



# **Funding Agreements in Life Insurance:**

## ***An Asset Manager's View***

**ACHS Spring 2026 Meeting  
May 22, 2026**

# What Are Funding Agreements?



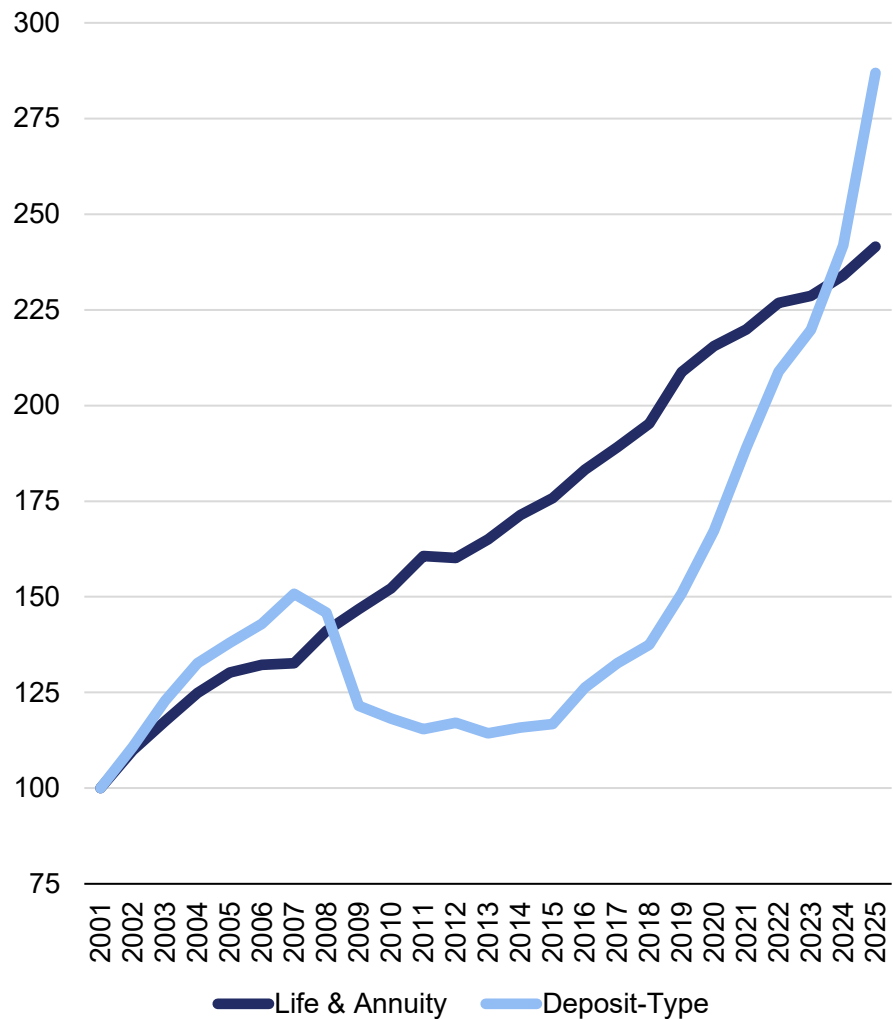
Funding agreements generally provide for the accumulation of funds at guaranteed rates for a specified period, with repayment to the holder in a lump sum or installments, and may not provide for payments based on mortality or morbidity contingencies.



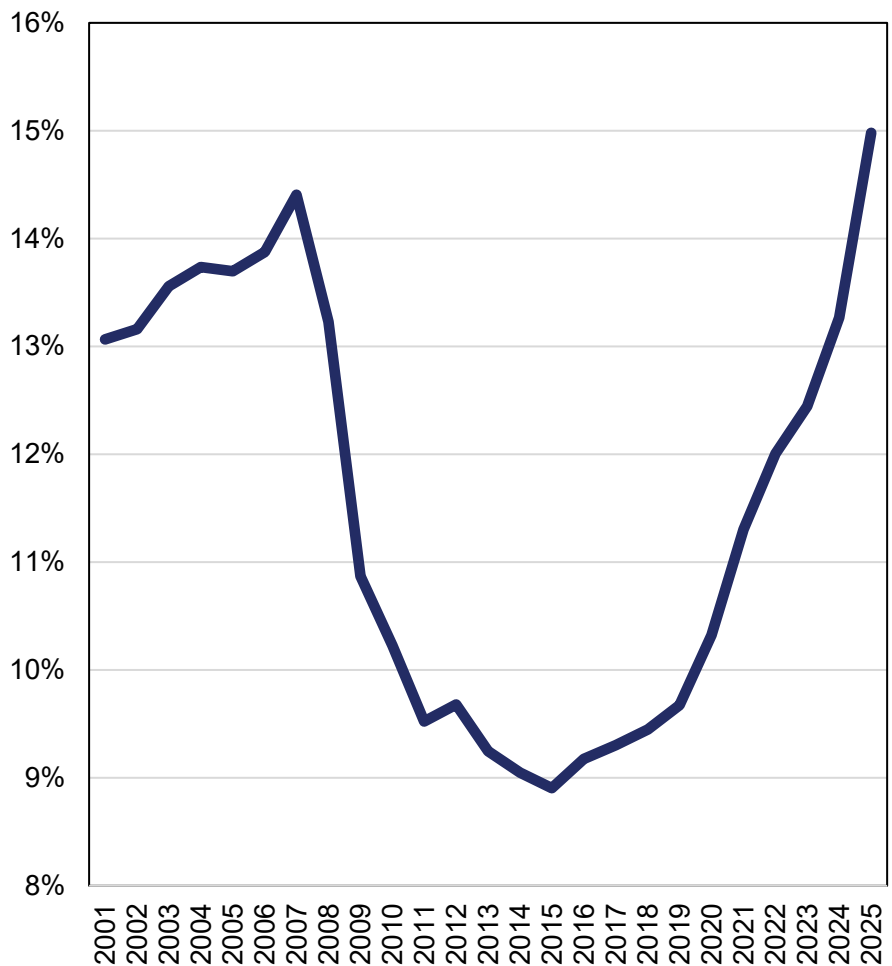
- Funds accumulate at guaranteed interest rates
- Repayment in lump sum or installments
- No Mortality or Morbidity Risk
- Insurance Contract

