1 (636) 736-8394

David Addison
SVP, Business Development
daddison@rgare.com
+1 (636) 736-7547

Karen Edgerton
SVP, Stable Value
kedgerton@rgare.com
+1 (502) 569-2411

Libby Corcillo
VP, Business Development
libby.corcillo@rgare.com
+1 (636) 736-3563

Keith Politte
VP, Business Development
kpolitte@rgare.com
+1 (636) 736-7474

Bill Boyd
VP, Business Development
wboyd@rgare.com
+1 (636) 736-8154

David Lipovics
VP, U.S. Pension Risk Solutions
dlipovics@rgare.com
+1 (636) 736-3459

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