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Private Equity (PE) Owned U.S. Insurers as of Year-End 2019

Analysts: Jennifer Johnson, Jean-Baptiste Carelus, Kaitlyn Kaminski

Executive Summary

- The number of private equity (PE)-owned U.S. insurers was 89 at year-end 2019, relatively consistent with year-end 2018; in terms of book/adjusted carrying value (BACV), total cash and invested assets of PE-owned U.S. insurers increased 7% to \$343.5 billion at year-end 2019 from \$313.9 billion at year-end 2018.
- Similar to the overall U.S. insurance industry: bonds were the largest asset type, at 74% of total cash and invested assets of PE-owned insurers; corporate bonds were the largest bond type at about 41% of total bonds; and life companies accounted for almost all of the exposure.
- The concentration of asset-backed securities (ABS) and other structured securities (which includes collateralized loan obligations, or CLOs) as well as residential mortgage-backed securities (RMBS) is higher for PE-owned insurers at an aggregate 33% of total bonds held by PE-owned insurers, compared to 11% total bonds for the overall U.S. insurance industry at year-end 2019.
- As with non-PE-owned U.S. insurers, more than 90% of bond exposure was in corporate bonds carrying NAIC 1 and NAIC 2 designations, implying high credit quality.
- Other long-term invested assets, or those reported in Schedule BA, increased to \$17.2 billion at year-end 2019 from \$14.7 billion at year-end 2018.
- Schedule DA investments for PE-owned insurers was \$7.6 billion at year-end 2019, a decrease of almost 12% from year-end 2018. One insurer accounted for about half of the industry's PE-owned Schedule DA investments at year-end 2019.

Investment Portfolios of PE-Owned U.S. Insurers as of Year-End 2019

As of year-end 2019, PE-owned U.S. insurers accounted for \$343.5 billion in BACV of total cash and invested assets and represented almost 2% of the total number of U.S. insurers (i.e., 89 U.S. insurers out of a total 4,482). The BACV of total cash and invested assets for PE-owned insurers was 5% of the U.S. insurance industry's approximately \$7 trillion at year-end 2019. In comparison, as of year-end 2018,

about 2% of the total number of U.S. insurers, or 90 in total, accounted for approximately \$313.9 billion in BACV in total cash and invested assets, out of the U.S. insurance industry's total \$6.5 trillion investments (or 4.8% of total cash and invested assets). Consistent with prior years, U.S. insurers were identified as PE-owned via a manual process.

Among the investments by PE-owned U.S. insurers, bonds continued to be the largest asset type at year-end 2019 at \$254.6 billion, increasing by almost 7% from year-end 2018 (see Table 1 and Table 2). Bonds accounted for 74% of total cash and invested assets held by PE-owned insurers at year-end 2019, compared to \$238.2 billion, or 76% of total cash and invested assets at year-end 2018. Life companies accounted for almost all PE-owned insurer investments in both years (not dissimilar to the U.S. insurance industry's overall investment pattern).

Table 1: PE-Owned U.S. Insurer Investments as of Year-End 2019 (\$BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	251,182,259,033	3,351,147,912	24,969,798	2,072,245	254,560,448,988	74%
Mortgages, First Lien	34,018,578,355	37,929,086	-	-	34,056,507,441	10%
BA & Other	17,149,517,281	126,057,400	10,473,369	4,750,000	17,290,798,050	5%
Cash & Short-term Investments	17,125,669,613	686,763,324	122,673,345	63,935,525	17,999,041,807	5%
Common Stock	8,260,660,432	611,413,055		9,810,208	8,881,883,695	3%
Contract Loans	2,139,012,381				2,139,012,381	1%
Derivatives	2,580,159,809				2,580,159,809	1%
Mortgages, Not First Lien	2,407,170,902		10,793		2,407,181,695	1%
Other Receivables	364,727,008	1,607,189	4,707		366,338,904	0%
Preferred Stock	2,183,866,939	24,657,641			2,208,524,580	1%
Real Estate	967,084,902	11,641,543			978,726,445	0%
Securities Lending (Reinvested Collateral)	28,722,675	-			28,722,675	0%
Total	338,407,429,330	4,851,217,150	158,132,012	80,567,978	343,497,346,470	100%
% of Total	98.5%	1.4%	0.0%	0.0%	100.0%	