# Deposit-Type Contract Reserves: Scale and Growth

## Reserve Growth (Rebased from 2001)

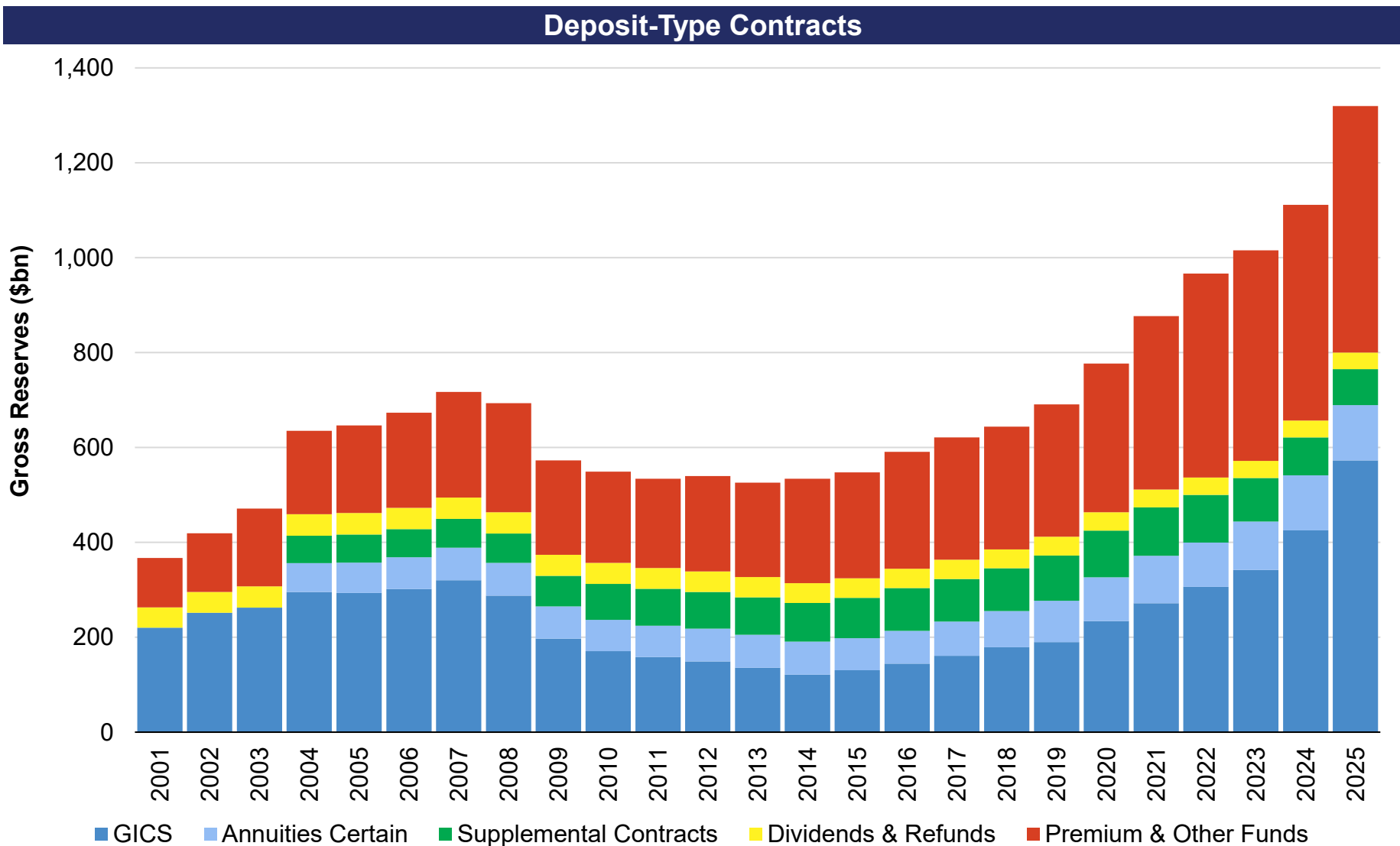


## Deposit-Type Mix of Reserves\*



\*Represents the mix of Deposit-Type Contract general account reserves as a percentage of Accident & Health and Life & Annuity Reserves  
 Prepared by Conning, Inc. Source: Conning, Statutory Filings, ©2026 S&P Global Market Intelligence. Data as of December 31, 2025

# Deposit-Type Contracts Are Not Monolithic



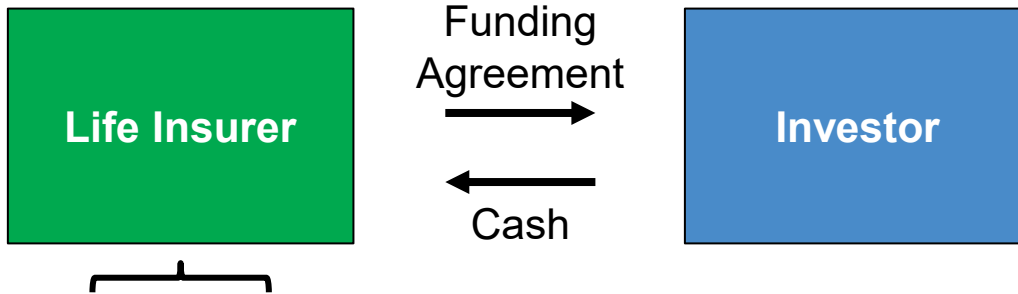
Per Exhibit 7 Deposit-Type Contract Reserves  
 Analysis includes statutory filing data across nearly 2000 entity level insurers, including those no longer in operation or were acquired  
 Prepared by Conning, Inc. Source: Conning, Statutory Filings, ©2026 S&P Global Market Intelligence. Data as of December 31, 2025



