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## **New Kids on the Blocks**

By Kerry Pechter     *Thu, Jan 3, 2013*

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*What happens when Wall Street dealmakers who are in business to make a killing enter the life insurance industry, where people are traditionally in business to make a living?*

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The landscape and perhaps the culture of the indexed annuity industry continued to evolve last month, when the units of two private equity firms announced deals to buy U.S. life insurers at bargain prices from foreign-domiciled parent companies that were eager to sell them (see chart below).

On December 17, Chicago-based Guggenheim Partners announced that its Delaware Life Holdings unit would pay \$1.35 billion for Canada-based Sun Life Financial's U.S. annuity businesses. The deal adds to Guggenheim's existing stakes in Security Benefit Life and Equitrust Life.

Four days later, Athene Holdings, a unit of Leon Black's Apollo Global Management, said it would buy Aviva USA—the number two seller of fixed annuities in the U.S.—from Britain's Aviva plc for \$1.8 billion. Last Friday, Athene completed its purchase of Nyack, N.Y.-based Presidential Life for \$414 million.

These deals, when completed sometime in 2013, solidify the somewhat unsettling arrival of opportunistic private equity firms—through their insurance properties—in a staid business previously dominated by unexciting insurance companies. According to Beacon Research, private equity-owned companies' total market share rose from 2.8% in 2011 to 9% in 2012. Their share of indexed annuity sales grew from 5% in 2011 to 15.4% this year.

Allianz Life, the indexed annuity specialist, remains the top issuer of fixed annuities in the U.S. But Apollo's purchase of Aviva USA now makes Athene the second largest seller of fixed annuities in the U.S., with over \$1 billion in 3Q 2012 sales.

Guggenheim is not far behind. Since acquiring Security Benefit Corp. (including Rydex Funds) in 2010, Guggenheim has used an innovative product (an annuity linked to the [Trader VIC Index](#)) and strategic marketing partners to make Security Benefit the fourth largest seller, according to Beacon Research.

The number-five issuer is American Equity, which has reinsurance relationships with both Guggenheim's EquiTrust Life and Apollo's Bermuda-based Athene Life Re Ltd. The number three issuer is New York Life, the giant mutual insurer that dominates the income annuity sector.

Though the deals are now concreting, they've been in the works for some time. The private equity firms put one foot into the life insurance industry after the financial crisis either as investment advisors to the insurers or as reinsurers. Now, as newbie owners of the operating companies themselves, they have both feet in. However, they've hired insurance veterans such as James Belardi, Michael Kiley, Lee Launer and Chris Grady to run the businesses.

The factors that drove the deals—aside from the obvious demographic drivers—were clear. Sun Life

Financial and Aviva plc were under pressure by home country (Canada and Britain, respectively) accounting rules to divest their relatively risky U.S. subsidiaries. The low interest rate environment in the U.S. has depressed the revenues and market value of life insurance companies, making them prime targets for takeovers by cash-rich private equity firms.

At these prices, the PE firms can hardly lose. Aviva plc bought Aviva USA (then AmerUs) in July 2006 for \$2.9 billion; Athene paid \$1.55 billion. Presidential Life had a book value of \$28 a share; Athene paid \$14. Old Mutual paid \$635 million for F&G Life; Harbinger paid \$350 million. Sun Life sold its U.S. businesses to Guggenheim for about half their 2007 market value; shares fell another 4% two weeks ago on news of the sale.

But what happens when Wall Street predators who want to make a killing enter an industry where thousands of polite Midwesterners just want to make a living? Annuity industry observers are both positive and apprehensive about the deals (see [“Private Equity Confidential,”](#) on today’s RIJ homepage).

On the one hand, they welcome the addition of money, energy and creativity to an otherwise stagnant business. “With other insurers cutting back, it’s generally good for the industry to see some companies actively pursuing growth in the fixed annuity space,” said Judith Alexander, director of sales and marketing at Beacon Research, which gathers data on the fixed annuity industry. “The private equity firms have stepped up to the plate. They’re developing and offering competitive new products, and because of them sales are being sustained.”