Table 2: PE-Owned U.S. Insurer Investments as of Year-End 2018 (\$BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	235,120,358,610	3,084,631,897	26,002,762	1,754,395	238,232,747,664	76%
Mortgages, First Lien	28,250,375,164	42,754,673			28,293,129,837	9%
BA & Other	14,483,391,521	225,761,770	10,518,375	5,500,000	14,725,171,666	5%
Cash & Short-term Investments	13,407,724,257	449,271,049	95,812,426	86,697,579	14,039,505,311	4%
Common Stock	7,071,153,331	549,603,631			7,620,756,962	2%
Mortgages, Not First Lien	2,388,401,610		10,793		2,388,412,403	1%
Preferred Stock	2,343,179,688	15,650,756			2,358,830,444	1%
Contract Loans	2,079,045,076				2,079,045,076	1%
Derivatives	2,157,918,963				2,157,918,963	1%
Other Receivables	915,815,857	2,080,476	156		917,896,489	0%
Real Estate	1,019,691,949	11,534,429			1,031,226,378	0%
Securities Lending (Reinvested Collate)	52,561,781				52,561,781	0%
Total	309,289,617,807	4,381,288,681	132,344,512	93,951,974	313,897,202,974	100%
Pct of Total	99%	1%	0%	0%	100%	

Bonds

Among the bond investments held by PE-owned U.S. insurers as of year-end 2019, corporate bonds accounted for the largest proportion at \$117.0 billion, or 46% of total bonds (see Table 3). In comparison, at year-end 2018, corporate bonds accounted for the largest amount at \$107.2 billion, or 45% of total bonds (see Table 4). As published in the NAIC Capital Market Bureau’s special reported dated July 1, 2020, titled, “[U.S. Insurers’ Cash and Invested Assets Reach Almost \\$7 Trillion at Year-End 2019](#),” exposure to corporate bonds for *all* U.S. insurers was about 55% of total bonds at year-end 2019.

Also similar to the year prior, the second-largest bond investment for PE-owned U.S. insurers was ABS and other structured securities at \$69.3 billion, or 27% of total bonds at year-end 2019. In comparison, at year-end 2018, ABS and other structured securities was \$66.3 billion, or 28% of total bonds. And compared to *all* U.S. insurers, ABS and other structured securities accounted for about 9% of total bonds at year-end 2019 (for a total of \$410.5 billion), compared to 8% at year-end 2018 (for a total of approximately \$362 billion).

At year-end 2019, CLOs were about half (\$35.6 billion) of PE-owned insurers’ exposure to ABS and other structured securities and about 22% of the overall U.S. industry’s total CLO exposure. One insurer accounted for 28% of PE-owned U.S. insurers’ exposure to CLOs at year-end 2019; the top three PE-owned insurers accounted for almost 50% of the total.

Furthermore, private label residential mortgage-backed securities (RMBS) accounted for 6% of total bonds for PE-owned U.S. insurers at year-end 2019 and year-end 2018, compared to 2% of total bonds for the overall U.S. insurance industry at year-end 2019 and year-end 2018. This trend demonstrates a higher concentration of non-traditional bonds held by PE-owned insurers and, perhaps, the potential for increased risk and, in turn, volatility.

Table 3: PE-Owned U.S. Insurer Bond Investments as of Year-End 2019 (\$BACV)

Bond Type	Life	P/C	Title	Health	Total	% of Total
ABS and Other Structured Securities	68,931,799,412	410,989,506	1,120,792		69,343,909,710	27%
Agency-backed CMBS	9,067,621,046	41,592,445	1,221,991		9,110,435,482	4%
Agency-backed RMBS	6,924,182,596	498,704,309	924,032		7,423,810,937	3%
Bank Loans	1,910,875,393				1,910,875,393	1%
Corporate Bonds	115,813,112,523	1,199,217,672	6,062,391		117,018,392,586	46%
ETF-SVO Identified Funds	2,466,842	5,655,763	-		8,122,605	0%
Foreign Government	938,872,674	14,833,337	74,937		953,780,948	0%
Hybrid Securities	26,550,012				26,550,012	0%
Municipal Bonds	14,398,421,848	422,487,228	2,952,942		14,823,862,018	6%
Private-label CMBS	10,667,142,591	223,781,686			10,890,924,277	4%
Private-label RMBS	14,232,401,341	108,126,563			14,340,527,904	6%
US Government	8,268,812,789	425,759,434	12,612,717	2,072,245	8,709,257,185	3%
Total	251,182,259,067	3,351,147,943	24,969,802	2,072,245	254,560,449,057	100%