# The Rise of Funding Agreement-Backed Securities

# Traditional Funding Agreements: Bilateral and Constrained

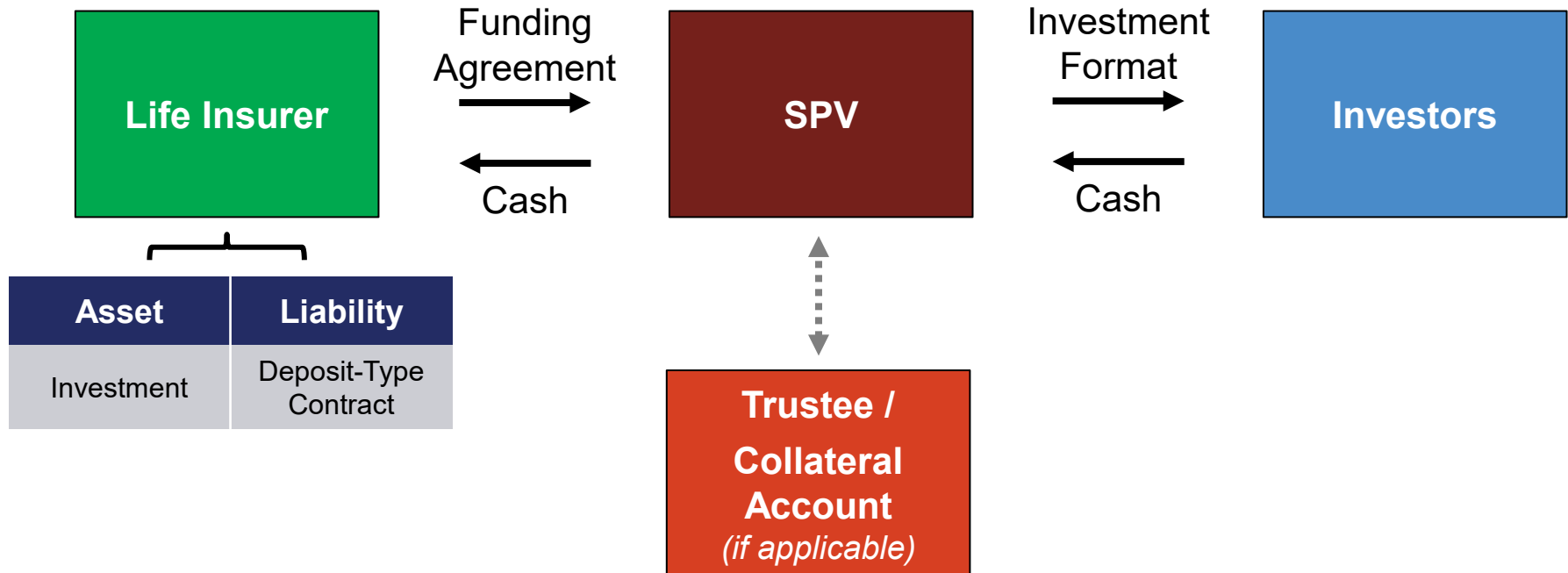
## Illustrative Transaction Structure



Asset	Liability
Investment	Deposit-Type Contract

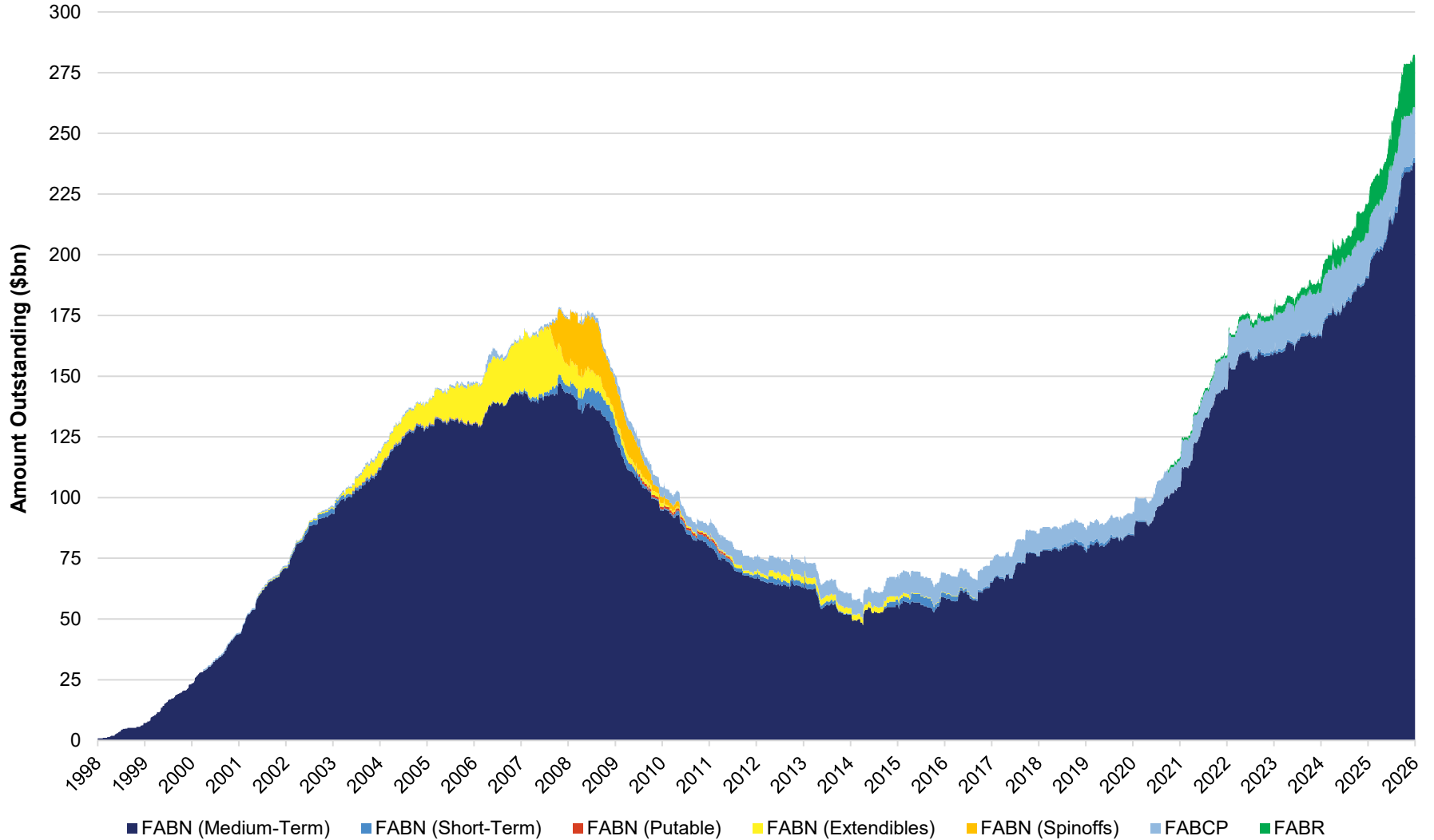
# Funding Agreement-Backed Securities (FABS): Structural Evolution

## Illustrative Transaction Structure



# The Surge in FABS Issuance: Fueling Institutional Demand

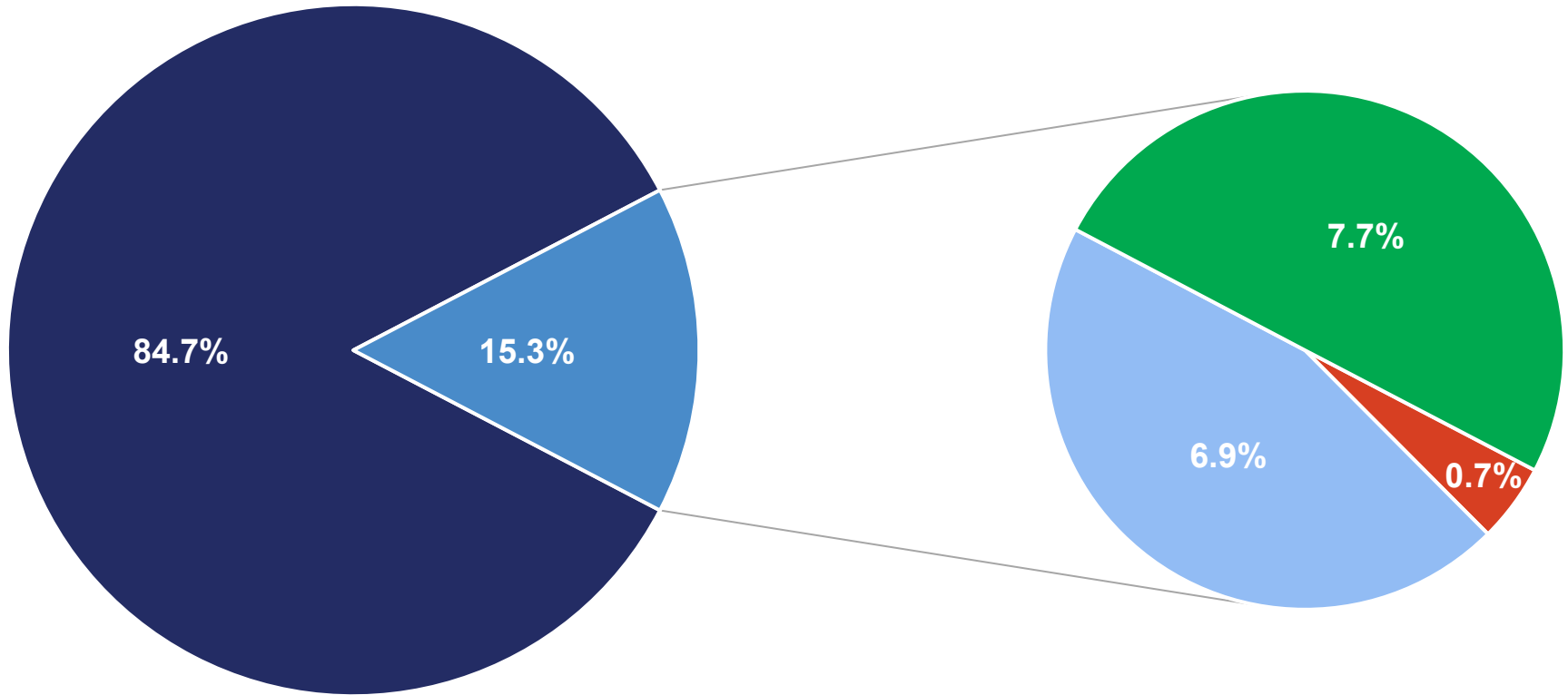
## Funding Agreement-Backed Securities (FABS)



Represents Funding Agreement-Backed Securities from both U.S. and Non-U.S. sources  
Prepared by Conning, Inc. Source: Conning, Federal Reserve Data as of March 27, 2026

