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## Life/annuity insurers lead surge into private equity investments

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By Editorial Staff    Thu, May 26, 2022

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*Roughly 58% of the insurance industry's exposure to private equity is through investments in leveraged buyout funds, according to a new AM Best report. Among insurers, MassMutual was most heavily invested in private equity.*

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The value of US insurance companies' investments in private equity products grew by 25.8% in 2021, to \$117.4 billion, from \$93.3 billion in 2020. It was the biggest year-over-year increase in PE investments in recent years, according to a new AM Best special report.

Life/annuity insurers, which account for three-quarters of the insurance industry's private equity book adjusted/carrying value, are driving the new investments, realizing widespread book value gains, according to the report, "Strong Performance, New Investments Drive Private Equity Growth."

Of the \$24.1 billion in year-over-year growth, \$12.9 billion was from growth in book value from 2020 (net of disposals) and \$11.2 billion from new investments. The overall annual increase follows strong growth of 14.8% in 2020 and 10.0% in 2019.

"Commitments for additional capital grew 13.1% in 2021—after growing over 10% in five of the six previous years—to roughly \$55 billion, more than \$31 billion of which are by L/A insurers," the report said.

"New investments in 2021 were concentrated in a few large organizations, with 10 insurers by book value accounting for roughly 60% of acquisitions for the year," said Jason Hopper, associate director, industry research and analytics, in a release.

Five large life/annuity companies accounted for more than half of the \$73.9 billion in private equity investments of the 15 insurers with the largest PE investments, according to the report: MassMutual Group, with \$11.9 billion, New York Life Group, Thrivent Financial, MetLife Group and John Hancock Life Group.

New York Life and MassMutual, both mutual insurance companies, were among the leading issuers of fixed annuities in the first quarter of 2022, according to LIMRA Secure Retirement Institute. New York Life was the top seller of fixed-rate deferred annuities, with sales of \$2.78 billion.

MassMutual ranked third in that product category, with \$1.62 billion in sales. MassMutual

ranked sixth (\$934 million) in fixed indexed annuity sales for the quarter and third (\$272 million) in sales of payout annuities, according to LIMRA.

“Nearly a third of insurers had new investments totaling less than \$5 million, signaling a more-cautious approach by most of the insurers that do not have significant scale or in-house expertise with this asset class,” Hopper said.

While PE investments made up only a tiny (3.7% on average) of the investments of the top 15 PE holders, they made up an average of 27.3% of the capital and surplus of those companies. Among the five insurance groups named above, the PE percentage of capital and surplus ranged from 65.9% (John Hancock Life) to 23.0% (New York Life).

Private equity investments span all stages of a company’s life cycle, each with its own unique sets of risks, the report said. Roughly 58% of the insurance industry’s exposure to private equity is through investments in leveraged buyout funds, although allocations vary by insurance segment.

Venture capital accounts for another 29%, and mezzanine financing, the remainder. All three allocations grew, driven largely by life/annuity insurers, though mezzanine funds grew by double digits for all three insurance segments.

“Insurers are still seeking higher returns and opportunities to diversify their portfolios, and the performance of private equity investments has been strong with a low correlation to the public markets,” said Michael Lynch, associate analyst, AM Best.

Insurers use private equity to diversify investments and potentially achieve higher yields compared with other asset classes, but the small allocations as a percentage of invested assets point to more-conservative investment strategies and lower levels of risk tolerance.

Insurers have the smallest average allocations to private equity, as a percentage of total assets, of all the major types of institutional investors, the report said.