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Private Equity-Owned U.S. Insurer Investments as of Year-End 2020

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Executive Summary

- The number of private equity (PE)-owned U.S. insurers identified by the NAIC Capital Markets Bureau totaled 117 at year-end 2020; total cash and invested assets for these insurers was approximately \$487 billion in book/adjusted carrying value (BACV).
- The majority of PE-owned U.S. insurers were life companies.
- Similar to the overall U.S. insurance industry, bonds were the largest asset type for PE-owned insurers, at 74% of their total cash and invested assets; corporate bonds were the largest bond type, at about 49% of total bonds.
- The concentration of nontraditional bonds—i.e., asset-backed securities (ABS) and other structured securities (which includes collateralized loan obligations, or [CLOs])—was higher for PE-owned insurers in terms of the percentage of total bonds, compared to the overall U.S. insurance industry at year-end 2020.
- About 95% of unaffiliated corporate bond exposure carried NAIC 1 and NAIC 2 designations, implying high credit quality.
- Other long-term invested assets (as reported in Schedule BA) remained constant as a percentage of total cash and invested assets year over year (YOY). However, total BACV increased.
- Schedule DA investments for PE-owned insurers increased by 2.6% from 2019 to 2020 in terms of BACV; one PE-owned insurer accounted for about 35% of the exposure at year-end 2020.

Investment Portfolios of PE-Owned U.S. Insurers as of Year-End 2020

As of year-end 2020, PE-owned U.S. insurers accounted for \$487 billion in BACV of total cash and invested assets compared to about \$344 billion at year-end 2019. The BACV of total cash and invested assets for PE-owned insurers was 6.5% of the U.S. insurance industry's \$7.5 trillion at year-end 2020. In number, PE-owned insurers were about 3% of the total number of CoCodes (117 out of 4,530) at year-end 2020, compared to about 2% (89 out of 4,482) at year-end 2019. Consistent with prior years, U.S.



insurers were identified as PE-owned via a manual process. For the purpose of this special report, the NAIC Capital Markets Bureau identifies PE-owned insurers to be those who reported any percentage of ownership by a PE firm in Schedule Y, and it also includes others that have been identified using third-party sources. As such, the number of U.S. insurers that are PE-owned continues to evolve. Note that of the 117 PE-owned insurers, 58 were identified via Schedule Y, and 44 of them reported being wholly owned.

Among PE-owned insurer investments, bonds continued to be the largest asset type at year-end 2020 at \$361.9 billion, increasing by 42% from \$254.6 billion at year-end 2019. (See Table 1 and Table 2.) In percentage terms, bonds accounted for 74% of total cash and invested assets held by PE-owned insurers at year-end 2020, similar to year-end 2019. Bonds are also the largest asset type among the overall U.S. insurance industry's investment portfolio, at about 63% of total cash and invested assets. A special report on the U.S. insurance industry's total cash and invested assets at year-end 2020 titled "[U.S. Insurance Industry's Cash and Invested Assets Continue to Grow Amid the Pandemic](#)" was published in May 2020 by the NAIC Capital Markets Bureau.

Table 1: PE-Owned U.S. Insurer Investments as of Year-End 2020 (\$BACV mil.)

Asset Type	Life	P/C	Total*	Pct of Total
Bonds	\$ 351.1	\$ 10.8	\$ 361.9	74%
Mortgages	\$ 45.3	\$ 0.0	\$ 45.3	9%
Cash & Short-Term Investments	\$ 26.0	\$ 1.6	\$ 27.6	6%
BA & Other	\$ 22.2	\$ 0.5	\$ 22.7	5%
Common Stock	\$ 10.6	\$ 1.8	\$ 12.4	3%
Contract Loans	\$ 6.0	\$ -	\$ 6.0	1%
Derivatives	\$ 5.3	\$ -	\$ 5.3	1%
Preferred Stock	\$ 3.8	\$ 0.0	\$ 3.8	1%
Other Receivables	\$ 0.9	\$ 0.0	\$ 0.9	0%
Real Estate	\$ 0.2	\$ 0.0	\$ 0.2	0%
Securities Lending (Reinvested Collateral)	\$ 0.0	\$ -	\$ 0.0	0%
Total	\$ 471.4	\$ 14.7	\$ 487.0	100%
Pct of Total	97%	3%	100%	

*Total includes \$868 million with health and title companies.

Table 2: PE-Owned U.S. Insurer Investments as of Year-End 2019 (\$BACV mil.)