On the other hand, they’re apprehensive about the arrival of an alien culture, even one that claims to come in peace. “We’ve seen this movie before,” one observer said. “We know how it ends.”

At the moment, they have many questions but few answers. Questions such as: Will the private equity firms use their savvy to make the indexed annuity industry better—or just riskier? How can they deliver greater value to customers and high returns to their investors, and still satisfy the steep capital requirements of the insurance regulators? Will they pay themselves lavish investment management fees? And what’s their exit strategy? To go public? To flip the companies in five years? Is this an interest rate play, predicated on a reversion of rates to their mean?

In their initial comments on the pending deals, major ratings agencies expressed concern and watchfulness but not alarm. Fitch Ratings placed Athene Annuity & Life Assurance Company (Athene) on Rating Watch Negative. It gives Athene a financial strength rating of BBB+. Athene will need more capital support than the \$100 million that Apollo has promised to provide before the deal closes, but Athene will need more, Fitch said in a release.

A.M. Best downgraded Aviva USA a notch, to A- (Excellent) from A (Excellent), and placed the ratings “under review with negative implications.” The actions reflected A.M. Best’s concerns that Aviva USA will feel the loss of support from Aviva plc and “the challenges associated with establishing a new brand identity.” S&P downgraded Sun Life’s U.S. businesses to BBB from BBB+ last month, and revised the outlook to “developing” from “stable.”

**Private Equity Ownership of Life Insurance Companies**

Private equity fund	<b>Guggenheim Partners</b>	<b>Apollo Capital Management</b>	<b>Harbinger Capital Partners</b>
Owner/Senior executives	CEO <b>Mark Walter</b> President <b>Todd Boehly</b>	<b>Leon Black</b>	<b>Philip Falcone</b>
Insurance holding company	Delaware Life Holdings	Athene Holdings	Harbinger Group, Inc.

Major insurance company acquisitions since the financial crisis.

**Sun Life Assurance Co. of Canada (U.S.) and Sun Life Insurance & Annuity Co. of New York.** Acquisition announced December 2012 for \$1.35 billion.

**IA American Life (American-Amicable Life).** Acquired August 2012 from Industrial Alliance Insurance and Financial Services of Quebec.

**EquiTrust Life.** Acquired in January 2012 from FBL Financial Group for \$440 million. In 2009, **American Equity Investment Life Holding** transferred \$1.4 billion in policy reserves to **EquiTrust** in a reinsurance agreement.

**Security Benefit Corp.** Acquired August 2010 for undisclosed sum. (Includes **Security Benefit Life, Rydex Funds, se2** business processing firm.

**Wellmark Community Insurance.** Acquired in August 2009 and renamed Guggenheim Life & Annuity.

**Aviva USA.** Acquisition announced December 2012 for \$1.8 billion from Aviva plc.

**Presidential Life.** Acquisition announced December 2012 for \$414 million.

**Liberty Life.** April 2011 from Royal Bank of Canada for \$628 million, renamed **Athene Annuity & Life Assurance.**

**American Equity Investment Life Holding** transferred \$834 million in policy reserves to **Athene Life Re Ltd** in a 2009 reinsurance agreement.

**Old Mutual U.S. Life Holdings (Fidelity & Guaranty Life, Thomas Jefferson Life).** April 2011 completed acquisition from **Old Mutual plc** for \$350 million.

**Front Street Re (Cayman) Ltd.**

Insurance  
company senior  
executive(s)

**Michael P. Kiley**, CEO of Security Benefit Corp., formerly senior managing director, Guggenheim Partners.

**James R. Belardi**, CEO of Athene Holding Ltd. and Athene Annuity, and **Chip Gillis**, CEO of Athene Life Re. Belardi was president of SunAmerica Life Insurance Company and EVP and CIO of AIG Retirement Services. Gillis ran Bear Stearns' Insurance Solutions.

**Leland C. Launer Jr.**, former chief investment officer of MetLife, chairman and CEO of Old Mutual U.S. Life Holdings.