# FABS Today: Product Mix Snapshot (Q4 2025)

## Funding Agreement-Backed Securities

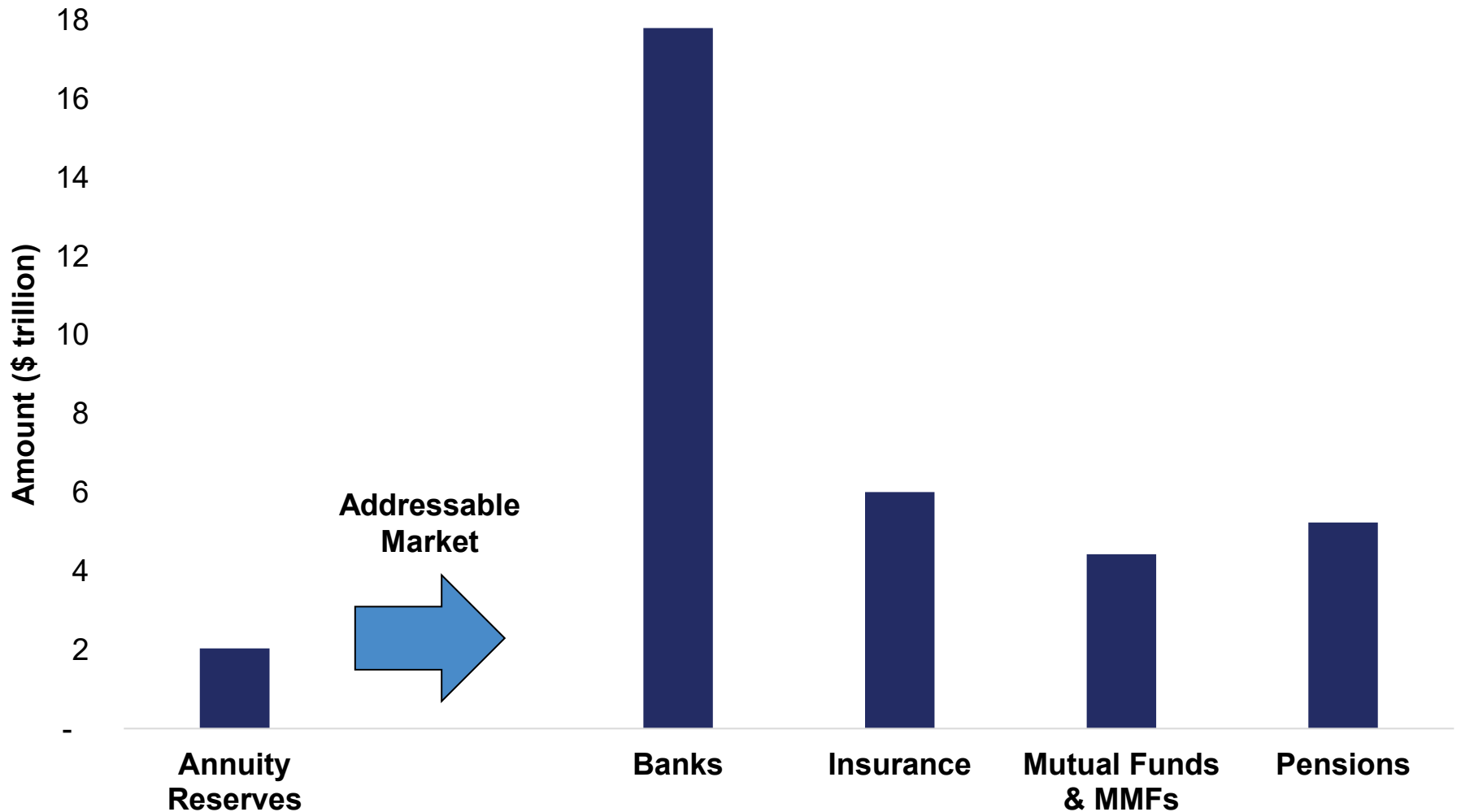


■ FABN (Medium-Term) ■ FABN (Short-Term) ■ FABCP ■ FABR

Represents Funding Agreement-Backed Securities from both U.S. and Non-U.S. sources  
Prepared by Conning, Inc. Source: Conning, Federal Reserve Data as of March 27, 2026

# The Addressable Institutional Market for Funding Agreements

## Annuity Reserves vs Ownership of Corporate Bonds, Loans and Commercial Paper



Annuity Reserves represents general account reserves for total individual and group annuities

Other investor types represent aggregate holdings of corporate and foreign bonds, loans and corporate open market paper

Analysis includes statutory filing data across nearly 2000 entity level insurers, including those no longer in operation or were acquired

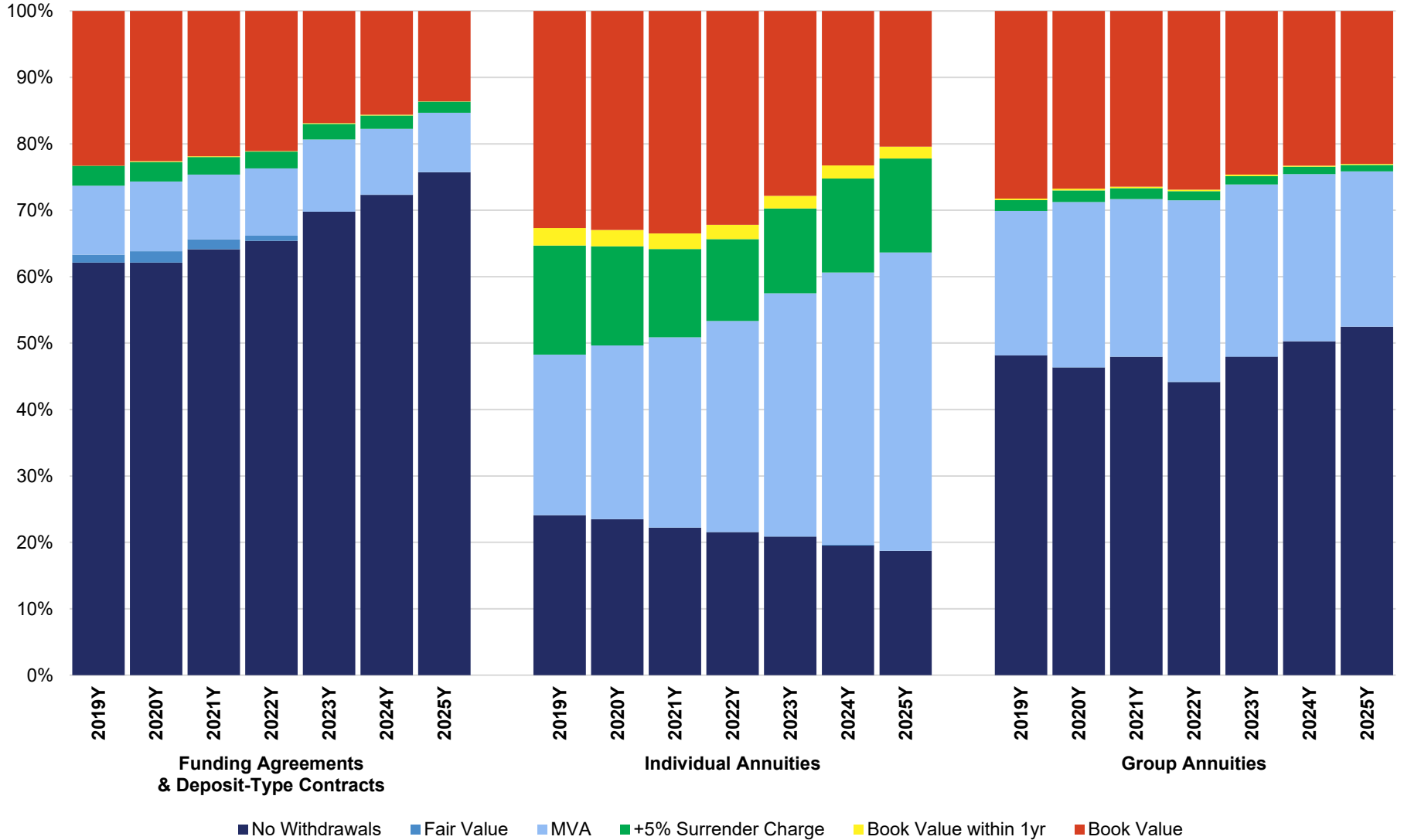
Prepared by Conning, Inc. Source: Conning, Statutory Filings, ©2026 S&P Global Market Intelligence. Federal Reserve 'Financial Accounts of the United States – Fourth Quarter 2025'



