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## Why Asset Managers Keep Buying Annuity Issuers

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By Kerry Pechter     Thu, Jan 13, 2022

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An article in yesterday's *Wall Street Journal* helps explain why so many alternative (alt-) asset managers have been acquiring or establishing life insurers, reinsurers, and/or blocks of fixed annuities.

WSJ explains that big institutions, desperate for higher yield than they can get from bonds in the public markets, are bringing boatloads of cash to asset managers and asking for the custom private credit instruments--insurance-linked securities, leveraged loans, mortgage-backed securities, collateralized loan obligations--that those asset managers create.

These instruments often involve bespoke loans to below investment-grade borrowers; the asset managers use securitization and long maturities to immunize credit risk with an 'illiquidity premium' and 'tranches' of varied risk.

"Funds that make such loans now control about \$1.2 trillion, nearly twice the capital they had five years ago," the WSJ said. "We think this market dwarfs the alternatives market," Apollo CEO Marc Rowan said in the story, which added, "The figure could be as great as \$40 trillion, he said. Apollo manages about \$340 billion of credit investments, much of them private."

One source of money that asset managers use to write these high-return loans are the proceeds of the sales of fixed annuities by life insurers to risk-averse American retirees and near-retirees. Apollo, through its parent, Athene Holding, was one of the first, if not the first, to see annuity assets (which many life insurers have been eager to unload due to stress from low interest rates on bonds) as raw material for risky loans.

We now have major asset managers like Apollo, Blackstone, and KKR owning or affiliated with large issuers of fixed annuities, including Athene, F&G, and Global Atlantic, respectively. They enhance margins by reinsuring the annuity liabilities in jurisdiction with

easier capital requirements, like the Bahamas, Arizona or Vermont. They claim to be doing a good deed by infusing more capital into the annuity business; perhaps in the short run they are.

I have written about this phenomenon from the annuity end, calling it the 'Bermuda Triangle strategy.' The WSJ article explains it from the institutional investor end. When I talk to practitioners of this strategy, they claim to be solving the low-yield problem for clients in good faith. What is concerning are not so much the practices of pioneers of this business.

More concerning are the 'me-too' players—smaller johnny-come-lately asset managers who want some of those billions flowing from desperate institutional investors. They are hastily buying tiny life insurers, setting up offshore reinsurers, and reducing the transparency of their assets. I'm not the only one concerned; so is Moody's. The NAIC is paying some attention to this, but not enough.

Less of this might be happening, IMHO, if much of the annuity industry had not already morphed into a quasi-investment industry. But that's a longer story.