Asset Type	Life	P/C	Health and Title	Total	% of Total
Bonds	\$ 251.2	\$ 3.4	\$ 0.0	\$ 254.6	74%
Mortgages	\$ 36.4	\$ 0.0	\$ 0.0	\$ 36.5	11%
BA & Other	\$ 17.1	\$ 0.1	\$ 0.0	\$ 17.3	5%
Cash & Short-Term Investments	\$ 17.1	\$ 0.7	\$ 0.2	\$ 18.0	5%
Common Stock	\$ 8.3	\$ 0.6	\$ 0.0	\$ 8.9	3%
Contract Loans	\$ 2.1	\$ -	\$ -	\$ 2.1	1%
Derivatives	\$ 2.6	\$ -	\$ -	\$ 2.6	1%
Other Receivables	\$ 0.4	\$ 0.0	\$ 0.0	\$ 0.4	0%
Preferred Stock	\$ 2.2	\$ 0.0	\$ -	\$ 2.2	1%
Real Estate	\$ 1.0	\$ 0.0	\$ -	\$ 1.0	0%
Securities Lending (Reinvested Collateral)	\$ 0.0	\$ -	\$ -	\$ 0.0	0%
Total	\$ 338.4	\$ 4.9	\$ 0.2	\$ 343.5	100%
% of Total	99%	1%	0%	100%	

*Total includes \$239 million held by health and title companies.



Mortgages accounted for the second largest asset type at \$45.3 billion, or 9% of total PE-owned insurers' total cash and invested assets at year-end 2020. In comparison, at year-end 2019, mortgages were \$36.5 billion in BACV but 11% of total cash and invested assets for PE-owned insurers. In comparison, mortgages were about 8% of total cash and invested assets for the overall U.S. insurance industry at year-end 2020. While common stock was the second largest asset type for all U.S. insurers at 13% of total cash and invested assets, for PE-owned insurers, common stock was only 3% of total cash and invested assets. This is partly because life companies accounted for almost all PE-owned insurer investments (in both years), and they generally have lower exposure to common stock than property/casualty (P/C) companies.

Bonds

Among the bond investments held by PE-owned U.S. insurers as of year-end 2020, corporate bonds accounted for the largest proportion at \$178.5 billion, or 49% of the total. (See Table 3.) In comparison, at year-end 2019, total corporate bonds accounted for the largest bond type for PE-owned insurers at \$117 billion, or 46% of total bonds. (See Table 4.) Note that exposure to corporate bonds for *all* U.S. insurers was 56.2% of total bonds at year-end 2020 and has generally been in the mid-50% range in previous years.

The second-largest bond investment for PE-owned U.S. insurers at year-end 2020 was ABS and other structured securities at 25% of total bonds, representing a decrease from 27% of total bonds at year-end 2019. In terms of BACV, ABS and other structured securities totaled \$91.1 billion at year-end 2020, representing a 31% increase from \$69.3 billion at year-end 2019. Compared to *all* U.S. insurers, ABS and other structured securities' investments for PE-owned insurers was significantly higher, as all U.S. insurers' exposure to ABS was approximately 10% of total bonds at year-end 2020 (\$457.8 billion) and 9% of total bonds at year-end 2019 (\$410.5 billion).

At year-end 2020, PE-owned insurers' exposure to CLOs (as reported by insurers in the annual statement filings) was reduced by about 43%, totaling \$20.2 billion, compared to \$35.6 billion at year-end 2019. One insurer accounted for 23% of PE-owned U.S. insurers' exposure to CLOs at year-end 2020 (compared to 28% in 2019). The top three PE-owned insurers accounted for about 50% of the total at year-end 2020, compared to 50% at year-end 2019.

Furthermore, private label residential mortgage-backed securities (RMBS) accounted for 5% of total bonds for PE-owned U.S. insurers at year-end 2020 and 6% at year-end 2019, compared to 2% of total bonds for the overall U.S. insurance industry at year-end 2020 and year-end 2019. Despite the small decrease in percentage terms YOY, the BACV of private label RMBS for PE-owned U.S. insurers increased from \$14.3 billion to \$16.7 billion.

**Table 3: PE-Owned U.S. Insurer Bond Investments as of Year-End 2020 (\$BACV mil.)**

Bond Type	Life	P/C	Total*	Pct of Total
ABS and Other Structured Securities	\$ 89.5	\$ 1.6	\$ 91.1	25%
Agency-Backed CMBS	\$ 10.2	\$ 0.1	\$ 10.3	3%
Agency-Backed RMBS	\$ 6.9	\$ 1.5	\$ 8.4	2%
Bank Loans	\$ 4.5	\$ 0.1	\$ 4.6	1%
Corporate Bonds	\$ 173.5	\$ 5.0	\$ 178.5	49%
Foreign Government	\$ 2.3	\$ 0.1	\$ 2.4	1%
Hybrid Securities	\$ 1.8	\$ 0.1	\$ 1.9	1%
Municipal Bonds	\$ 23.2	\$ 0.7	\$ 23.9	7%
Private-Label CMBS	\$ 14.3	\$ 0.4	\$ 14.6	4%
Private-Label RMBS	\$ 16.4	\$ 0.2	\$ 16.7	5%
U.S. Government	\$ 8.5	\$ 0.8	\$ 9.4	3%
Total	\$ 351.1	\$ 10.7	\$ 362.0	100%
Pct of Total	97%	3%	100%	

*Total includes \$233 million held by health and title companies.