## **Withdrawal Risk & Behavioral Reality**

# Withdrawal Characteristics of Annuity Reserves

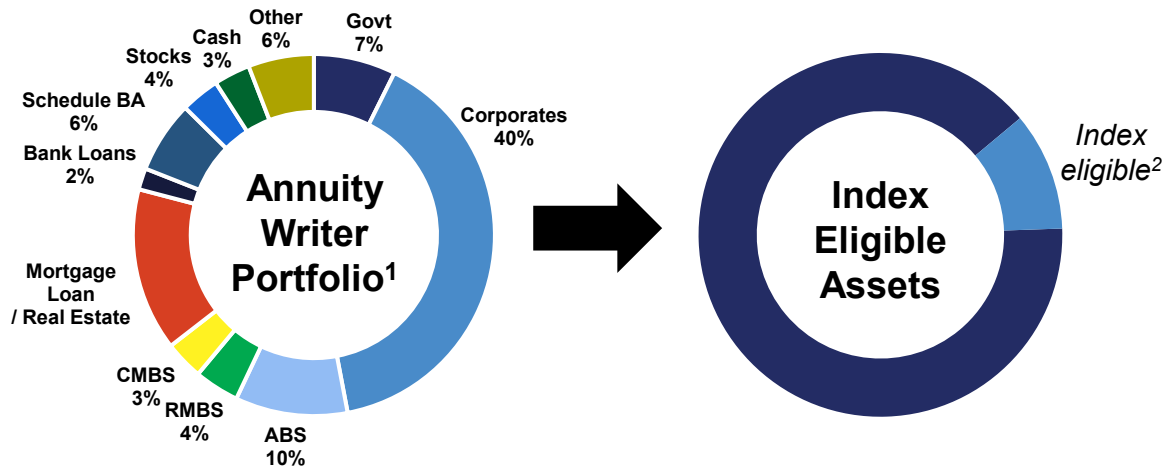
## Withdrawal Characteristics of General Account Annuity Reserves



Per Note 32 on Liabilities by Withdrawal Characteristics in the Notes to Financial Statements  
 Analysis includes statutory filing data across nearly 2000 entity level insurers, including those no longer in operation or were acquired  
 Prepared by Conning, Inc. Source: Conning, Statutory Filings, ©2026 S&P Global Market Intelligence. Data as of December 31, 2025

# MVA Features: Creating Strong Assurance or False Confidence?

## Annuity Writer Investment Portfolio Mix<sup>1</sup>



## Reference Index Correlations

Asset Class <sup>3</sup>	Correlation <sup>4</sup>
Treasurys	0.60
ABS	0.72
MBS	0.67
CMBS	0.60
CLO (A-rated)	0.52
Bank Loans	0.57
Stocks	0.32

**Index-eligible assets only represent ~10% of insurer portfolios<sup>2</sup>**

1) Per year-end 2024 statutory filings of life insurance carriers with over \$250 million reserves in combined individual and group annuity reserves. 2) Compared with underlying holdings of the Bloomberg U.S. Intermediate Corporate Bond Index. Common MVA reference indices include the Bloomberg U.S. Intermediate Corporate Bond Index, Bloomberg Barclays U.S. Credit Index as well as U.S. Treasury Constant Maturity indices. 3) Treasurys represent the Bloomberg U.S. Treasury Index, ABS = Bloomberg Asset-Backed Securities Index, CMBS = Bloomberg CMBS: ERISA Eligible Index, Bank Loans = Bloomberg US Leveraged Loan Index, Stocks = S&P 500 Total Return, CLO = J.P. Morgan Collateralized Loan Obligation Index ("CLOIE") 4) Correlations represent a 25-year correlation for monthly total returns for all indices except Bank Loans (since January 2019) and CLOs (since January 2012).

# MVAs and Surrender Activity

## Evidence from the 2015-2022 SOA/LIMRA study

### Annuity Surrender Study

- Shock years of higher surrender rates corresponded with the years following common surrender charge expiration periods (3, 5, 7 and 10 years).
- Contracts with MVA features saw triple the surrender rate in Years 4 and 6 to those without.
- Surrenders post-charge expiry were even greater in higher interest rate environments.

### MVA Surrenders More Predictable, But Not Certain

#### Policyholder Surrender Rates

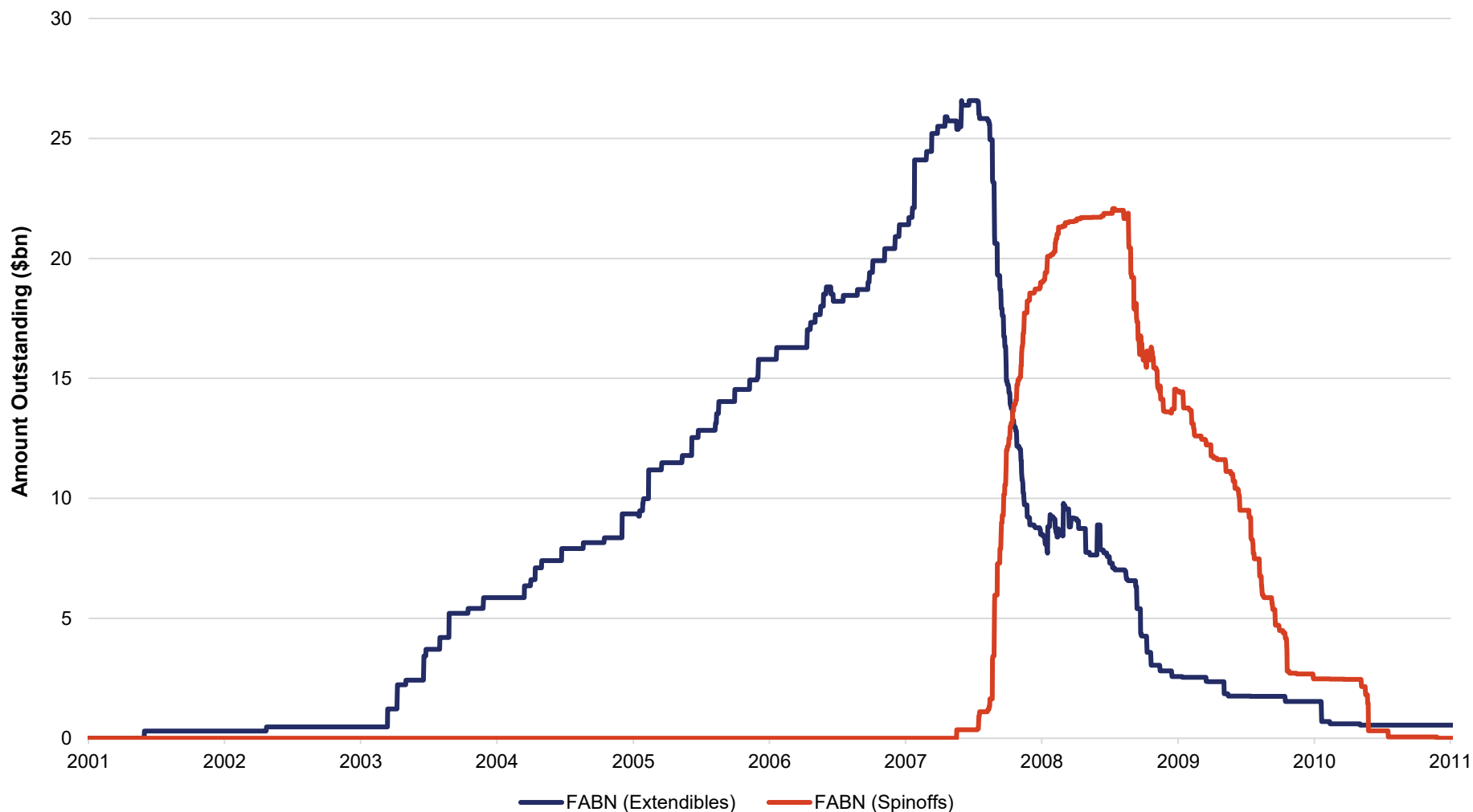
By Amount	MVA	No MVA
Year 4	22.0%	7.4%
Year 6	48.1%	16.3%

