Americans for Financial Reform Education Fund

Risky Business

Private Equity's Life Insurance Gambit

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AMERICANS FOR FINANCIAL REFORM EDUCATION FUND (AFREF)

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INTRODUCTION

The private equity industry has been buying up insurance companies, a development that can pose unheralded risks to policyholders and the stability of the financial system. The private equity industry tightened its grip on the economy in the wake of the 2008 financial crisis and is now further expanding its reach and influence by buying insurance companies, primarily life insurers and retirement annuity providers. As Institutional Investor reported, private equity firms "have long salivated over insurance company assets as a source of permanent capital. Now that trend has been kicked into high gear."[1]

Private equity firms use money raised from wealthy individuals and institutional investors like pension funds, university endowments, and sovereign wealth funds to take over and operate companies.[2] Their latest target has been insurance companies. By the second half of 2023, private equity firms' ownership had already grown so significantly that they owned $774 billion in life insurance assets — 9 percent of the life insurance industry — according to the AM Best insurance analyst.[3] Private equity firms are estimated to manage $5.7 trillion in global assets,[4] giving these firms ample ability to buy up even more insurance (2 and other) companies.

There is a symbiotic mutual interest between private equity firms and insurers. Increasingly, insurers want to cash out by selling their companies to private equity buyers, after which the private equity buyers redeploy the insurance industry's $4.5 trillion asset portfolio to support three private equity profit centers.[5] First, the new private equity owners can shift the target insurer's portfolio into the private equity industry's higher-risk investments, including financing leveraged buyouts to expand the private equity firm's portfolio of companies.

Second, private equity firms can reallocate the large, new pool of insurance investment assets towards financing the industry's increasingly important — and risky — leveraged lending business where private equity firms make high-interest rate loans to less creditworthy companies.

Third, the private equity firms can charge their insurance companies asset management fees on the insurance portfolios.[6]

While these private equity-insurance takeovers may generate short term benefits for both parties, private equity's incursion into insurance could pose problems for policyholders and undermine the stability of the financial system. Typically, insurance companies invest most of their portfolios in safer bond investments, including predominantly investment grade bonds such as higher rated corporate bonds and U.S. government securities, with the remainder primarily in stock equities, mortgages, and cash reserves. The private equity owners' shifts of insurance portfolios into potentially more lucrative — but riskier — non-traditional investments such as private credit could endanger the economic viability of the insurance companies.

When insurers face steep investment losses that leave them unable to cover their policyholders they can slide into insolvency and be taken over or even liquidated by state insurance regulators. Insurance insolvencies have been relatively rare, but the riskier, less transparent, and more complex investments favored by private equity may increase the danger in the future. State insurance regulators may struggle to investigate and enforce violations against a complex web of affiliated companies spread out across multiple states and offshore domiciles (there is no federal insurance regulator).

Insurance company failures can harm policyholders who may wait years to get claims processed during liquidation and lose funds that exceed the state guarantee limit on their policies or investments (typically maxing out at $300,000). But the entire financial system can also be infected by failed insurance companies, as occurred when severe losses at the American International Group (AIG) threatened the broader financial system, leading to a federal bailout to halt the contagion during the 2008 financial crisis.

Already, several insurers owned by the private equity firm Eli Global have become insolvent and been forced into rehabilitation or liquidation by state insurance regulators. The growing private equity insurance investments could make these kinds of insurance failures more likely, harming policyholders and the financial system.

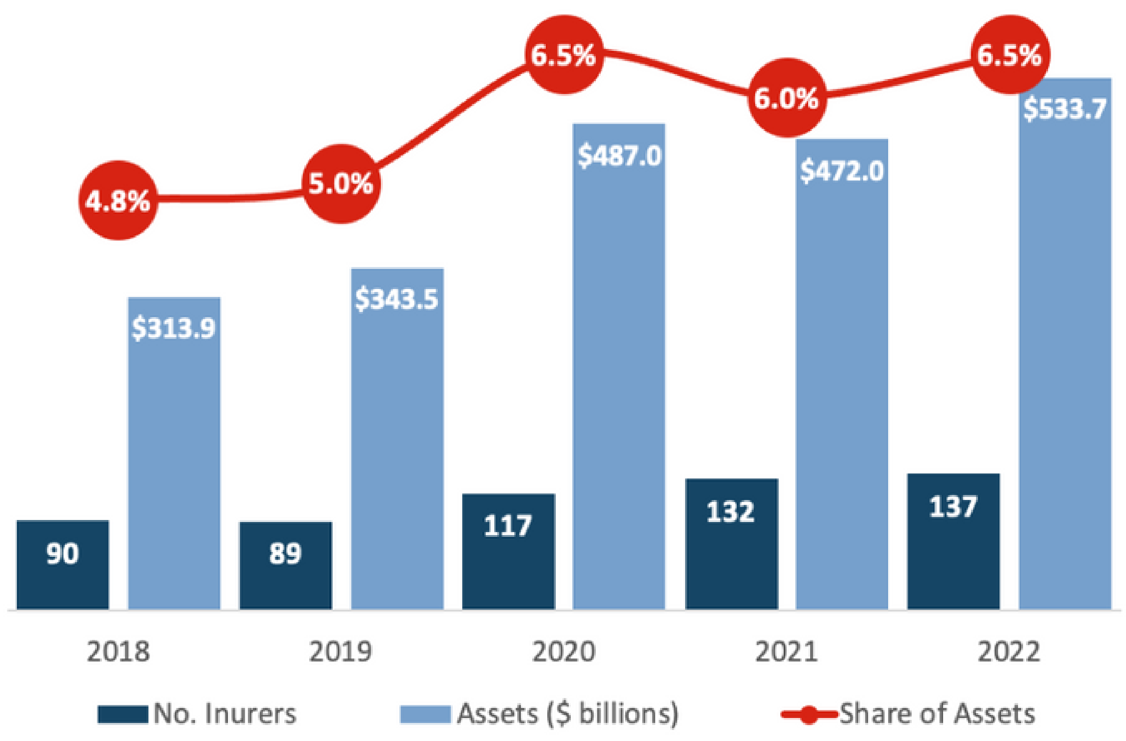
Now, the more challenging financial conditions from higher interest rates are amplifying the risks to private equity-owned insurance companies, and therefore to policy holders and the broader economy. The riskier loans the private equity firms have been making with insurance asset financing to private credit borrowers and to companies taken over through leveraged buyouts are harder to repay and at greater risk of default in this higher interest rate environment.

