

Prudential Financial: what should the next longevity-risk opportunity have to prove?

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Strategy case | Information cutoff: March 1, 2024 (public information through February 29, 2024)

In the fourth quarter of 2023, Prudential Financial reported \$14.3 billion in Institutional Retirement sales, including a \$9.2 billion Netherlands longevity-risk-transfer transaction. [P2] On December 19, NN Group announced that it had completed two longevity transactions, one with a Prudential insurance subsidiary; the risk transfer was effective December 31, 2023. [P7] Management said pension reform in the Netherlands could support future market growth. What Prudential should require of the next opportunity remained an open strategic question. [P4]

For this case exercise, assume you advise a hypothetical Prudential retirement-strategies team setting review gates for future institutional longevity-risk opportunities. The team is not deciding whether to reverse the Dutch transaction, and no internal mandate, capital pool, or deal-level return has been disclosed. Your task is to recommend how Prudential should pursue future opportunities: selectively underwrite contracts that meet demanding evidence and risk gates; broaden into more geographies or contract structures; or stage growth while gathering experience from existing business.

A business that transfers long-dated risk

Prudential's Institutional Retirement business serves institutional plans in the United States and internationally. Its products include group annuity insurance and reinsurance, as well as longevity reinsurance. In a group annuity transaction, Prudential may assume investment and actuarial risk for specified participants in exchange for an upfront premium. In longevity reinsurance, a pension-plan insurer transfers longevity exposure to Prudential and pays fees over the contract term. These arrangements transfer different risks and use different sales measures. [P1, Item 1, printed pp. 4-6]

The size of a reported transaction does not reveal its economics. Prudential says pricing depends on investment conditions, mortality and early-retirement assumptions, expenses, fees, risk, and profit targets. The 10-K notes that some assumptions may be less predictable in certain markets. It also identifies mortality improvement as a long-term risk: if people live longer than assumed, annuity and pension-risk-transfer obligations can rise. Prudential says it obtains collateral in international longevity-reinsurance transactions to mitigate counterparty-default risk. The cited disclosures do not quantify the Dutch deal's pricing margin, collateral, capital usage, duration, or return. [P1, Item 1, printed p. 5; Item 1A, printed pp. 34-35; Note 2, printed p. 273]

Management described the Netherlands' Future Pensions Act as an opportunity for further market growth. The Act entered into force on July 1, 2023. At a high level, it moves future

pension accrual toward defined-contribution arrangements and establishes a transition framework for existing rights. The law does not show how much demand will be offered to insurers or reinsurers, which contracts will be available, or whether any particular opportunity can be priced acceptably. [P4, printed p. 6 / PDF p. 5; P6]

The evidence at the cutoff

Prudential said 2023 pension-risk-transfer and international-reinsurance growth would be nonlinear because transactions are episodic. Thus, a large quarter could reflect a small number of transactions and their timing, rather than a repeatable annual run rate. The company's \$9.2 billion Netherlands transaction was a component of Q4 sales, not reported deal profit. [P1, Item 7, printed p. 51; P2, printed p. 3]

The company also reported \$267.654 billion of gross Institutional Retirement account value and \$258.417 billion net of reinsurance at year-end. Its 2023 activity table lists \$28.498 billion of additions and \$25.283 billion of withdrawals and benefits. These additions combine different product bases-including premiums received, present values of future benefits, and fair value of client-owned assets-so they are not a common cash-sales or earnings measure. [P3, printed p. 15; P1, Item 7, printed p. 78]

Prudential described the launch of Prismic Life Re in 2023, in which it invested about \$200 million for a 20% interest in the holding partnership. Management expected the platform to support broader access to insurance and retirement products. That announcement describes a structure and rationale; it does not quantify additional longevity capacity or the amount of risk Prudential would retain. [P1, Item 1, printed p. 2; P2, printed pp. 1-2]

Evidence at the cutoff	Reported measure	What it does not establish
Q4 Institutional Retirement sales [P2, p. 3]	\$14.3bn	Transaction-level profit or return
Q4 international reinsurance transactions [P2, p. 3]	\$13.0bn	Recurring annual production
Netherlands longevity-risk-transfer transaction [P2, p. 3]	\$9.2bn	Deal margin, capital use, or collateral adequacy
Q4 Institutional Retirement adjusted operating income [P2, p. 3]	\$432m, vs. \$332m in Q4 2022	Dutch transaction contribution; this is an aggregate non-GAAP segment measure
Institutional Retirement gross / net account value, Dec. 31, 2023 [P3, p. 15]	\$267.654bn / \$258.417bn	A directly comparable sales or earnings base

The timing of large institutional transactions can support a selective, opportunity-led strategy. It can also make quarterly growth an unreliable guide to long-run economics. Contract-specific mortality data, model validation, collateral terms, counterparty strength, basis risk, concentration, liquidity, and capital requirements may matter as much as market growth. Public disclosures identify several of these considerations, but do not provide deal-level thresholds. [P1; P2]

Decision

Recommend a policy for reviewing future institutional longevity-risk opportunities. State whether Prudential should prioritize selective underwriting, broaden market and contract coverage, or stage activity while collecting experience. Specify the evidence and contractual protections you would require before expanding an exposure, how you would monitor a transaction after signing, and what evidence would cause you to revise the policy. Separate market opportunity from contract economics, and identify what additional information the team would need before making a real transaction decision.

Source key

- **P1:** Prudential Financial, 2023 Form 10-K, filed Feb. 21, 2024: Item 1, printed pp. 2, 4-6; Item 1A, pp. 34-35; Item 7, pp. 51 and 78; Note 2, p. 273.
- **P2:** Prudential Q4/FY 2023 results release, Feb. 6, 2024, printed pp. 1-3.
- **P3:** Prudential Q4 2023 Financial Supplement, Feb. 6, 2024, printed p. 15.
- **P4:** Prudential Q4 2023 earnings-call transcript, Feb. 7, 2024, printed p. 6 / PDF p. 5, lines 210-217.
- **P6:** Government of the Netherlands, “Speech from the Throne 2023,” Sept. 19, 2023; Dutch Central Bank, Future Pensions Act overview. Used for Act status/effective date and high-level description only.
- **P7:** NN Group, “NN Life completes two longevity transactions,” Dec. 19, 2023, paragraphs 1-2. Identifies a completed transaction with a Prudential insurance subsidiary and states risk transfer effective Dec. 31, 2023.