



The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published [NAIC Capital Markets Bureau Special Reports](#) are available via its web page and the NAIC archives (for reports published prior to 2016).

## **Private Equity (PE)-Owned U.S. Insurers' Investments Decrease as of Year-End 2021; Number of PE-Owned U.S. Insurers Increases**

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### **Executive Summary**

- Despite an increase in the number of private equity (PE)-owned U.S. insurers identified by the NAIC Capital Markets Bureau to 132 at year-end 2021 from 117 at year-end 2020, total cash and invested assets for these insurers decreased by approximately 3% to \$472 billion in book/adjusted carrying value (BACV).
- Total cash and invested assets for PE-owned insurers was about 6% of the U.S. insurance industry, and the majority of PE-owned U.S. insurers continues to be life companies.
- Similar to the overall U.S. insurance industry, bonds were the largest asset type for PE-owned U.S. insurers, at 69% of their total cash and invested assets.
- Corporate bonds were the largest bond type at about half of total bonds for PE-owned insurers.
- The concentration of nontraditional bonds was higher for PE-owned insurers in terms of the percentage of total bonds (39%), compared to the overall U.S. insurance industry (24%) at year-end 2021.
- About 95% of PE-owned insurers' bond exposure carried NAIC 1 and NAIC 2 designations, implying high credit quality.
- Other long-term invested assets (as reported in Schedule BA) increased a small amount in terms of BACV but decreased as a percentage of total cash and invested assets year over year (YOY).
- Schedule DA (short-term investments) for PE-owned insurers increased by about 41% from 2020 to 2021 in terms of BACV; one PE-owned insurer accounted for 29% of the exposure at year-end 2021.

As of year-end 2021, PE-owned U.S. insurers reported about \$472 billion in BACV of total cash and invested assets compared to \$487 billion at year-end 2020, or a 3% YOY decrease (see Table 1 and Table



2). The BACV of total cash and invested assets for PE-owned insurers was about 6% of the U.S. insurance industry's \$8.0 trillion at year-end 2021, down slightly from 6.5% of total cash and invested assets at year-end 2020. The number of PE-owned insurers, however, increased to 132 in 2021 from 117 in 2020, but they were about 3% of the total number of legal entity insurers at both year-end 2021 and year-end 2020. Consistent with prior years, U.S. insurers have been identified as PE-owned via a manual process. That is, 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 other means of identification such as using third-party sources, including directly from state regulators. As such, the number of U.S. insurers that are PE-owned continues to evolve.<sup>1</sup>

Life companies continue to account for a significant proportion of PE-owned insurer investments at year-end 2021, at 95% of total cash and invested assets (see Table 1). This represents a small decrease from 97% at year-end 2020 (see Table 2). Notwithstanding, there was a slight increase in PE-owned insurer investments for property/casualty (P/C) companies, to 4% at year-end 2021, compared to 3% the prior year. In addition, there was also a small increase in total BACV for PE-owned title and health companies' investments, at about \$1.1 billion at year-end 2021, compared to under \$1 billion at year-end 2020.

**Table 1: PE-Owned U.S. Insurer Investments as of Year-End 2021 (\$BACV bil.)**

Asset Type	Life	P/C	Total*	Pct of Total
Bonds	\$ 312.0	\$ 15.2	\$ 327.5	69%
Mortgages	\$ 59.4	\$ 0.2	\$ 59.6	13%
BA & Other	\$ 27.1	\$ 0.6	\$ 27.8	6%
Cash & Short-term Investments	\$ 25.0	\$ 2.1	\$ 27.7	6%
Common Stock	\$ 10.8	\$ 2.6	\$ 13.5	3%
Contract Loans	\$ 5.4	\$ -	\$ 5.4	1%
Derivatives	\$ 4.5	\$ -	\$ 4.5	1%
Other Receivables	\$ 2.6	\$ 0.0	\$ 2.7	1%
Preferred Stock	\$ 3.3	\$ 0.0	\$ 3.3	1%
Real Estate	\$ 0.1	\$ 0.0	\$ 0.1	0%
<b>Total</b>	<b>\$ 450.1</b>	<b>\$ 20.9</b>	<b>\$ 472.0</b>	<b>100%</b>
Pct of Total	95%	4%	100%	

\*Total includes \$1.1 billion with title and health companies. Percent of total in bottom row may not add up to 100% due to rounding.