Table 4: PE-Owned U.S. Insurer Bond Investments as of Year-End 2018 (\$BACV)

Bond Type	Life	P/C	Title	Health	Total	% of Total
ABS and Other Structured Securities	65,810,481,937	467,684,632	1,284,425		66,279,450,994	28%
Agency-backed CMBS	7,230,710,547	35,826,328	1,063,180		7,267,600,055	3%
Agency-backed RMBS	5,498,275,546	303,048,541	1,028,968		5,802,353,055	2%
Bank Loans	2,007,832,159				2,007,832,159	1%
Corporate Bonds	105,940,690,441	1,267,986,184	6,242,792		107,214,919,417	45%
ETF-SVO Identified Funds	404,975,803	6,306,255			411,282,058	0%
Foreign Government	940,225,721	19,864,269	50,099		960,140,089	0%
Hybrid Securities	27,262,871				27,262,871	0%
Municipal Bonds	13,401,505,732	432,974,779	2,994,463		13,837,474,974	6%
Private-label CMBS	10,410,460,991	214,956,601			10,625,417,592	4%
Private-label RMBS	15,197,258,852	73,623,330			15,270,882,182	6%
US Government	8,250,678,330	262,360,986	13,338,835	1,754,395	8,528,132,546	4%
Total \$BACV	235,120,358,930	3,084,631,905	26,002,762	1,754,395	238,232,747,992	100%

Note that PE-owned insurers have demonstrated a larger concentration of non-traditional bond investments over the past few years (i.e., ABS, private label RMBS), while the overall U.S. insurance industry has had a higher concentration of agency-backed RMBS, municipal bonds and U.S. government securities. Table 5 shows the bond breakdown in percentage terms of PE-owned U.S. insurers versus the overall U.S. insurance industry at year-end 2019.

Table 5: Bond Types as a Percentage of Total Bonds as of Year-End 2019

Bond Type	% of Total Bonds for PE-Owned	% of Total Bonds for All U.S. Insurers
Corporate Bonds	46%	55%
ABS and Other Structured Securities	27%	9%
Municipal Bonds	6%	11%
Private-label RMBS	6%	2%
Agency-backed CMBS	4%	2%
Private-label CMBS	4%	4%
US Government	3%	6%
Agency-backed RMBS	3%	7%
Bank Loans	1%	1%
Foreign Government	0%	1%
Total	100%	100%

Bond Credit Quality

At year-end 2019 and year-end 2018, about 96% of unaffiliated corporate bonds held by PE-owned U.S. insurers carried NAIC 1 and NAIC 2 designations, implying high credit quality ratings. Also, similar to year-end 2018, at year-end 2019, about 96% of ABS and other structured securities held by PE-owned

insurers carried NAIC 1 and NAIC 2 designations, implying high credit quality, with the remainder designated NAIC 3.¹

Schedule BA

Schedule BA investments, or other long-term investments, held by PE-owned insurers, increased by almost 18% to \$17.3 billion at year-end 2019 (see Table 6), from \$14.7 billion at year-end 2018 (see Table 6). Notwithstanding, Schedule BA investments were about 5% of total PE-owned U.S. insurer investments in both years. Schedule BA investments held by non-PE-owned U.S. insurers totaled \$384.5 billion at year-end 2019.

At year-end 2019, a large proportion, or 32% of PE-owned U.S. insurer Schedule BA investments, was in collateral loans² compared to 29% at year-end 2018; this was followed by 28% in PE—i.e., common stock (JV)—which was up from 25% of total Schedule BA investments as of year-end 2018. In addition, at year-end 2019, 15% of PE-owned U.S. insurers' Schedule BA investments were in surplus debentures; at year-end 2018, surplus debentures accounted for 18% of PE-owned insurers' Schedule BA investments.