By Count	MVA	No MVA
Year 4	21.0%	6.0%
Year 6	41.8%	13.3%

*“...contracts with an MVA feature had higher surrender rates in all ‘shock’ contract years, with especially elevated surrender rates compared to contracts without an MVA feature in contract years 4 and 6.”*

# Lessons Learned: When Funding Agreements Did Break

## Outstanding Extendible & Spin-Off FABN Pre/Post GFC



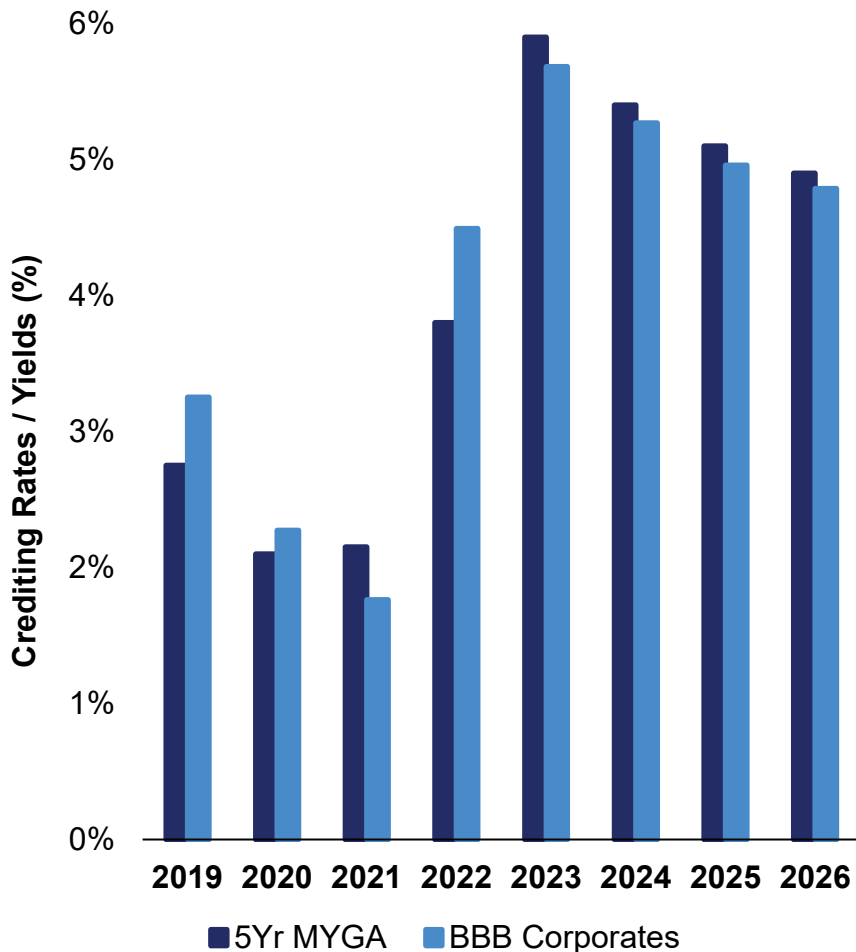
Represents Funding Agreement-Backed Securities from both U.S. and Non-U.S. sources  
Prepared by Conning, Inc. Source: Conning, Federal Reserve Data as of March 27, 2026



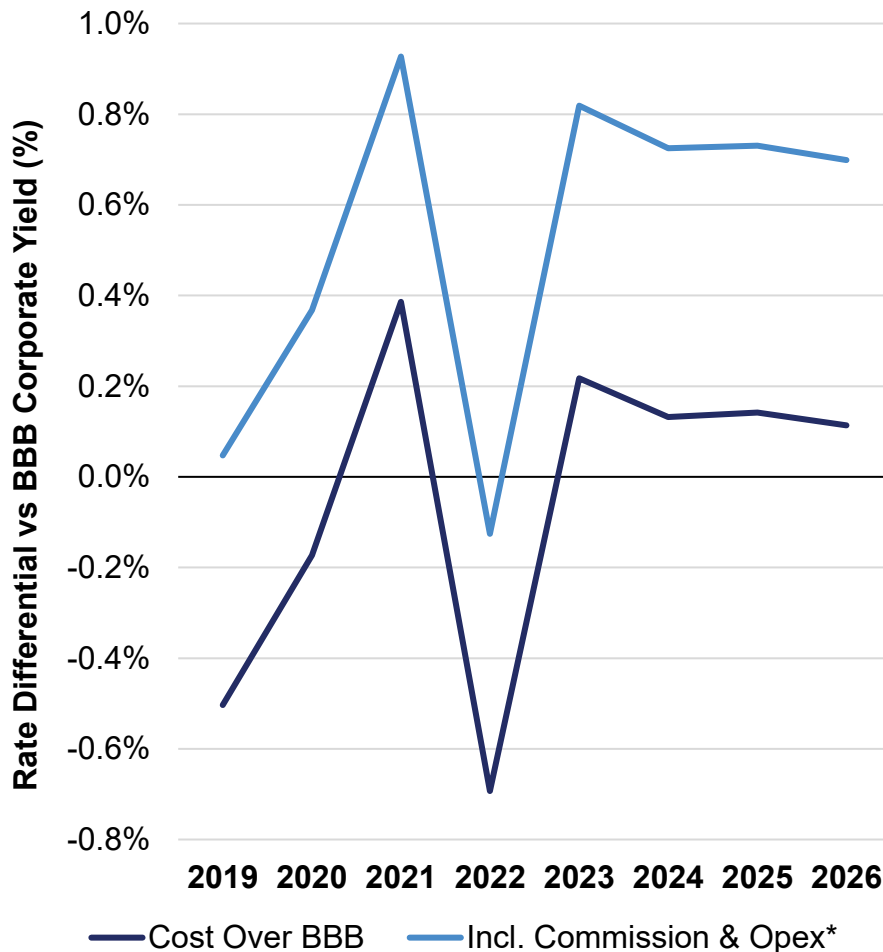
## **Economics, Capital, and Strategic Use**

# The Investment Reality Behind MYGA Rates

## MYGA Crediting Rates vs. BBB Corporates



## More Spread Needed: BBB Yields Insufficient



BBB Corporates represented as the weekly average yield-to-maturity for the Bloomberg Barclays U.S. Intermediate Corporate BBB Index

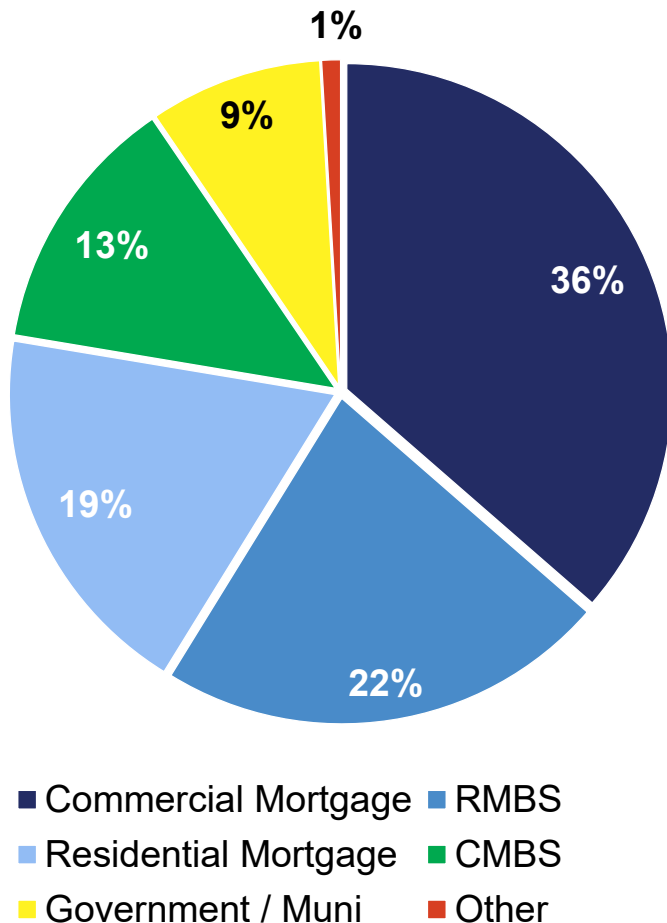
\*Commission & Opex assume a 2.5% discount to proceeds at inception of annuity