II. Private equity surges into the insurance industry in a wave of buyouts

The private equity insurance buying spree started after the 2008 financial crisis but has picked up steam in the past decade. At the end of 2022, private equity firms owned 137 U.S. insurance companies with $533.7 billion in assets representing 6.5 percent of total U.S. insurance assets (including life, health, and property-casualty), according to data from the National Association of Insurance Commissioners (see Figure 1).[7]

Private equity has focused on the life insurance industry, which makes up 95 percent of private equity owned insurance assets.[8] By the second half of 2023, private equity firms owned $774 billion in life insurance assets — 9 percent of the life insurance industry — according to AM Best.[9]

Fig. 1: Private Equity Owned U.S. Insurance Companies
(assets in $ billions, share of all insurance assets)



Source: NAIC PE Reports 2019-2023; Assets represent book adjusted carrying value.

The private equity insurance holdings are likely higher if partial ownership stakes are included. McKinsey & Co. estimated that in 2022 private equity firms owned $620 billion in insurance companies and insurance and reinsurance assets, including more than one-third of annuity premiums.[10]

Today, most major private equity firms — including Apollo, Ares Management, Blackstone, the Carlyle Group, and KKR — either own insurance companies outright as portfolio firms or hold substantial stakes in insurance or reinsurance companies (see Table 1).

Table 1. Major Private Equity Firm Investments in U.S. Insurance Companies

Private Equity Firm	Insurance Company	Year	Assets Acquired
Apollo	American Equity Investment Life (annuity portfolio)	2009	$1.6 billion[11]
Blackstone	Fidelity & Guaranty Life	2017	$22 billion[12]
Blackstone	AIG Life & Retirement	2021	$50 billion (rising to $92.5 billion)[13]
Blackstone	Allstate Life Insurance (now Everlake Life)	2021	$28 billion[14]
Blackstone	Resolution Life	2022	$60 billion[15]
Brookfield Asset Management	American National Group	2022	$24 billion[16]
Brookfield Asset Management	Argo Group International	2023	$3.5 billion[17]
Brookfield Asset Management	American Equity Life Investment (entire firm)	Closing 1H 2024	$52 billion[18]
KKR	Global Atlantic	2021	$90 billion[19]
Carlyle Group	Fortitude Re	2022	$50 billion[20]
Ares Management	F&G	2020	$2 billion[21]

Private equity firms buy insurers to manage and direct the investments of the insurers' pool of capital to continue their predatory buyout spree. In part, the recent upsurge in private equity interest in insurance company portfolios reflects the significant 2022 slowdown in private equity fundraising from more traditional sources such as public pensions and university endowments.[22]

For the private equity industry, owning an insurance portfolio eliminates the hassle of repeatedly raising money from pension funds, university endowments, and wealthy individuals, serving as a form of "permanent capital." Today, the private equity industry is aiming to access insurance assets "in perpetuity," according to a Deloitte & Touche partner.[23]

Private equity ownership allows the firms to exert influence over the insurers' asset allocations (including investing in private equity leveraged buyouts) as well as earn asset management fees on a larger pool of permanent capital.[24] Insurers were eager to sell because the protracted low interest rates that were intended to support the economic recovery in the aftermath of the Financial Crisis made it very difficult for insurers to generate sufficient returns to produce profits and cover their policyholders.[25]

Facing those constraints, insurers were drawn to private equity suitors that could provide access to the riskier and less liquid private market assets that could potentially generate higher returns.[26]

Private equity firms first jumped into the insurance industry to buy up companies in the wake of the financial crisis when the economic decline steeply reduced the value of these companies. In 2009, private equity giant Apollo Global Management acquired $1.6 billion in annuities from American Equity Investment Life at deeply discounted prices following the insurers' investment losses during the financial crisis.[27] By 2012, private equity firms became among the most significant and active buyers of insurance companies.[28]

More recently, private equity firms have been on a renewed tear buying up insurance businesses. Between 2019 and 2022, private equity and venture capital firms invested more than $62 billion in nearly 350 deals to take over or acquire stakes in insurance underwriters.[29] In 2021 alone, private equity deals acquired or reinsured $200 billion in U.S. insurance liabilities.[30] In 2022, private equity firms spent nearly $6 billion in the 10 largest takeovers of insurance companies, including the Carlyle Group-led purchase of the reinsurer Fortitude Group.[31] Although the pace of deals slowed in 2023, there were still 24 transactions with $830 million through early July.[32] During the summer of 2023, Bain Capital announced it has assembled a $1.15 billion fund to purchase insurance companies.[33]

III. Private equity firms profit from insurance company investments

Private equity firms have used the permanent capital of the insurance companies they acquire to cross-pollinate their other business lines. When private equity firms buy insurers, they wrest control of the management of the insurers' asset portfolio; even when private equity firms take a minority investment stake, they often secure the right to manage the insurers' assets.[34] The private equity firms essentially gain the right to direct the insurance companies' investments.[35]

The strategic control private equity firms exert over the investments of their insurance companies can create conflicts of interest where the insurance portfolio acts as a piggy-bank for the private equity firm's business interests, whether or not they are prudent insurance investments that otherwise make sense for the insurer.