Table 4: PE-Owned U.S. Insurer Bond Investments as of Year-End 2019 (\$BACV mil.)

Bond Type	Life	P/C	Total	% of Total
ABS and Other Structured Securities	\$ 68.9	\$ 0.4	\$ 69.3	27%
Agency-Backed CMBS	\$ 9.1	\$ 0.0	\$ 9.1	4%
Agency-backed RMBS	\$ 6.9	\$ 0.5	\$ 7.4	3%
Bank Loans	\$ 1.9	\$ -	\$ 1.9	1%
Corporate Bonds	\$ 115.8	\$ 1.2	\$ 117.0	46%
Foreign Government	\$ 0.9	\$ 0.0	\$ 1.0	0%
Hybrid Securities	\$ 0.0	\$ -	\$ 0.0	0%
Municipal Bonds	\$ 14.4	\$ 0.4	\$ 14.8	6%
Private-Label CMBS	\$ 10.7	\$ 0.2	\$ 10.9	4%
Private-Label RMBS	\$ 14.2	\$ 0.1	\$ 14.3	6%
U.S. Government	\$ 8.3	\$ 0.4	\$ 8.7	3%
Total	\$ 251.2	\$ 3.3	\$ 254.5	100%
% of Total	99%	1%	100%	

*Total includes \$27 million held by health and title companies.

The trend of higher ABS and other structured securities, and private label RMBS exposure among PE-owned insurers (in terms of BACV), demonstrates a higher concentration of nontraditional bonds held by PE-owned insurers and, perhaps, the potential for increased volatility and risk. While PE-owned insurers have demonstrated a larger concentration of these nontraditional bond investments, the overall U.S. insurance industry has had a higher concentration of municipal bonds and U.S. government securities, which tend to carry less credit risk than the aforementioned, nontraditional bond types. Table 5 shows the bond breakdown in percentage terms for PE-owned U.S. insurers versus the overall U.S. insurance industry at year-end 2020.

**Table 5: Bond Types as a Percentage of Total Bonds as of Year-End 2020**

Bond Type	% of Total Bonds for PE-Owned	% of Total Bonds for All U.S. Insurers
Corporate Bonds	49%	56%
ABS and Other Structured Securities	25%	10%
Municipal Bonds	7%	11%
Private-Label RMBS	5%	2%
Agency-Backed CMBS	3%	2%
Agency-Backed RMBS	2%	2%
Private-Label CMBS	4%	4%
U.S. Government	3%	6%
Bank Loans	1%	2%
Foreign Government	1%	1%
Other	1%	4%
Total	100%	100%

Bond Credit Quality

At year-end 2020, 95% of unaffiliated corporate bonds held by PE-owned U.S. insurers (and 96% at year-end 2019) carried NAIC 1 and NAIC 2 designations, implying high credit quality ratings. Also, similar to year-end 2019, at year-end 2020, about 94% of ABS and other structured securities held by PE-owned insurers carried NAIC 1 and NAIC 2 designations, also implying high credit quality, and perhaps mitigating concern over the relatively high investment concentration in these nontraditional bonds. The remaining 5% of bond credit quality at year-end 2020 were in securities designated NAIC 3 and NAIC 4.¹

Schedule BA

The BACV of total Schedule BA investments, or other long-term investments, held by PE-owned insurers increased by about 31% to \$22.7 billion at year-end 2020 from \$17.3 billion at year-end 2019. Unaffiliated Schedule BA investments were about 56% of total PE-owned U.S. insurers' Schedule BA investments (or \$12.6 billion) at year-end 2020, and they were about 50% of PE-owned insurers' Schedule BA investments at year-end 2019. Notwithstanding, total Schedule BA investments for PE-owned insurers were 5% of total cash and invested assets in both 2019 and 2020. In comparison, Schedule BA investments (unaffiliated and affiliated) held by *all* U.S. insurers were about 6% of the U.S. insurance industry's total cash and invested assets at year-end 2020 (or \$456 billion in BACV; unaffiliated represented about 43% of this total).