5yr MYGA represents the average crediting rates for A-rated carriers

Source: AnnuityJournal / AnnuityRateWatch, Federal Reserve, Bloomberg-Barclays

# Funding Agreements as a Leverage Tool: The FHLB Example

## FHLB Collateral Amongst Lifers



## Illustrative FHLB Funding Agreement

### Asset Yield and Funding Costs

Mortgage Loan Rate	7.00%
FHLB Advance Rate	4.125%
Advance Percentage	75.0%
Activity Stock Required	4.5%
Dividend Yield	8.0%

### Return Profile

Mortgage	6.5
Dividend	0.3
<i>Less: Borrowing</i>	(3.0)
Net Income	3.8
Capital Deployed	23.3
<b>Levered Return</b>	<b>16.2%</b>

FHLB collateral includes only assets designated with the restricted asset code for FHLB disclosure and applies solely to insurers that fund all FHLB borrowings via funding agreements. FHLB Funding Agreement assumes \$100 million commercial mortgage loan portfolio; illustrative only FHLB advance rates, activity stock requirements, dividend rates, acceptable collateral and applicable haircuts can vary by region. Assumes 30% haircut on loan, as of December 31, 2025 the effective lending values of Multifamily mortgage loans averaged 71% for delivery (range 40-83%), commercial real estate loans averaged 69% (range 42-81%) and other real estate loans averaged 65% (range 20-79%). Average 2025 dividends across the districts was 8%, ranging from 5.2 – 9.2%. FHLB Advance assumes a 5yr bullet profile, with an illustrative advance rate of 4.125%.

Prepared by Conning, Inc. Source: Conning, Statutory Filings, ©2026 S&P Global Market Intelligence. Data as of December 31, 2025

# Capital Treatment and Operating Leverage

## Views from Rating Agencies

*Fitch views FAs as a form of operating leverage as these are match-funded obligations. As a result, we do not include FABNs in our calculation of financial leverage or its total financing and commitments ratio.*

**Fitch**Ratings

*To determine whether we will classify an FABN program as operational or financial leverage, we consider the priority of funding agreements relative to other insurance obligations, the purpose of the issuance, how the assets backing the notes will perform under stress, the makeup of the asset pool, and the insurer's ALM, in addition to broader risk controls.*

*In our capital model analysis, we also consider both the assets and the liabilities associated with the FABN program. We look for whether the insurer has a track record of tight ALM and a strong investment strategy to support its ability to repay the notes. In addition to the question of operational vs. financial leverage, we also analyze whether the issuer of the FABNs indeed functions as a pass-through mechanism.*

**S&P Global**  
Ratings

### **Examples of Operating Leverage**

*Some examples of activities that typically would be viewed as generating operating leverage include the following:*

- *Securities lending programs*
- *Repurchase and reverse repurchase agreements (repos)*
- ***Spread-based Federal Home Loan Bank (FHLB) borrowings***
- ***Guaranteed investment contracts (GICs) and funding agreements***
- ***Funding agreement-backed securities programs (FABS)***
- *Retail note programs*
- *Premium financing operations*
- *Letters of credit (LOCs), debt or parental guarantees related to XXX or AXXX reserve financing*
- *Government programs that introduce leverage to an insurer's balance sheet*
- *Embedded value securitizations*
- *Real estate joint ventures*
- *Other off balance sheet liabilities*



AM Best 'Best's Methodology and Criteria: Available Capital and Insurance Holding Company Analysis'  
S&P Global Ratings, 'Funding Agreement-Backed Notes: What, When, How?'  
Fitch Ratings, 'U.S. Life Insurers' Robust FABN Issuance to Continue in Near Term'

# Pairing Illiquid Assets with Purpose-Built Liabilities

## Funding Agreements can be supportive to private credit investing

### Insights from Recent Research

*Institutional annuity capital is well-suited for private debt businesses because it is generally stable and adaptable to a wide range of potential capital markets.*

*...By adapting their funding agreements to the cheapest source of funding, life insurers investing in private debt can maximize the spread they earn over the cost of funding.*

*Supervisors emphasized the importance of understanding the interplay between asset and liability valuations for accurate financial planning, especially for complex or illiquid assets.*

*Mitigation actions could include ensuring a sufficient amount of liquid assets are available to meet the potential liability cash outflows and considering these issues in product design.*

*Life insurers have increasingly turned to private markets and other capital sources, with reinsurance also serving as a vital funding avenue across regions. Access to capital markets and reinsurers remains important for maintaining financial stability.*

*Insurance companies with more stable insurance funding are able to extract more value from illiquid assets and therefore allocate a greater fraction of assets to illiquid investments...*

*...We argue that an investor's funding structure matters when a illiquidity return premium is available in asset markets, and insurers' funding choices determine their ability to earn the illiquidity return premium.*