The symbiotic private equity-insurer investments have become a bigger and more important share of some private equity firms' businesses and an important source of their assets under management. Blackstone manages close to $1 trillion in total assets and has pointed to its control of insurance assets as one of its fastest areas of growth, one which now accounts for nearly a third of its total assets.[36] Apollo built its insurance portfolio company Athene from its 2009 purchase of American Equity Investment Life, and by 2022, the $236 billion in Athene insurance assets represented nearly half of Apollo's $548 billion in assets under management.[37]

This investment control generates three basic benefits for the private equity firms. First, these insurance portfolios can be invested in debt backing private equity leveraged buyouts, fueling the private equity predation that has been so damaging to sectors like retail, health care, and more. Second, the insurance company portfolios can support the private equity industry's private credit business of offering high-yield junk bonds and leveraged loans to other companies. Third, the private equity companies can charge their insurance company affiliates hefty asset management fees that can amount to billions of dollars in revenues for the private equity firms.[38]

A. Private equity-owned insurance assets fuel leveraged buyouts

Private equity-owned insurers are increasingly shifting insurance assets to back other businesses owned by the same private equity firms, including by providing funding for leveraged buyouts.[39] This creates a potential conflict of interest where the private equity asset managers use their strategic control of the insurance assets to invest in other businesses they own, even when these investments might be risky for the insurance company.

The National Association of Insurance Commissioners flagged affiliated transactions as creating potential conflicts of interest and urged state insurance regulators to consider requiring pre-approval for affiliated transactions.[40]

Related-party investments are also frequently private transactions which can be tricky to value and difficult to sell.[41] And investments in private equity owned businesses can be risky because private equity firms extract value from the companies they take over, frequently using tactics that enrich the private equity owners but leave the target firms (and their investors, in this case insurers) far more vulnerable to collapse, bankruptcy and liquidation.[42]

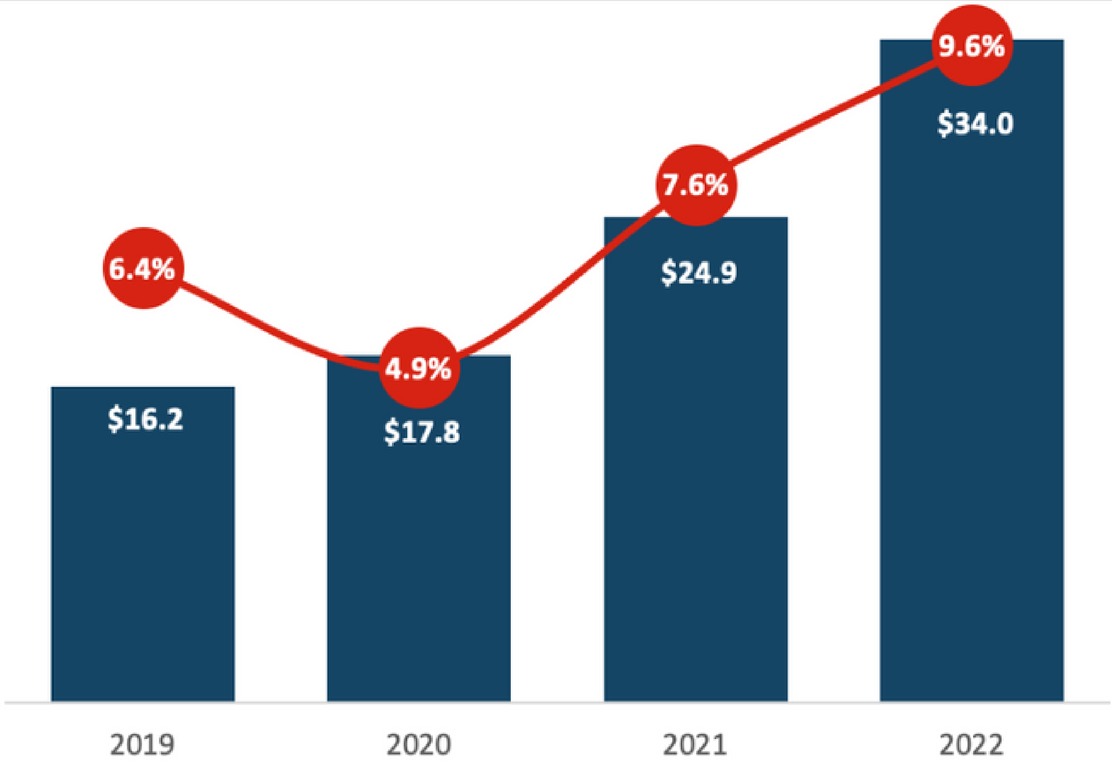
Private equity-owned insurers have been shifting portfolio assets to companies affiliated with the private equity owners, according to data from the National Association of Insurance Commissioners. From 2019 to 2022, the volume of private equity-owned insurer investments into affiliated firms doubled to $34 billion (see Figure 2).[43]

These affiliated transactions are a growing share of private equity-owned insurer investments and make up a greater share of private equity-owned insurer bond investments than they do of other insurers' investments.

Bond investments make up the bulk of insurer investments — about 60 to 70 percent for both private equity and non-private equity-owned insurers[44] — with private equity-owned insurers having a greater share of both affiliated transactions and riskier investments in their bond portfolios.

