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## Double Trouble in the Bermuda Triangle

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By Kerry Pechter     Thu, May 30, 2024

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*What can go wrong with the Bermuda Triangle strategy, with its closely affiliated annuity issuers, reinsurers and asset managers? PHL Variable Insurance, a former unit of Nassau Financial, is now in "rehabilitation." A-CAP and 777 Partners discovered that it's dangerous to mess with European football fans.*

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There's trouble in the Bermuda Triangle. Anyone who manufactures, sells, or owns annuities should hope the trouble is resolved quickly. But now that a state insurance commission is involved (in one instance) and a hornet's nest of European football fans (in another), resolution could be slow.

For more than a decade, observers of the annuity industry watched the growth of what *RIJ* calls the Bermuda Triangle strategy, where large asset managers acquire life insurers to issue fixed-rate and fixed indexed annuities and finance high-yield investments with the annuity revenue.

Some observers worry that the largest asset manager-led insurers might fail and leave their policyholders to seek reimbursement from state guaranty funds. But I've expected solvency issues to appear first sooner among smaller, less well-capitalized fast-followers or imitators of the strategy.

Recent problems at two relatively small Bermuda Triangle life/annuity groups seem to fulfill that expectation.

### **PHL Variable goes into rehab**

In one of the two unrelated cases, PHL Variable Insurance Co. was taken into "rehabilitation" by the Connecticut Insurance Department (CID) this month. According to a CID [document](#), the COVID pandemic accelerated claims on PHL's block of multimillion-dollar investor-owned-life-insurance policies. The long interest-rate drought of the 2010s also hurt the insurer's ability to support their guarantees.

In part because of those problems, PHL currently has negative \$900 million in capital and surplus. Its "aggregate assets are projected to be exhausted in 2030" when "approximately \$1.46 billion of policyholder liabilities will remain unpaid," according to the CID.

PHL's owners clearly don't want that headache. Once part of the Hartford-based Phoenix Companies, PHL became part of Nassau Financial in 2016, when Nassau, then only a year old, bought the publicly-traded Phoenix, took it private, and retired the Phoenix brand.



David Dominick

Nassau was created with \$750 million from Golden Gate Capital, a San Francisco investment firm with stakes in businesses as diverse as Bob Evans restaurants, VirginiaGreen lawn products, and Securly child security software. Golden Gate's leader, David Dominick is a private equity specialist with experience at Bain Capital. Dominick hired Phil Gass and Kostas Cheliotis to start and run Nassau.

Gass and Cheliotis had been at HRG Group and Fidelity & Guaranty Life, both practitioners of the Bermuda Triangle strategy. With Gass as CEO, Nassau began assembling the components of the triangle. In 2016, Nassau bought Phoenix, bought (and later sold) Saybrus Partners, an insurance distributor. In this period, it also bought Constitution Life and CorAmerica (a commercial real estate loan originator).

In 2018, Nassau formed Nassau Re Cayman and Nassau Asset Management. In 2018, Nassau issued a fixed-rate deferred annuity. In 2019, it issued its first fixed indexed annuity (FIA). In 2020, Nassau bought Foresters Life Insurance and Annuity and Delaware Life of New York (but not Delaware Life). It also formed Nassau Private Credit and Nassau Alternative Investments. Nassau's FIA sales were about \$691 million in 2021, \$890 million in 2022 and \$1.1 billion in 2023.

Nassau's PHL unit, burdened by its investor-owned life policies, was already declining toward insolvency, however. Starting in 2019, PHL entered several reinsurance deals with

“captive” and “affiliated” reinsurers to reduce its liabilities and bolster its surplus. It’s not clear how much independent capital these reinsurers posted. Ultimately, these band-aid solutions failed.

PHL now looks like an orphan. In 2021, after putting some capital into PHL, Nassau requested and received permission from regulators to “deconsolidate” from PHL and transfer it to GG Holding, the ultimate parent of Nassau and Golden Gate Capital. GG Holding told regulators that it won’t put more money into PHL. PHL’s remaining captive reinsurer, Concord Re, evidently can’t cover PHL’s liabilities.

On March 31, PHL was taken into rehabilitation by Connecticut regulators. Since KPMG, PHL’s external auditor, said that PHL’s ability to continue as a going concern was in doubt, “rehabilitation” sounds unrealistically optimistic. There are a variety of simple and complex life insurance policies and annuities on its books. The biggest money loser is the block of corporate-owned life insurance, whose owners paid far less in premiums than PHL counted on, according to CID documents.

### **Don’t mess with European soccer fans**

In the other Bermuda Triangle disaster, the life insurance companies include Atlantic Coast Life (domiciled in Missouri but based in Salt Lake City), Sentinel Security Life and Haymarket Insurance (both domiciled in Utah). ACL and SSL issue fixed indexed annuities and both are units of New York-based Advantage Capital or A-CAP, whose CEO is Kenneth King.

The asset manager is 777 Partners of Miami and 777 Re of Bermuda. The freewheeling principals of those companies, Josh Wander and Steve Pasko, principals appear to have misjudged the pride that European football club fans take in their teams. After 777 Partners started on a series of leveraged buyouts of soccer teams in Britain, France, Australia, Germany, Spain, Italy and Belgium, managers and fans of those clubs rebelled against the presence of foreign moneymen on their pitch.

Their protest was reported in January in Josimar, a Norwegian football publication. The story was picked up by Semafor, the New York Times Athletic, and others. If you go to Elon Musk’s “X” channel and search for [#777OUT](#), you’ll see and hear the excitement. But remove children from the room before you do.



As the hashtag indicates, fans of those clubs want the Miami-based 777 out of their teams' front offices. They resent their chronically under-financed but beloved teams being swept up by what they see as a carpetbagging American leveraged buyout firm. (Fans of "Ted Lasso" may empathize.) Wander and Pasko were forced to resign from 777 Partners in late May.

In recent years, the two had poured hundreds of millions of dollars into European football clubs, with at least some of the money allegedly coming from King's life/annuity companies in the US. But in 2023, the spree collapsed. Creditors went unpaid. Lawsuits were filed against 777 Partners and 777 Re demanding repayment of tens of millions of dollars.

The circular exchange of obligations between insurers, reinsurers and asset managers characterizes the Bermuda Triangle strategy, and that sort of paper chase seems to have been operative at 777. One unhappy counter-party alleged that 777 uses a "web of companies... to move around money and assets to operate and conceal a sprawling fraudulent enterprise."

The 777 debacle also involves alleged malfeasance. Leadenhall Capital Partners, a London firm with a fund devoted to "life insurance-linked investments," has [sued](#) Wander, Pasko, and King. Leadenhall claims that 777 didn't mention that the \$350 million in collateral against which Leadenhall loaned 777 money was already pledged to someone else. According to Leadenhall's complaint, AM Best downgraded A-CAP's credit rating to "bbb" with negative implications on February 23, 2024, citing A-CAP's "high reinsurance leverage and declining counter-party credit quality."

The question is whether these two examples of ill-fated Bermuda Triangle operations are isolated catastrophes, or leading indicators of a wider problem. To me, they confirm that a successful business strategy—and the Bermuda Triangle strategy has proven successful for the largest players—will eventually attract players who, for one reason or another, can't

make it work. Someone else eventually has to pick up the pieces.

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