Table 6: PE-Owned U.S. Insurer Schedule BA Investments as of Year-End 2019 (\$BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Collateral Loans	5,595,336,932	11,062,188	-	-	5,606,399,120	32%
Common Stock- JV	4,788,034,897	10,638,167	-	-	4,798,673,064	28%
Surplus Debentures	2,611,010,720	4,223,527	-	-	2,615,234,247	15%
Real Estate- JV	1,378,916,702	8,528,578	-	-	1,387,445,280	8%
Other- JV	1,161,897,707	16,754,420	10,473,369	-	1,189,125,496	7%
Any Other Class of Assets	464,650,343	41,745,821	-	-	506,396,164	3%
Mortgage Loans	1,029,928,791	20,444,002	-	-	1,050,372,793	6%
Other	124,451,436	7,950,242	-	4,750,000	137,151,678	1%
Total	17,154,227,528	121,346,945	10,473,369	4,750,000	17,290,797,842	100%

Table 7: PE-Owned U.S. Insurer Schedule BA Investments as of Year-End 2018 (\$BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Collateral Loans	4,298,420,625	28,143,372			4,326,563,997	29%
Common Stock - JV	3,728,102,953	9,136,213			3,737,239,166	25%
Surplus Debentures	2,581,340,777	4,229,621			2,585,570,398	18%
Real Estate - JV	963,707,784	14,703,958			978,411,742	7%
Other - JV	747,675,539	118,121,994	10,518,375		876,315,908	6%
Any Other Class of Assets	577,372,777	45,116,244			622,489,021	4%
Fixed Income - JV	596,935,397				596,935,397	4%
Mortgage Loans	550,605,358				550,605,358	4%
Other	443,707,589	6,126,446	-	5,500,000	455,334,035	3%
Total	14,487,868,799	225,577,848	10,518,375	5,500,000	14,729,465,022	100%

¹ For reporting purposes, the process known as modified filing exempt (MFE) was deleted effective year-end 2019. With MFE, U.S. insurers setting NAIC designations for certain securities (such as collateralized loan obligations) that are subject to guidance provided by *Statement of Statutory Accounting Principles (SSAP) No. 43R—Loan-Backed and Structured Securities* could adjust the rating agency-derived ratings based on BACV.

² Collateral loans are defined in *SSAP No. 21R Other Admitted Assets* as unconditional obligations for the payment of money secured by the pledge of an investment and meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets*, and are admitted assets to the extent they conform to the requirements of this statement.

Affiliate investments accounted for about half of total Schedule BA investments for PE-owned U.S. insurers at year-end 2019, compared to about 60% for the overall U.S. insurance industry as of year-end 2019.

Schedule DA – Short-Term Investments

PE-owned insurers owned about \$7.6 billion in Schedule DA (short-term) investments as of year-end 2019, out of a total of about \$85 billion for the overall U.S. insurance industry, or about 9% of the total (see Table 8). In comparison, at year-end 2018, PE-owned insurers owned about \$8.6 billion in Schedule DA investments out of a total of \$80 billion. This represents an overall decrease by about 12% in PE-owned U.S. insurers’ Schedule DA investments.

One PE-owned life company accounted for about half of the industry’s exposure to Schedule DA investments (in terms of BACV) at year-end 2019. A total of nine PE-owned life companies accounted for predominantly all of the exposure.

In addition, the same four companies accounted for the largest Schedule DA investments for PE-owned companies at both year-end 2019 and year-end 2018; their aggregate exposure was about 90% of total PE-owned insurers’ exposure to Schedule DA investments in each of the two years, perhaps warranting closer review.

Table 8: U.S. Insurers’ Schedule DA Investments as of Year-End 2019, PE-Owned vs. Non-PE-Owned

Schedule DA Investments	Life	P/C	Title	Health	Total	% of Total
PE-Owned (\$BACV)	7,583,566,126	17,462,225	-	-	7,601,028,351	9%
PE-Owned (#)	22	13			35	3%
Non-PE Owned-(\$BACV)	24,911,592,201	47,458,458,282	156,506,866	4,807,487,024	77,334,044,373	91%
Non-PE-Owned (#)	212	785	13	318	1,328	97%
Total \$BACV	32,495,158,327	47,475,920,507	156,506,866	4,807,487,024	84,935,072,724	
Total # of Insurers	234	798	13	318	1,363	

Approximately \$1 billion, or 14% of all PE-owned Schedule DA assets at year-end 2019, were reported as affiliate investments, which was a significant decrease from 32% (\$2.7 billion) at year-end 2018.