The insurance industry typically makes about 1 percent of its bond investments in affiliates,[45] but affiliate investments represented nearly 10 percent of bond investments of private equity-owned insurers in 2022 (see Figure 2).

Fig. 2: PE insurers affiliated investments
(in billions and as share of bonds)



Source: NAIC

B. Insurer portfolios can fund private equity's credit business

Private equity firms have used the permanent capital of life insurance and annuity portfolios to shore up and expand their private credit business. Private equity firms and other lenders offer subprime, higher interest rate loans — commonly called leveraged loans — to finance leveraged buyouts or to companies with high existing debt loads relative to their earnings.

The U.S. Treasury Department reported that private equity firms are buying life insurers and annuity policies to "pivot their businesses to the private credit market."[46] The influx of private equity-controlled insurance portfolio money into the private credit market has brought down the cost of borrowing for these subprime corporate loans. Private credit is a very opaque form of non-bank lending that is the fastest growing part of the subprime corporate credit market. Federal financial regulators do not have the same close visibility into private credit loans extended by private equity firms, hedge funds, and other private lenders as they do with corporate loans extended by banks. In recent years, these shadow banks are making some of the riskiest leveraged loans with little regulatory oversight.[47]

Global regulators and market participants are increasingly raising alarms over the explosion of leveraged lending and the potential risks these high-risk, high-cost loans could pose to the financial system.[48] Since 2018, insurance companies, especially those owned and operated by private equity firms, have increasingly been investing in or directly extending private credit loans to companies.[49] Several private equity firms now have credit divisions that will extend loans to subprime corporate borrowers, including financing the leveraged buyout debt associated with private equity takeovers.

The private equity industry's insurance investments have bolstered these private credit business lines. Institutional Investor reported that insurance investments allow private equity firms to "expand their footprint in credit investments."[50]

Even prior to Apollo's complete acquisition of the Athene insurance company in 2021, the insurer had long been the "principal" source of funding "inject[ing] cash into Apollo's vast lending business," according to the *Financial Times*.[51]

Both the private equity and insurance industries have benefited from the practice of securitizing pools of subprime corporate loans that are packaged into new financial instruments that are then sold to investors. Banks, insurance companies, mutual funds, hedge funds, and private equity firms buy this securitized subprime corporate debt, known as collateralized loan obligations (CLOs).

Purchasing CLO securitizations allow insurance companies to acquire higher-risk and higher-return assets while continuing to enjoy lower regulatory capital charges, because the investment grade ratings of securitized tranches of subprime corporate credit mean that they are treated as less risky than directly making corporate leveraged loans. CLOs, in turn, provide critical financing to private equity firms looking to acquire companies in leveraged buyouts (LBOs). Private equity firms also are some of the largest issuers of CLOs with firms such as the Carlyle Group, Blackstone, and Apollo among the top 5 issuers of these financial instruments.[52]

C. Private equity industry reaps billions in insurance asset management fees

Private equity firms that buy up insurers can reap a gusher of fees from asset management fees on large pools of permanent capital. Private equity firms typically charge 2 percent of the assets in the portfolio as well as 20 percent of any asset appreciation.[53] For the $530 billion to $620 billion in estimated 2022 private equity holdings in U.S. insurers, these fees would amount to between $10.6 and $12.4 billion. George Washington University professor emeritus Lawrence Cunningham noted that the private equity ownership of insurers "is a characteristic of many private equity firms pushing limits, here into incestuous financial relationships, with the goal of increasing aggregate fees to the firm."[54]

The fees from managing the acquired insurance assets can be a "significant source of fee-related earnings" for private equity firms according to McKinsey.[55] Apollo's ownership of Athene reveals how it could exploit its investment management contract. In 2018, Apollo charged Athene over $400 million in fees — almost double what an unaffiliated asset manager would charge — amounting to one-third of all of Apollo's management fees.[56]

The total volume of insurance asset management fees is astronomical and represents a substantial share of private equity asset management fees. For example, in 2020, when private equity firms owned 117 U.S. insurance companies with $487 billion in assets, the standard 2 percent private equity asset management fee on this sum would have amounted to $9.74 billion.[57]

IV. Private equity-owned insurers' shift to riskier investments poses risks to policyholders and the economy

The private equity-owned insurers move insurance portfolio investments from more conservative, plain vanilla assets into higher-risk and less liquid assets.[58] A 2021 AM Best study found that within one year of takeover, private equity-owned insurers redeployed assets from traditional, safe insurance investments to higher-risk investments that increased the overall portfolio risks and raised the risk-based capital profile risks by 57 percent.[59]

A Yale Law School professor told the *New York Times* that "within days of a [private equity] acquisition of an insurance company, they tilt their bond portfolios to riskier assets."[60] This can adversely affect the private equity-owned insurers' balance sheets if the assets face losses from riskier investments, making it more difficult to cover payouts to policyholders. In the worst-case scenario, insurers with riskier portfolios can slide into insolvency and even liquidation, harming policyholders and the overall economy.