¹ For reporting purposes, the process known as modified filing exempt (MFE) was deleted effective year-end 2019. With MFE, U.S. insurers setting NAIC designations for certain securities (such as CLOs) that are subject to guidance provided by *Statement of Statutory Accounting Principles (SSAP) No. 43R—Loan-Backed and Structured Securities* could adjust the rating agency-derived ratings based on BACV.



At year-end 2020, a large proportion, or 35%, of PE-owned U.S. insurer Schedule BA investments was in collateral loans compared to 32% at year-end 2019; this was followed by 26% in PE—i.e., common stock (JV)—which was relatively consistent with year-end 2019. Collateral loans are defined in *SSAP No. 21R—Other Admitted Assets* as unconditional obligations for the payment of money secured by the pledge of an investment and meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

In addition, at year-end 2020, 10% of PE-owned U.S. insurers' Schedule BA investments were in surplus debentures (compared to 4% for the overall U.S. insurance industry); at year-end 2019, surplus debentures accounted for 15% of PE-owned insurers' Schedule BA investments. Surplus debentures are defined in *SSAP No. 41R—Surplus Notes* as instruments that have characteristics of both debt and equity as they are subject to strict control and are required to be subordinate to policyholders, claimant and beneficiary claims, and all other classes of creditors other than surplus note holders. On the contrary, the largest Schedule BA investments for the overall U.S. insurance industry was PE (29% of total Schedule BA investments), as well as hedge fund (31%) and real estate investments (15%), as of year-end 2020.

Schedule DA – Short-Term Investments

PE-owned insurers owned about \$7.8 billion in Schedule DA (short-term) investments as of year-end 2020 (almost all of which were life companies), out of a total of about \$106.8 billion for the overall U.S. insurance industry, or about 7% of the total. In comparison, at year-end 2019, PE-owned insurers owned about \$7.6 billion in Schedule DA investments out of a total of \$85 billion (or 9% of the total).

One PE-owned life company accounted for about 35% of the industry's exposure to Schedule DA investments (in terms of BACV) at year-end 2020. About 20 PE-owned life companies accounted for predominantly all of the exposure (the top three accounted for 68%), perhaps warranting closer review given the concentration.

Approximately \$1.6 billion, or 21%, of all PE-owned Schedule DA assets at year-end 2020 were reported as affiliate investments, compared to \$1 billion, or 14% of all PE-owned Schedule DA assets at year-end 2019.

PE Firms and the U.S. Insurance Industry

The trend with PE firms acquiring U.S. insurers dates back almost a decade, due in part to the lower-for-longer interest rate environment. PE firms have been attracted to the additional, steady source of premium income from insurers. Life and annuities businesses offer PE firms predictable and steady returns and an opportunity to add to assets under management, as well as generate fee income from investment management expertise. And according to AM Best research, PE firms target annuity companies for the size of their investment portfolios, and these types of insurers tend to profit from a



spread-business strategy from which PE firms believe they can leverage and capitalize.² P/C companies represent attractive opportunities because of renewals and minimal capital expenditures, according to OPTIS Partners, an investment banking and financial services firm.

Being PE-owned, U.S. insurers' investment portfolios can potentially achieve higher investment returns and improved access to capital via the PE firms' capital markets networks. However, as a result, U.S. insurer investments could shift toward higher returning—i.e., higher risk assets that are also less liquid and potentially more volatile. This trend is evidenced by the increased Schedule BA investments held by PE-owned U.S. insurers over the past few years in terms of BACV. In addition, PE-owned insurers tend to have higher concentrations of ABS and other structured securities than the overall U.S. insurance industry. Notwithstanding, whether or not insurers are owned by PE firms, investment activity must abide by applicable state insurance laws.

Additionally, affiliated investment transactions, including securitizations and those that result in investment management fees to the PE firm, ought to be conducted at arm's-length. State regulators may require prior approval and disclosure, and/or place limits on these types of transactions.

According to AM Best research, for its rated companies that it identified as PE-owned as of July 2021, net portfolio yield increased 33 basis points (bps) on average in the first year of acquisition and was 62 bps higher than non-PE-owned life and health insurers. Along with a higher concentration of higher yielding assets, AM Best research cited that in the first year of PE-ownership, 38% of the companies reported increases of more than 20% in capital and surplus, followed by 43% in year two and 50% in year three. The growth in capital resulted in higher risk-based capital (RBC) for most of these companies due to the corresponding increase in investment portfolio risk; the average RBC increased 57% in the first year of PE-ownership.

The NAIC Capital Markets Bureau will continue to monitor trends in PE-owned U.S. insurer investments and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

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² AM Best, *Insurance Companies Remain Prime Targets for Private Equity*, July 2021.