White Paper Warns of PE-Led Life Insurers

By Kerry Pechter *Thu, Mar 31, 2022*

The co-director of the Center for Economic Policy Research claims that conflicts of interest, risky investments, and regulatory arbitrage accompany the incursion of private equity firms into the life/annuity business.

“Beware of Private Equity Companies Gobbling Up Life Insurance and Annuity Companies” is the title of a **white paper** published in January by the Center for Economic Policy Research (CEPR), a think tank in Washington, DC.

The article focuses on the phenomenon that *RIJ* defines as the “Bermuda Triangle” strategy. The author and co-director of CEPR, economist Eileen Appelbaum, has been tracking this phenomenon for several years.

She charges that, since private equity (PE) firms encountered barriers to distributing their often illiquid private assets as investment options in employer-sponsored retirement plans as investment options, they’re trying to access America’s savings indirectly—by managing hundreds of billions of dollars that life insurers have accrued by selling annuities to individuals and to corporate pension plans.

RIJ has been reporting on this trend since mid-2020. Two weeks ago, Sen. Sherrod Brown, chair of the Senate Banking, Housing and Urban Affairs Committee, asked the Federal Insurance Office and the National Association of Insurance Commissioners to furnish his committee with information on private equity’s forays into annuities.

In her white paper, Appelbaum sounds an alarm about the trend:

> Private equity firms have already begun using insurance assets to invest in high fee alternative investments, including the PE firms’ own buyout, real estate, and debt funds. These activities raise the question whether, in the current absence of regulatory oversight, PE firms are engaged in self-dealing or have significant conflicts of interest. These possibilities are very real as PE firms can use these insurance assets to bolster the performance of their own struggling funds.

She also points out Bermuda's role:

> The opaqueness of PE, and the lack of transparency regarding its activities, makes regulation difficult. Federal regulation to cap the fees that policyholders pay are needed. And policies to assure that insurance companies whose assets are owned or managed by PE firms hold adequate reserves against their risky investments is vital. Some PE firms have already moved the headquarters of insurance companies they own to Bermuda, presumably because of lax regulation in that country.

Similar concerns were expressed, and ignored, prior to the Great Financial Crisis of 2008. Indeed, the current trend, like the mortgage boom, involved the transformation of bundles of below-investment-grade debt into investment-grade securities, whose various "tranches" promised higher returns per risk than similarly rated investments.

In the current case, the borrowers are not recipients of subprime mortgages, they are cellphone tower leasing firms or music royalty gatherers (think Spotify) with few hard assets but steady fee revenue.

I also appreciate the annuity industry's perspective. In recent years, life insurers have relied on PE firms to relieve them of capital-intensive blocks of annuities that they had difficulty financing with low-yield corporate bonds. In a way, the PE companies have thrown much-needed life savers to life insurers.

Nonetheless there be dragons here.

It's concerning that the private equity-controlled life insurers focus on selling long-dated fixed indexed annuities (FIAs). These products sometimes include optional living benefit/lifetime income riders, but the private equity companies don't want the longevity risks or behavioral risks that living benefits carry. FIAs could crowd out other sources of retirement income simply because, with their term lengths of up to 10 years, indexed annuities provide PE firms with a stable source of long-term money.