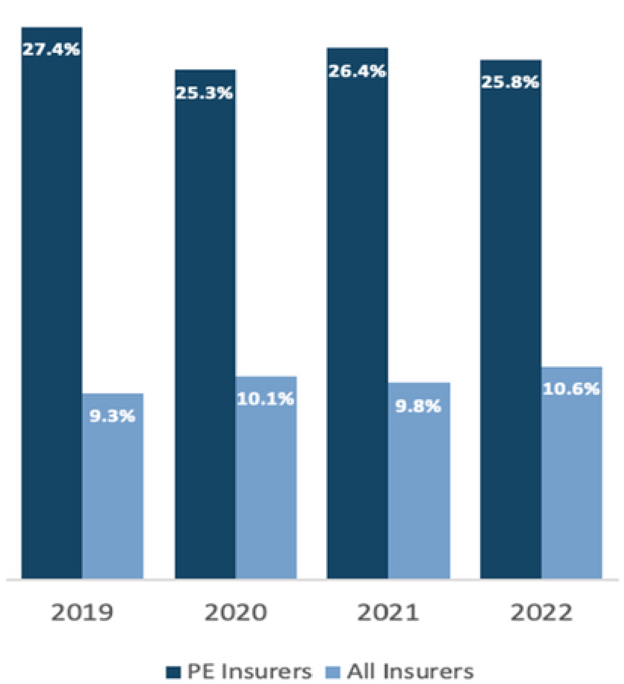
The risks of these non-traditional investments like leveraged loans and collateralized loan obligations grow over time, especially in the higher interest rate environment that makes repaying leveraged loans more expensive and makes these loans more prone to default. In the shorter term, private equity firms can camouflage the risk of highly-leveraged companies (including those taken over in private equity leveraged buyouts) by refinancing existing debts with new, even higher-cost loans — sometimes with interest rates 5 to 7 percentage points higher — to stave off loan repayments the companies cannot make.[61] This can make the leveraged loan borrowers appear more solvent in the short term, but the longer-term risks remain and are amplified.

A. Private equity-owned insurers shift to higher-risk non-traditional assets

Private equity-owned insurers invest more of their assets in higher-risk securities and have less of their holdings in lower-risk investments like municipal bonds and U.S. government securities.

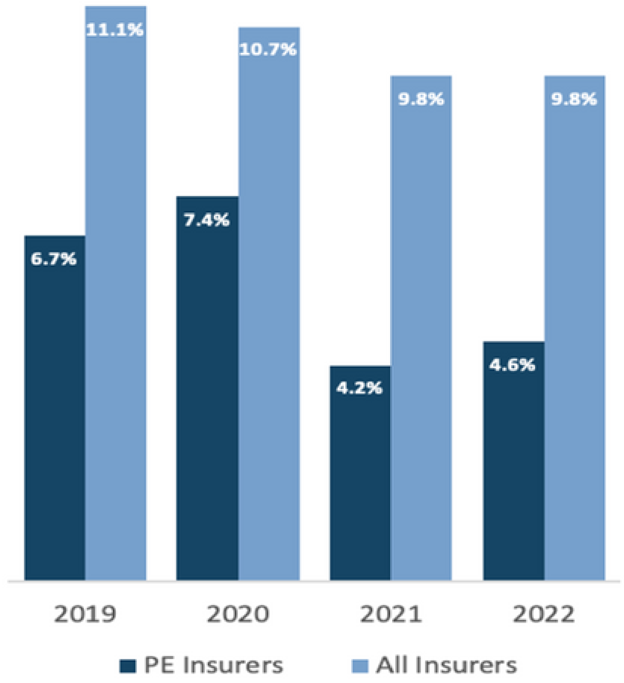
The higher concentration of non-traditional assets (asset-backed and other structured securities, including collateralized loan obligations as well as private residential and commercial mortgage-backed securities) creates the "potential for increased volatility and risk" for private equity-owned insurance companies, according to the National Association of Insurance Commissioners.[62]

Fig. 3: Concentration of Non-Traditional Insurance Assets*



Source: NAIC. * % asset backed securities and private CMBS and RMBS.

Fig. 4: Concentration of Traditional Insurance Assets**



Source: NAIC. ** % of muni and U.S. govt. bonds.

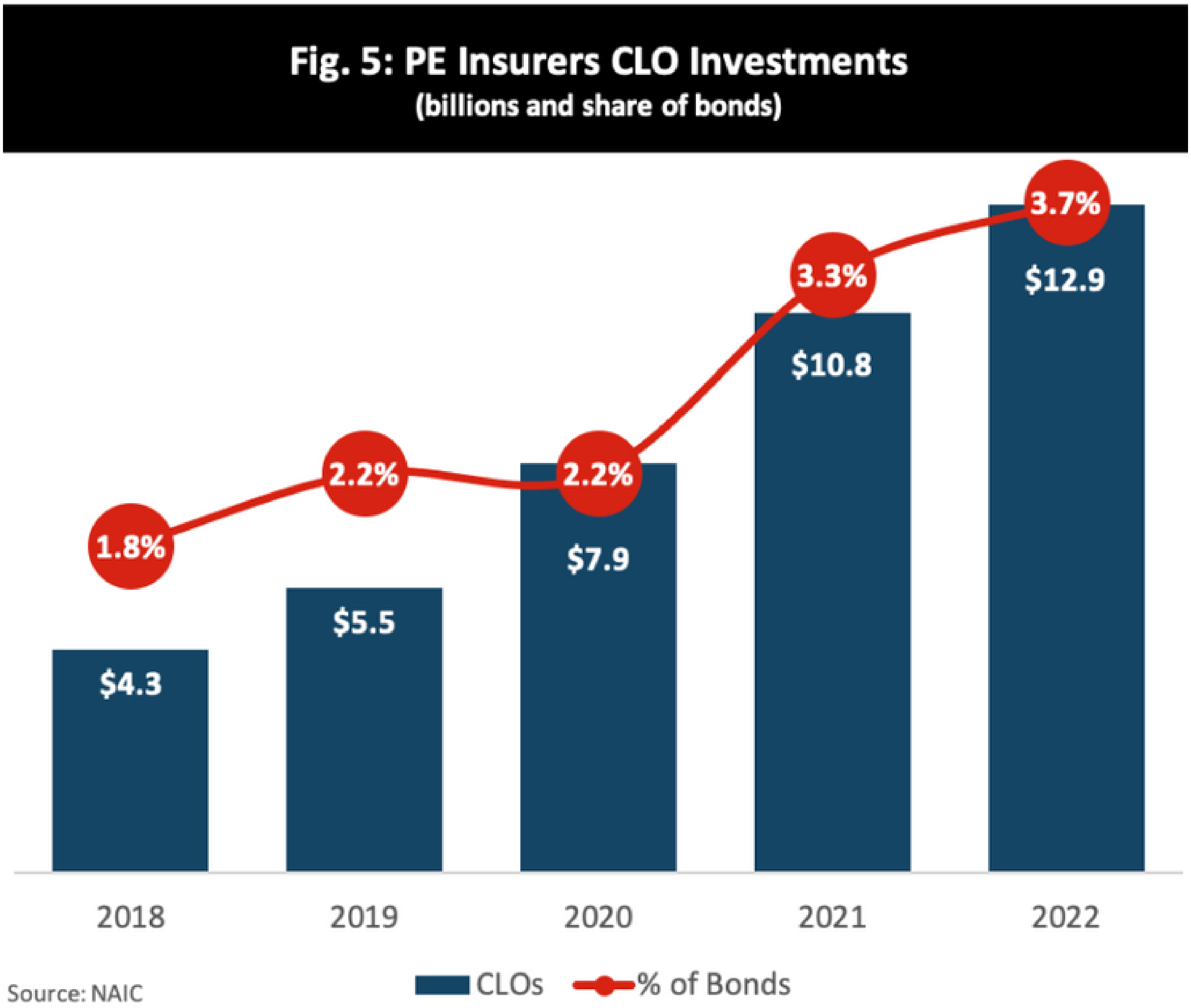
Private equity-owned insurers have more than two and a half times greater concentration of non-traditional bond investments than all insurers, according to an analysis of National Association of Insurance Commissioners' data (see Figure 3).[63]