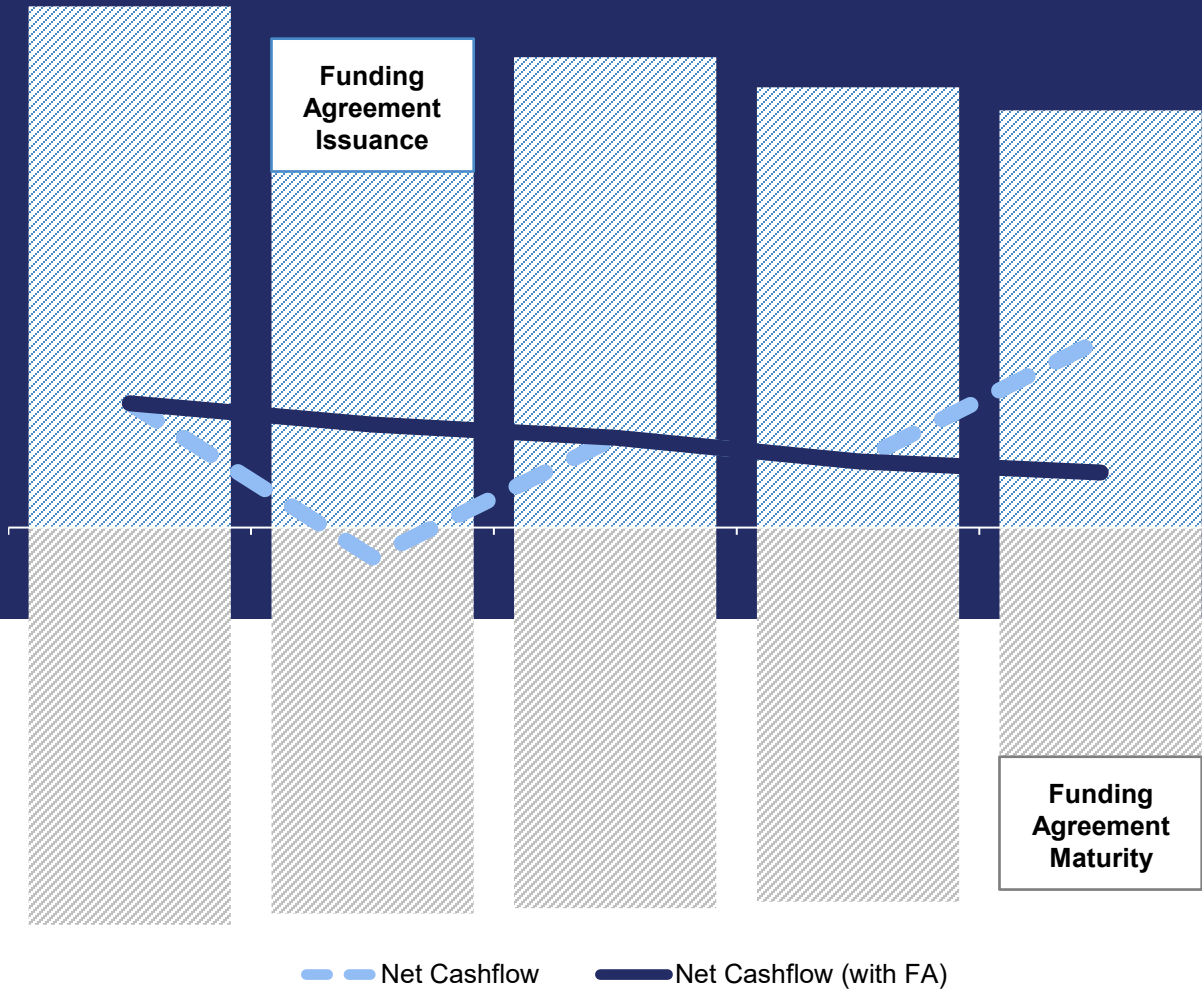
Retirement Income  
**JOURNAL**



# Asset-Liability Management With Funding Agreements

## Optimizing balance sheet strategy through ALM alignment

### Funding Agreement Solutions (Illustrative Cashflow Forecast)



Insurers can utilize a variety of ALM benefits, including:

- Customizable liability tenors
- Improved cash flow predictability
- Efficient duration matching
- Reduce policyholder behavioral variability
- Capital optimization
- Liquidity flexibility
- Decreased reinvestment risk...

...all while accessing an attractive source of funding for spread income.

# Risks, Trade-Offs, and Design Considerations

**Risks associated with Funding Agreements include (but are not limited to) the following:**

## Asset-Liability Management Risk

Insurers may face risk of cashflow mismatches between funding agreement outflows and investment proceeds from the issuance, potentially requiring the insurer to sell investment positions at a loss to repay policyholders.

## Interest Rate Risk

Fixed-rate funding agreements expose insurers to the risk of market rate fluctuation after issuance, making the cost of the liability more expensive relative to reinvestment opportunities. Conversely, floating-rate agreements can increase funding costs if rates rise.

## Counterparty / Credit Risk

If the funding agreement is issued through a bank or trust structure, the insurer faces exposure to the creditworthiness of counterparties involved in collateral or repo-like arrangements, particularly where collateral is rehypothecated. A downgrade in the insurer's own credit rating can also trigger additional collateral calls or early termination provisions.

## Regulatory / NAIC Classification Risk

Misclassification of the funding agreement under NAIC rules (e.g., whether it qualifies as a deposit-type contract) can impact RBC requirements and reserving needs. Changes in regulatory treatment could make the product less attractive or increase compliance costs.

## Market Perception & Reputational Risk

Reliance on funding agreements for liquidity could signal stress to rating agencies or investors. If the insurer faces difficulty refinancing maturing liabilities, it could harm confidence and ratings, while also potentially reducing assets.

# Disclosures

Conning, Inc., Goodwin Capital Advisers, Inc., Conning Investment Products, Inc., a FINRA-registered broker-dealer, Conning Asset Management Limited, and Conning Asia Pacific Limited (collectively “Conning”) and Octagon Credit Investors, LLC, Global Evolution Holding ApS and its subsidiaries, MGG Investment Group LP and certain of its affiliates, and Pearlmark Real Estate, L.L.C. and its subsidiaries (collectively “Affiliates” and together with Conning, “Conning & Affiliates”) are all direct or indirect subsidiaries of Conning Holdings Limited which is one of the family of companies whose controlling shareholder is Generali Investments Holding S.p.A. (“GIH”) a company headquartered in Italy. Assicurazioni Generali S.p.A. is the ultimate controlling parent of all GIH subsidiaries. Conning & Affiliates have investment centers in Asia, Europe and North America.

Conning, Inc., Conning Investment Products, Inc., Goodwin Capital Advisers, Inc., Octagon Credit Investors, LLC, Global Evolution USA, LLC, and PREP Investment Advisers, L.L.C. and MGG Investment Group LP are registered with the Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940, as amended, and have noticed other jurisdictions they are conducting securities advisory business when required by law. In any other jurisdictions where they have not provided notice and are not exempt or excluded from those laws, they cannot transact business as an investment adviser and may not be able to respond to individual inquiries if the response could potentially lead to a transaction in securities. SEC registration does not carry any official endorsement or indication that the adviser has attained a level of skill or ability.

Conning, Inc. is also registered with the National Futures Association. Conning Investment Products, Inc. is also registered with the Ontario Securities Commission. Conning Asset Management Limited is Authorized and regulated by the United Kingdom's Financial Conduct Authority (FCA#189316). Conning Asia Pacific Limited is regulated by Hong Kong's Securities and Futures Commission for Types 1, 4 and 9 regulated activities; Global Evolution Asset Management A/S is regulated by Finanstilsynet (the Danish FSA) (FSA #8193); Global Evolution Asset Management A/S (London Branch) is regulated by the United Kingdom's Financial Conduct Authority (FCA# 954331); also, Global Evolution Asset Management A/S (“GEAM”) is authorized via exemption as a dealer and adviser in certain Canadian provinces: In Canada, while GEAM has no physical place of business, it has filed to claim the international dealer exemption and international adviser exemption in Alberta, British Columbia, Ontario, Quebec and Saskatchewan. Conning & Affiliates primarily provide asset management services for third-party assets.

All investment performance information included in this document is historical. Past performance is not a guarantee of future results. Any tax-related information contained in this document is for informational purposes only and should not be considered tax advice. You should consult a tax professional with any questions.

For complete details regarding Conning & Affiliates and their services in the U.S., you should refer to our Form ADV Part 2, which may be obtained by calling us.

## Legal Disclaimer

©2026 Conning, Inc. This document and the software described within are copyrighted with all rights reserved. No part of this document may be distributed, reproduced, transcribed, transmitted, stored in an electronic retrieval system, or translated into any language in any form by any means without the prior written permission of Conning & Affiliates. Conning & Affiliates do not make any warranties, express or implied, in this document. In no event shall any Conning & Affiliates company be liable for damages of any kind arising out of the use of this document or the information contained within it. This document is not intended to be complete, and we do not guarantee its accuracy. Any opinion expressed in this document is subject to change at any time without notice.

This document contains information that is confidential or proprietary to Conning & Affiliates. By accepting this document you agree that: (1) if there is any pre-existing contract containing disclosure and use restrictions between you or your company and any Conning & Affiliates company, you and your company will use the information in this document in reliance on and subject to the terms of any such pre-existing contract; or (2) if there is no contractual relationship between you and your company and any Conning & Affiliates company, you and your company agree to protect the information in this document and not to reproduce, disclose or use the information in any way, except as may be required by law.

ADVISE®, FIRM®, GEMS®, CONNING CLIMATE RISK ANALYZER® and CONNING ALLOCATION OPTIMIZER® are registered trademarks of Conning, Inc. in the U.S. ADVISE®, FIRM®, GEMS®, CONNING CLIMATE RISK ANALYZER® and CONNING ALLOCATION OPTIMIZER® are proprietary software published and owned by Conning, Inc.

This document is for informational purposes only and should not be interpreted as an offer to sell, or a solicitation or recommendation of an offer to buy any security, product or service, or retain Conning & Affiliates for investment advisory services. The information in this document is not intended to be nor should it be used as investment advice.

Copyright 1990-2026 Conning, Inc. All rights reserved.