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# Closing reserve financing deal puts Primerica on track to executing capital strategy

By [Sampath Sharma](#)

[Primerica Inc.](#) is well-positioned to execute its [plan](#) to return \$150 million of capital annually through 2016 after the completion of a Regulation XXX reserve financing transaction.

The company, through newly formed indirect unit [Vidalia Re Inc.](#), on July 31 entered into a surplus note purchase agreement with Hannover Life Reassurance Co. of America (Bermuda) Ltd., [Hannover Life Reassurance Co. of America](#) and [BX8V8J LLC](#), Primerica disclosed in a Form 8-K filed Aug. 6. A third-party service provider not affiliated with Primerica or Hannover Re owns [BX8V8J Member Inc.](#), which, in turn, owns [BX8V8J](#).

Under the surplus note purchase agreement, [Vidalia Re](#) issued a surplus note with an initial principal amount of \$170.4 million to [BX8V8J](#) in exchange for a credit enhanced note from [BX8V8J](#) with an equal initial principal amount. Both notes have a maturity date of Dec. 31, 2029. The [BX8V8J](#) note was issued to support certain obligations of [Vidalia Re](#) for a portion of reserves related to level premium term life insurance policies reinsured by [Vidalia Re](#) from [Primerica Life Insurance Co.](#) under a coinsurance agreement between [Vidalia Re](#) and [Primerica Life Insurance](#), effective as of July 31.

"In simple terms, the reserve financing transaction allows to accelerate the distribution of statutory profits from [Primerica Life](#) to the holding company," CFO [Alison Rand](#) said on an Aug. 7 earnings call.

[Primerica](#) expects to transfer from [Primerica Life](#) to the holding company approximately \$68 million in the third quarter and \$140 million in the fourth quarter.

The costs related to the transaction are expected to be \$300,000 to \$500,000 per quarter, but the periodic costs will vary over a period of time based on the amount of reserves financed, [Rand](#) noted. While the reserve financing deal covers three years of issue, the company has the option to add another year, she said.

The executive ruled out pursuing similar reserve financing transactions in the next couple of years with an expectation that the NAIC's principle-based reserving [implementation](#) will come into effect. The principle-based reserving transition will "significantly" reduce the amount of redundant reserves the company should maintain, removing the need for pursuing reserve financing transactions, she said.

Neither [Primerica](#) nor [Primerica Life](#) have guaranteed the surplus note or are otherwise liable for the reimbursement of any credit enhancement payments required to be made, according to the filing. The principal amount of each note will change based on the amount of reserves being supported. [Hannover Re](#), the ultimate risk taker in the transaction, provides credit enhancement on the [BX8V8J](#) note in exchange for a fee.

In connection with the transaction, the company entered into support agreements under which it supports certain obligations of [Vidalia Re](#), primarily the payment of fees to [Hannover Re](#).