<sup>1</sup> The names of particular U.S. insurers that are PE-owned is proprietary and available only to state insurance regulators.

**Table 2: PE-Owned U.S. Insurer Investments as of Year-End 2020 (\$BACV bil.)**

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%
<b>Total</b>	<b>\$ 471.4</b>	<b>\$ 14.7</b>	<b>\$ 487.0</b>	<b>100%</b>
Pct of Total	97%	3%	100%	

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

## Bonds Continue to Represent the Largest Asset Type but Have Decreased

Among PE-owned insurer investments, bonds continued to be the largest asset type at year-end 2021 at \$327 billion, but they decreased in terms of BACV by 9.5% from \$361.9 billion at year-end 2020. In percentage terms, the proportion of bonds also decreased to 69% of total cash and invested assets held by PE-owned insurers at year-end 2021, compared to 75% at year-end 2020. Bonds were also the largest asset type among the overall U.S. insurance industry's investment portfolio, at about 61% of total cash and invested assets at year-end 2021. A special report on the U.S. insurance industry's total cash and invested assets at year-end 2021 titled "[U.S. Insurance Industry's Cash and Invested Assets Surpass \\$8 Trillion at Year-End 2021](#)" was published in May 2022 by the NAIC Capital Markets Bureau.

Countering the decrease in bonds, was a YOY increase in mortgages for PE-owned insurers, both in terms of BACV and as a percent of total cash and invested assets. Perhaps this trend is due to the lower for longer interest rate environment, whereby mortgages, as a non-traditional and higher yielding investment, have been more attractive investments. Mortgages accounted for the second largest asset type for PE-owned insurers at \$59.6 billion, or 13% of total PE-owned insurers' total cash and invested assets at year-end 2021, compared to \$43.5 billion, or 9% of total cash and invested assets at year-end 2020. Note that mortgages were about 8% of total cash and invested assets for the overall U.S. insurance industry at year-end 2021.

While common stock was the second largest asset type for *all* U.S. insurers at almost 15% of total cash and invested assets (or \$1.1 trillion), for PE-owned insurers, common stock was only 3% of total cash and invested assets (or \$13.5 billion). This is partly because life companies account for a significant majority of PE-owned insurer investments, and they generally have lower exposure to common stock than P/C companies. Schedule BA assets comprised the third largest asset type for PE-owned insurers at year-end 2021, totaling \$27.8 billion BACV, or 6% of total cash and invested assets, which was a small increase in BACV from \$22.7 billion at year-end 2020 but the same percentage of total assets.

*Corporate Bonds Continue as the Largest Bond Type*

Corporate bonds were the largest bond type among PE-owned U.S. insurers at \$171.3 billion, which was down 4% from \$178.5 billion at year-end 2020. (See Table 3.) As a proportion of total bonds, though, corporate bonds increased to 52% of total bonds at year-end 2021 from 49% at year-end 2020. Exposure to corporate bonds for *all* U.S. insurers was 56.4% of total bonds at year-end 2021 and has generally been in the mid-50% range in previous years.

**Table 3: PE-Owned U.S. Insurer Bond Investments as of Year-End 2021 and Year-End 2020 (\$BACV bil.)**

Bond Type	YE2021 Total	Pct of Total	YE2020 Total	Pct of Total
ABS and Other Structured Securities	\$ 90.2	28%	\$ 91.1	25%
Agency-backed CMBS	\$ 1.6	0%	\$ 10.3	3%
Agency-backed RMBS	\$ 5.8	2%	\$ 8.4	2%
Bank Loans	\$ 5.0	2%	\$ 4.6	1%
Corporate Bonds	\$ 171.3	52%	\$ 178.5	49%
ETF-SVO Identified Funds	\$ 0.3	0%	\$ 0.1	0%
Foreign Government	\$ 2.0	1%	\$ 2.4	1%
Hybrid Securities	\$ 0.0	0%	\$ 1.9	1%
Municipal Bonds	\$ 15.6	5%	\$ 23.9	7%
Private-label CMBS	\$ 18.9	6%	\$ 14.6	4%
Private-label RMBS	\$ 12.5	4%	\$ 16.7	5%
U.S. Government	\$ 4.2	1%	\$ 9.4	3%
<b>Total</b>	<b>\$ 327.5</b>	<b>100%</b>	<b>\$ 362.1</b>	<b>100%</b>