PE Firms and the U.S. Insurance Industry

Around 2012, PE firms became some of the most active participants in mergers and acquisitions (M&A) activity in the insurance sector, purchasing insurance companies or blocks of their business. PE firms are attracted to predictable cash flows generated by insurance distribution businesses. In particular, life and annuities businesses offer predictable and steady returns and an opportunity to add to assets under management, as well as generate fee income from investment management expertise.

Property/casualty (P/C) companies represent attractive opportunities because of renewals and minimal capital expenditures, according to OPTIS Partners, an investment banking and financial services firm. Also, according to OPTIS Partners, the overall number of M&A for U.S. and Canadian insurers in 2019

was 649—the highest on record and an increase from 626 in 2018.³ PE/hybrid buyers (or buyers with material internal or external acquisition financial support, as well as traditional PE-backed firms) accounted for 69% of insurer M&A activity in 2019; P/C companies accounted for about half of those acquired.

Regardless of whether insurers are owned by PE firms, investment activity must abide by applicable state insurance laws. Insurers may benefit from PE ownership in terms of access to broader deal originations, as well as access to capital through the alternative investment manager rather than issuing stock in a public offering, which increases regulatory requirements for the insurer, according to Fitch Ratings.⁴ Being PE-owned, an insurer's asset sourcing capabilities expand; however, the investments could shift toward higher returning—i.e., higher risk—assets that are also less liquid. This trend is evidenced by the trend in increased Schedule BA investments held by PE-owned U.S. insurers over the past few years.

Conclusion

PE-owned U.S. insurers are a small component of the overall U.S. insurance industry, with their investments accounting for about 5% of the industry's total cash and invested assets as of year-end 2019, as well as year-end 2018. In terms of BACV, the investment portfolios of U.S. insurers that were PE-owned at year-end 2019 increased by 7% from year-end 2018. The trend with PE firms acquiring U.S. insurers has continued over the past few years due, in part, to the lower-for-longer interest rate environment. Both sides sought benefits: PE firms are attracted to the additional, steady source of premium income from the insurers; and U.S. insurers' investment portfolios can potentially achieve higher investment returns and improved access to capital via the PE firms' capital markets networks.

Among investments held by PE-owned U.S. insurers, bonds accounted for the largest asset type at 74% of total assets held by PE-owned insurers, with corporate bonds representing the largest bond type (about 46% of the bond exposure). PE-owned U.S. insurers reported higher exposure to ABS and other structured securities (27% of total bonds for PE-insurers versus 9% for the overall U.S. insurance industry), perhaps warranting additional analysis and review given the potential for volatility with non-traditional bond investments. Within ABS and other structured securities among PE-owned insurers, CLOs represented about half of the exposure at year-end 2019.

Within Schedule BA investments, there was some differentiation, in that the largest asset type held by PE-owned U.S. insurers was reported to be collateral loans; whereas, for the overall industry, hedge fund investments were the largest. Notwithstanding, PE investments were the second-largest for both PE-owned insurers and the overall U.S. insurance industry. Affiliate investments accounted for about half of total Schedule BA investments for PE-owned U.S. insurers at year-end 2019, compared to 60% for the overall U.S. insurance industry.

³ Optis Partners, *Agent & Broker Year-End 2019 Merger & Acquisition Update*, January 2020.

⁴ Fitch Ratings, *Alt Investment Managers Place a Premium on Insurance Tie-Ups*, January 2019.

For short-term investments reported in Schedule DA, there was a year-over-year decrease of about 12% in exposure among PE-owned U.S. insurers, but the same top four insurers accounted for almost 90% of the total exposure at both year-end 2019 and year-end 2018, perhaps warranting a closer review of these investments. One life company accounted for about half of the exposure at year-end 2019.

The NAIC Capital Markets Bureau will continue to monitor trends in PE-owned U.S. insurer investments and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

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