

Insurers increase their private equity holdings: AM Best

By Editorial Staff Wed, Jun 23, 2021

Low interest rates, mild inflationary environments and the prospects for higher investment yields are tailwinds for private equity investments. But financial stress in the markets or severe public market corrections remain a risk, the ratings agency noted.

Private equity holdings by the US insurance industry grew by 14.8% in 2020, with the life/annuity insurance industry seeing its highest value in five years, at \$71.7 billion, according to a new AM Best report, "Private Equity Investments Still Attractive to US Insurers."

US property/casualty insurers also increased the book-adjusted/carrying value of their holdings by 11.3% in 2020, to \$18.7 billion, according to the report. Health insurers' private equity investments declined slightly, but these insurers account for only 3% of the industry's total holdings.

Overall, the total number of private equity investments among the overall US insurance industry grew for a seventh straight year, with insurers seeing the market value of those investments rising to a total of \$93.3 billion, a 15% year-over-year increase.

"Given the high levels of unpredictability in public markets, private equity investments give investors the opportunity to achieve higher returns and diversify their portfolios," the report said.

Leveraged buyout funds made up more than half of the industry's holdings. Venture capital funds, which make up slightly over 25% of the industry's exposure, increased in all three market segments, with mezzanine financing making up the remainder.

Although the private equity market performed favorably in 2020, it was not spared the challenges the year brought due to the pandemic.

"Fund managers likely struggled to accurately value companies because of instability in the market, especially in the second quarter when the pandemic first hit," said Jason Hopper, associate director, industry research and analytics, AM Best. "Second-half 2020 results were more encouraging, but large investment deals were still influenced by the loss."

The 20 insurers with the largest valuations in private equity investments—a majority of them life/annuity insurers—account for approximately 72% of the industry's holdings. These

20 insurers increased their exposure by 15%, or \$10 billion, in 2020 from the prior year. Private equity investment exposure to capital and surplus for these 20 insurers varies, but averaged 24% of capital and surplus.

Signs supporting continued growth in the private equity market over the long term are positive, owing to low interest rates, mild inflationary environments and the prospects for higher investment yields. However, AM Best notes that financial stress in the markets or severe public market corrections remain a risk.

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