Similar to year-end 2021, the second-largest bond investment for PE-owned U.S. insurers at year-end 2021 was ABS and Other Structured Securities at \$90.2 billion, representing a small decrease in BACV from \$91.1 billion at year-end 2020. As a proportion of total bonds, however, ABS and Other Structured Securities increased to 28% of total bonds for PE-owned insurers at year-end 2021, from 25% of total bonds at year-end 2020. 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 2021 and 2020.

Furthermore, private label residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) accounted for a combined total of 10% of total bonds for PE-owned U.S. insurers at year-end 2021, which was a small increase from 9% at year-end 2020; this compares to almost 4% of total bonds for the overall U.S. insurance industry at year-end 2021 and year-end 2020. In addition, exposure to municipal bonds for PE-owned insurers as a proportion of bond investments, decreased to 5% at year-end 2021 from 7% at year-end 2020. For all U.S. insurers, municipal bonds were approximately 10% of total bonds at year-end 2021 and year-end 2020.

The higher proportion of ABS and Other Structured Securities, and private label RMBS and CMBS exposure among PE-owned insurers' total bonds, coinciding with a decrease in corporate bond and municipal bond investments (in BACV terms), demonstrates a higher concentration of nontraditional, higher-yielding bonds held by PE-owned insurers and, perhaps, the potential for increased volatility and



risk. The overall U.S. insurance industry, on the other hand, had a higher concentration of investments such as municipal bonds and U.S. government securities, which tend to carry less credit risk than the aforementioned, nontraditional bond types. Table 4 shows the bond breakdown in percentage terms for PE-owned U.S. insurers versus the overall U.S. insurance industry at year-end 2021.

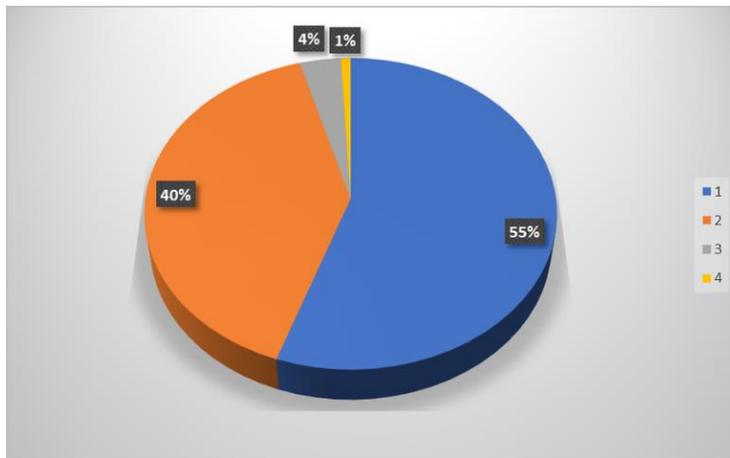
**Table 4: Bond Types as a Percentage of Total Bonds as of Year-End 2021**

Bond Type	% of Total Bonds for PE-Owned	% of Total Bonds for All U.S.
Corporate Bonds	52%	56%
ABS and Other Structured Securities	28%	10%
Private Label CMBS	6%	4%
Municipal Bonds	5%	10%
Private Label RMBS	4%	2%
Agency-Backed RMBS	2%	5%
Bank Loans	2%	2%
U.S. Government	1%	6%
Foreign Government	1%	2%
Other	1%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

High Credit Quality for Bonds

Same as year-end 2020, at year-end 2021, 95% of bonds held by PE-owned U.S. insurers carried NAIC 1 and NAIC 2 designations (see Chart 1), implying high credit quality ratings, and the remaining bonds carried NAIC 3 and NAIC 4 designations. Also, similar to year-end 2020, at year-end 2021, 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 any concern over the relatively high investment concentration in these nontraditional bonds as well as any concern that may arise when the markets experience volatility.