Private equity-owned insurers held 26 percent of their total assets in asset-backed securities, private residential mortgage-backed securities, and commercial backed securities compared to the 10 percent non-traditional asset concentration for all insurers. In contrast, private equity-owned insurers have averaged 45 percent lower concentration of safer, more stable municipal bond and U.S. government securities than all insurers (see Figure 4).

And over the past four years, private equity-owned insurers have reduced their share of these more stable assets, which have declined by more than 30 percent from 6.7 percent of their total insurance assets in 2019 to 4.6 percent in 2022.

Private equity-owned insurers are especially exposed to the risks of collateralized loan obligations. Private equity firms issue these high-risk CLOs and private equity-owned insurers hold more CLOs than the overall insurance industry.

McKinsey reported that 80 percent of private equity-owned insurers shifted their investments into higher-risk securities, especially collateralized loan obligations.[64] Private equity-owned insurance investments in CLOs have tripled over the past five years from $4.3 billion in 2018 to $12.9 billion in 2022 and represented a growing share of bond investments (see Figure 5).[65]



The private equity-owned insurance investments in CLOs are far more concentrated than those owned by the overall insurance industry. In 2021, the insurance industry invested 3.3 percent of long-term investments in CLOs, but private equity-owned insurers held over $10 billion in CLOs representing 39 percent of long-term investments — 10 times more than the insurance industry average.[66]

CLO and other private loan risks could be amplified in a rising interest rate environment that could make it harder for private credit borrowers to repay their debts. This in turn could stress insurer balance sheets.[67] One insurance executive told the *Financial Times* that the increased concentration of higher-risk assets at private equity-owned insurers was "creating a potential bubble within U.S. life insurance."[68] Some private equity-owned insurers may have even higher concentrations of non-traditional and riskier assets.

For example, Apollo-owned Athene redeployed its assets from a "squeaky clean" portfolio of government bonds and highly rated financial instruments to far riskier investments in subprime mortgages, payments from vacation timeshares, and even a railroad in Kazakhstan.[69] Athene has a far larger concentration of CLOs than typical insurers.

In 2022, Athene held 10 percent of its assets in CLOs, more than triple the industry average of 3 percent.[70] After Athene took over Liberty Life Insurance Company, one of its former money managers stated that the private equity business model would end up "substantially increasing the risk in the [company's] bond portfolio, sooner or later, in my opinion, that has to come home to roost. All the upside would go to Athene if it worked out, and the downside would go to the annuity holders if it didn't." [71]

B. Riskier insurance investments can precipitate insurer failure

Private equity-owned insurance companies can put policyholders at risk if the insurers lose money on their investments. The higher concentration of non-traditional assets in private equity-owned insurers could "potentially amplify market shocks experienced by insurers in the event of an abrupt price correction or other systemic market dislocation," according to the Treasury Department.[72]

And it can contribute to the collapse or failure of insurers. A 2019 study by the central bank of France found that the shift of assets from fixed-rate investments like traditional bonds to riskier investments "significantly predicts failure for life insurers."[73] A 2019 study of U.S. and Canadian insurance company failures found that the declining proportion of relatively safe investments in bonds and other short-term investments "may be a strong risk indicator for insolvency."[74]

State insurance regulators can order troubled insurers into "rehabilitation," which is a type of insurance company resolution akin to receivership. If insurers become insolvent, state insurance commissioners will liquidate the insurers (a process akin to bankruptcy) while covering outstanding claims to the extent possible and moving policies to solvent insurers.

