The Wrap Industry Appears Strong

Recovery from financial crisis sees insurers take leading role.

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When we speak with defined contribution plan sponsors and their consultants and advisors these days, we frequently field questions about the health of wrap providers and the availability of wrap capacity. We're happy to be able to respond that, from our perspective, the wrap industry is strong and appears to have fully recovered from the 2008–2009 financial crisis.

At the height of the crisis, wrap capacity declined sharply as several major providers wound down their existing contracts and exited the industry. However, by 2014 the wrap industry was well on its way to a full recovery. By June 2019, there were 18 active wrap providers in the market—five more than in 2009—and nearly USD 43 billion in additional wrap capacity was available to stable value managers (Figure 1).

However, while wrap capacity has recovered, the composition of the wrap industry has changed. Today, insurance companies play a bigger role in the industry relative to banks. Heading into the crisis, banks played a much bigger role, according to Valerian Capital.

Besides limiting wrap capacity, the crisis caused wrap fees to more than triple, from a range of 6 to 8 basis points (bps) before the crisis to 25 to 30 bps at its height. Since then, fees have moderated as wrap capacity has increased, falling to their current range of 15 to 20 bps.

Higher fees have helped offset increased costs as wrap providers have invested in more sophisticated risk management systems and, in some instances, partnered with investment consultants to augment their manager surveillance capabilities. We believe wrap fees can continue to move lower from here, but there may be resistance as we get closer to 15 basis points, given the increased compliance and surveillance costs associated with managing wrap products.

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(Fig. 1) Wrap Capacity Now Appears Plentiful

Stable Value Wrap Providers Ranked by Market Share

As of June 30, 2019

Rank	Wrap Provider Name[1]	Category	Market Share[2] USD Billions	Ratings Moody's	Ratings S&P
1	Prudential	Insurance Company	79.60	Aa3	AA-
2	Met Life	Insurance Company	60.20	Aa3	AA-
3	Transamerica	Insurance Company	51.20	A1	AA- neg
4	Voya	Insurance Company	38.00	A2	A+[3]
5	American General	Insurance Company	28.60	A2	A+
6	State Street	Bank	27.10	Aa3	AA-
7	Pacific Life	Insurance Company	26.40	A1	AA-
8	Massachusetts Mutual	Insurance Company	22.80	Aa3[4]	AA+
9	Nationwide	Insurance Company	17.60	A1 neg	A+
10	Royal Bank Canada	Bank	16.30	Aa2	AA-
11	JPMorgan[5]	Bank	13.80	Aa2	A+
12	RGA	Insurance Company	13.50	A1	AA-
13	New York Life	Insurance Company	9.00	Aaa	AA+
14	Lincoln National	Insurance Company	3.10	A1	AA-
15	TIAA Life	Insurance Company	2.10	Aa1	AA+
16	American United Life	Insurance Company	1.70	WR	AA-
17	Principal	Insurance Company	1.20	A1	A+
18	United of Omaha	Insurance Company	0.10	A1	AA-
19	Bank of Tokyo-Mitsubishi	Bank	0.00	A1	A
20	National Life Group	Insurance Company	0.00	A2	A+
Total			**412.30**		

[1] The credit ratings shown here are for the entity issuing the book-value wrap agreements; the complete legal entity name has been abbreviated. Insurance company ratings refer to claims-paying ability. Bank ratings are the issuer rating for Moody's and the long-term foreign issuer credit rating for S&P.

[2] Outstanding notionals.

[3] S&P upgrade from A on 6/11/19.

[4] Moody's lowered from Aa2 on 5/28/19

[5] As of May 2018 the notional amounts for JPMorgan were reduced by USD 15 billion to be consistent with market intelligence.

Source: Valerian Capital.

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