**Chart 1: PE-Owned Bond Investments’ Credit Quality – NAIC Designations, Year-End 2021**





### *Small Increase in Schedule BA Investments' BACV; Proportion Remains the Same*

There was a small increase in the BACV of total Schedule BA – Other Long-term Invested Assets held by PE-owned insurers to \$27.7 billion at year-end 2021 from \$22.7 billion at year-end 2020. Unaffiliated Schedule BA investments were about half of total PE-owned U.S. insurers' Schedule BA investments (or \$13.9 billion) at year-end 2021, and they were about 56% of PE-owned insurers' Schedule BA investments at year-end 2020 (\$12.6 billion). Despite the small YOY increase in BACV, total Schedule BA investments for PE-owned insurers were 5% of total cash and invested assets in both 2021 and 2020. In comparison, Schedule BA investments (unaffiliated and affiliated) held by *all* U.S. insurers were about 6.5% of the U.S. insurance industry's total cash and invested assets at year-end 2021 (or \$523.1 billion in BACV; unaffiliated Schedule BA assets represented about 48% of this total).

Within PE-owned U.S. insurers' Schedule BA investments, the largest proportion, or 39%, was in collateral loans at year-end 2021 (totaling \$10.8 billion in BACV), compared to 35% at year-end 2020. This was followed by 29% (or \$8.2 billion in BACV) in PE—i.e., common stock (JV) – compared to 26% at year-end 2020. For *all* U.S. insurers, PE was the largest Schedule BA asset type held at year-end 2021, at 33% of total Schedule BA investments, or \$172.6 billion in BACV. Collateral loans, however, was one of the smallest asset types held by all U.S. insurers, at 3.3% of total Schedule BA investments, or \$17.1 billion in BACV.

### *Large Increase in Schedule DA – Short-Term Investments*

Short-term investments, or those reported by U.S. insurers in Schedule DA, comprised \$11.0 billion in BACV for PE-owned insurers at year-end 2021 out of a total of about \$102 billion for the overall U.S. insurance industry, or 10.8% of the total. This represents a 41% increase from \$7.8 billion in BACV of short-term investments held by PE-owned insurers at year-end 2020, or 7% of the total.

One PE-owned life company accounted for about 30% of the industry's exposure to Schedule DA investments (in terms of BACV) at year-end 2021, compared to 35% at year-end 2020 (same company). The top three PE-owned life companies accounted for about half of the exposure compared to almost 70% at year-end 2020.

Approximately \$3.4 billion, or 31%, of all PE-owned Schedule DA assets at year-end 2021 were reported as affiliated investments, compared to \$1.6 billion, or 21% of all PE-owned Schedule DA assets at year-end 2020.

## **PE Firms and the U.S. Insurance Industry**

The trend with PE firms acquiring U.S. insurers dates back about a decade, due in part to the lower-for-longer interest rate environment. While 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 and generate fee income from investment management opportunities. According to OPTIS Partners, a financial services firm,



announcements for mergers and acquisitions of insurance companies by PE firms increased 30% from 2020 to 2021.<sup>2</sup>

U.S. insurers' investment portfolios can potentially achieve higher investment returns and improved access to capital via a PE firms' capital markets networks. However, as a result, investments could shift toward higher returning, higher risk and less liquid assets that are potentially more volatile. This trend is evidenced by the increased Schedule BA investments held by PE-owned U.S. insurers, along with higher concentrations of nontraditional bond investments, such as ABS and Other Structured Securities, private label RMBS and private label CMBS, 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.

In addition, any 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.

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

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Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org](mailto:CapitalMarkets@naic.org).

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<sup>2</sup> Insurance Journal, *Number of Insurance Agency M&As Rose 30% in 2021: OPTIS Partners*, January 2022.