It is important to stress that policyholders can suffer losses both in rehabilitation and liquidation. State insurance guarantee associations backstop policyholders similar to how the FDIC insures bank deposits, but there are maximum limits on coverage — typically $300,000 for life, property, and casualty insurance and $250,000 for annuity benefits.[75] These maximum limits would be generous for a savings account, but life insurance and annuity policies frequently represent a family's lifetime savings that can exceed the maximum guarantee amounts. Policyholders with larger policies will lose the coverage or value above those limits. Additionally, policyholders might face years of delays in getting claims paid as state regulators confirm policies and claims as they unwind insurers in liquidation.[76]

That is what happened at Executive Life Insurance Company. In 1991, California seized Executive Life after its portfolio faced catastrophic financial losses because nearly two-thirds of the investment portfolio was tied up in high yield "junk bonds" sold by financier Michael Milken, of the failed firm Drexel Burnham Lambert.[77]

Executive Life policyholders had to wait nearly two decades before recovering a portion of the full value of their life insurance policies after extensive and protracted litigation.[78] The investment risk of these junk bonds was comparable to some of the private corporate bonds and CLOs that have been the increasing focus of private equity-backed insurer portfolios.

C. Eli Global's insurance meltdown

The private equity firm Eli Global built an insurance empire that shifted insurance assets into affiliated portfolio companies that ultimately drove several underwriters into insolvency and threatened the financial security of policyholders. The four Eli Global insurers that entered regulatory supervision represented more than one-fourth of 14 insurers that have undergone rehabilitation or liquidation in the past decade.[79] Eli Global's scheme was facilitated by opaque transactions and lax state oversight — and state and federal allegations of bribery and fraud that revealed the details of the affiliate transactions are still being litigated.

The Department of Justice summarized how the private equity firm used a "web of complex financial investments and transactions designed to evade regulators [and] disguise the financial health of the companies and that the transfers of funds to affiliates left several insurers in liquidation or rehabilitation that harmed thousands of policyholders.[80]

Greg Lindberg incubated his Eli Global private equity firm at Yale University and directed its first insurance purchase in 2014.[81] Eli Global (Eli) bought up insurers and folded them into its Global Bankers Insurance Group platform that managed dozens of Eli-owned insurance companies in the United States, Europe, and the Bahamas.[82]

Eli headquartered its insurers in North Carolina due to its lenient regulatory environment.[83] Eli had secured an agreement from the state insurance commissioner to shift up to 40 percent of the insurers' portfolio assets to affiliated businesses — far above the state's existing 10 percent limit on affiliate transactions.[84] Lindberg prospered in North Carolina. His personal net worth soared from $12.8 million in the early 2000s to $1.7 billion in 2017.[85]

Eli used the insurance revenues and portfolio assets to fund investments into other Eli companies.[86] A 2019 *Wall Street Journal* investigation found that over the prior four years, Eli had moved $2 billion from its insurance companies to make loans to its other companies and to fund additional acquisitions.[87] According to the *Wall Street Journal*, these transactions were too opaque and intricate for state insurance regulators to adequately monitor.[88] Insiders later told the Charlotte Business Journal that diverting assets into other affiliated businesses was standard business practice at Eli and this practice skirted regulatory limits designed to safeguard the solvency of insurance companies to protect policyholders.[89]

Lindberg's efforts to secure lax insurance oversight ultimately landed him and the insurers in hot water. In 2019, Lindberg and other insurance officers were indicted for purported fraud and bribery.[90] The case alleged that Lindberg and his companies funneled $2 million in campaign contributions to secure favorable treatment by the insurance commissioner.[91] Lindberg stepped down from the company management (but remained sole shareholder), Eli changed its name to Global Growth, and the company relocated to Orlando in 2022.[92]

Lindberg served nearly two years in prison in the bribery case before the verdict was overturned pending a retrial.[93] In 2023, a federal grand jury indicted Lindberg for allegedly diverting $2 billion to fund other businesses, evading insurance solvency regulations, and concealing the financial condition of his companies — as well as funding a lavish lifestyle like chartering a Mediterranean yacht and purchasing real estate.[94]

In the wake of the bribery case, the North Carolina Insurance Commissioner put four Global Bankers Insurance Group companies into rehabilitation because the risk exposure from affiliated investment transfers created an impending shortfall.[95] In 2019, Eli insurance companies Southland National Insurance Corp. had 61 percent of its assets in affiliated investments, Colorado Bankers Life Insurance had 43 percent of assets in affiliates, and Bankers Life Insurance had 18 percent of assets in affiliates.[96]

In 2022, North Carolina liquidated Colorado Bankers Life Insurance Co., Bankers Life Insurance Co., and Southland National Insurance Corp. (a fourth remained in rehabilitation).[97] In 2023, a North Carolina court ordered the Lindberg portfolio companies to repay $600 million to the Eli insurance companies that were deemed insolvent as a result of the affiliate transactions (although this remains on appeal).[98] Meanwhile, Michigan had also put an Eli insurer, Pavonia Life Insurance Company of Michigan, under regulatory supervision but approved the company's rehabilitation and resumption of operations in 2022 when Pavonia was sold to another private equity firm, Axar Capital Management.[99]

The quarter million policyholders of the failed insurance companies — including many seniors — were unable to access their policies or annuities while the Lindberg insurance cases wound through the courts and regulatory process.[100] By 2022, the policyholders had waited nearly 3 years for the insurance rehabilitation process to play out. When North Carolina finally liquidated the Global Growth insurers, tens of thousands of policyholders permanently lost the portions of their life savings that were above the $300,000 state guarantee cap.[101]

V. Private equity ownership of insurance companies — and the risky practices they engage in — needs more rigorous oversight

The current insurance regulatory regime is no match for the complex, opaque, and risky financial transactions that private equity ownership is bringing to the insurance industry. Insurance is regulated for solvency, sales, and market conduct practices by state insurance commissioners who oversee insurers domiciled in their states and have a mandate to protect policyholders' interests. Insurance companies are deeply interconnected with securities markets and banking institutions as investors and counterparties, so when insurance companies stumble or collapse, they can pose risks to the broader financial system.

Although insurance is more regulated than many private equity businesses (like leveraged buyouts of retail companies), state regulators can struggle to monitor and oversee the complex financial investments and affiliated business arrangements of the private equity industry.

Regulatory scrutiny of private equity insurance activities varies widely among the fifty states and some private equity practices may fall between the cracks of state insurance regulators and federal financial regulators.[102] As the *American Prospect* reported, "though the private equity move to insurance began over a decade ago, state insurance commissioners appear to have done little to mitigate the risks."[103]

State insurance regulators should strengthen their oversight of private equity-owned insurers to address the unique risks they can pose to the solvency of insurers and ultimately to policyholders. State insurance commissioners should strengthen oversight of private equity-owned insurers by imposing and strictly enforcing quantitative caps on affiliated transactions, improving the disclosure and pre-approval of affiliated transactions, limiting the asset management fees private equity firms charge their insurance portfolios, and raising capital reserve requirements on insurers' riskier non-investment grade holdings and on structured bonds, including treating insurance company holdings of CLOs more similarly to the way it treats holdings of the underlying leveraged loans.[104]

Troubled insurance companies can pose risks not only to policyholders but to the broader financial system and the economy. The 2010 Dodd-Frank Act, Congress created a new system of financial stability regulation, administered by the Financial Stability Oversight Council (FSOC) along with Federal Reserve Board supervision, to provide vigorous federal oversight of systemic risks, including ones arising from the insurance industry's investment portfolios.

Insurance companies are deeply interconnected with the broader financial system — as investors, counterparties, lenders, and underwriters — so foundering insurance companies or sector-wide losses from common insurance investment strategies can reverberate across the economy and pose systemic financial risks. Life insurance and annuity companies can be especially interconnected with the financial system and macroeconomy, with their solvency dependent on their portfolio's stock market and asset returns and insurers and banks are often counterparties to hedging instruments like collateralized loan obligations, making their potential instability more contagious to the broader economy.[105] It can be three to five times more expensive to resolve failing insurance companies than to clean up after other financial institution failures, like banks.[106]

The insurance industry's entry into non-traditional assets — which are more pronounced in private equity-owned insurers — are exposing insurers to greater total risks. The failure of a large insurer could create a financial domino effect that can implicate the financial stability of other interconnected firms.[107] For example, the American International Group (AIG) took on so much risk selling insurance on subprime mortgage bonds through credit default swaps in 2008 that it led to a $182 billion bailout to prevent its losses from spilling over to its investors and counterparties.[108] And financial shocks that hit the insurance industry can propagate throughout the financial system even when insurers remain solvent.

Insurers frequently pursue common investment strategies which means not only that correlated investments can create procyclical bubbles but also that the industry faces concentrated losses if asset values sharply decline.[109] These losses can precipitate further self-perpetuating risks that can be transmitted throughout the financial system. The industry can face runs as policyholders and customers try to cash out their businesses (for example, life insurance or annuity customers cashing in their policies or financial customers on securities lending).[110]

The combination of portfolio losses and runs can cause insurers to sell off more assets to cover their liquidity needs, and since insurers tend to have common holdings, the aggregate impact of insurers selling assets to meet unexpected liquidity needs can amount to a fire sale of similar assets that can depress securities markets that can harm the financial sector.[111]

Moreover, losses can spur the insurance industry to withdraw from providing critical functions to the broader economy, such as the insurance industry curtailing corporate lending that exacerbates economy wide contractions.[112]

The risk that these private equity-owned insurers pose to the broader financial system requires dramatically stepped-up federal financial oversight of insurance companies — as well as oversight of the entire risky, opaque, and conflict-of-interest-ridden private equity business model increasingly financed by insurance assets. Federal Regulators should consider all the tools they have available to mitigate elements of this risk. That includes steps such as designating insurance companies as systemically important financial institutions (SIFIs) as well as collecting, evaluating, and disclosing more data on private equity insurance ownership. It also includes broader steps to better regulate the private markets, and the kinds of risky transactions private equity-owned insurance companies engage in.

FSOC has the authority to designate non-banks such as insurance companies as SIFIs and bring them under the direct supervision of the Board of Governors of the Federal Reserve System.[113] The FSOC had previously designated the insurers AIG, Prudential Financial, and MetLife as SIFIs.[114] It should move quickly to evaluate the portfolios of private equity-backed insurers and their disproportionately risky investments to determine the risks they pose to the greater financial system and to designate them as SIFIs as those risks warrant. It should also recommend activities-based restrictions on unduly risky insurance company practices to sister agencies. Additionally, the Treasury Department's Federal Insurance Office should collect and analyze data on private equity ownership of insurance companies and insurance company assets and publish a report on the impact and risks of private equity ownership of insurers.

The Securities and Exchange Commission (SEC) should strengthen oversight and accountability for risky private lending, including collecting critical data on corporate lending by non-banks, and modernizing financial disclosures for leveraged loans, private credit, and CLOs. Requiring the disclosure of individual private loans and investments from private funds (primarily private equity and hedge funds) would improve the information regulators have to evaluate the potential risks these private leveraged loans could have to the private equity-owned insurance portfolios and the financial system.[115]

Finally, Congress should pass legislation to bring insurance companies over a certain portfolio size directly under the supervision of the Federal Reserve to focus on systemic risks, while not preempting state insurance regulators from overseeing other elements of insurance.

Private equity-owned insurance companies can pose unique risks to policyholders and the entire financial system. These potential risks are expanding as private equity firms continue to buy up insurers and insurance assets. Federal financial regulators and state regulators should develop tools and strategies to confront the risks that private equity-owned insurers pose.

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