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## **Increase in Number and Total Investments of Private Equity (PE)-Owned U.S. Insurers in 2022**

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### **Executive Summary**

- The number of private equity (PE)-owned U.S. insurers identified by the NAIC Capital Markets Bureau increased to 137 as of July 2023, up from 132 at year-end 2021 and year-end 2022.
- Total cash and invested assets for the 137 PE-owned insurers increased by 13% to \$533.7 billion in book/adjusted carrying value (BACV) based on year-end 2022 NAIC annual statement filings, representing 6.5% of total U.S. insurers' total cash and invested assets.
- Similar to the overall U.S. insurance industry, bonds were the largest asset type for PE-owned U.S. insurers and were 66% of total cash and invested assets at year-end 2022.
- Corporate bonds were the largest bond type at about half of the total bonds for PE-owned insurers; the concentration of asset-backed securities (ABS) and other structured securities (i.e., nontraditional bonds) was higher for PE-owned insurers in terms of the percentage of total bonds (29%), compared to the overall U.S. insurance industry (11%) at year-end 2022.
- Similar to prior years, about 96% of PE-owned insurers' bond exposure carried NAIC 1 and NAIC 2 designations, implying high credit quality.
- Other long-term invested assets reported in Schedule BA increased 24% year-over-year (YOY) in terms of BACV but remained consistent in terms of percentage of total cash and invested assets at 6%.
- Schedule DA (short-term investments) for PE-owned insurers increased by a small amount in terms of BACV from 2021 to 2022; the top three PE-owned insurers accounted for 60% of the exposure at year-end 2022.

As of July 2023, there were 137 PE-owned U.S. insurers—a slight increase from 132 at year-end 2021 and year-end 2022. Total cash and invested assets for the 137 PE-owned U.S. insurers increased by 13% to \$533.7 billion in book/adjusted carrying value (BACV) based on year-end 2022 annual statements filed with the NAIC, from about \$472 billion at year-end 2021. (Refer to Table 1 and Table 2.) The BACV



of total cash and invested assets for private equity (PE)-owned insurers was about 6.5% of the U.S. insurance industry's \$8.2 trillion at year-end 2022, up slightly from 6% of total cash and invested assets at year-end 2021. Consistent with prior years, U.S. insurers have been identified as PE-owned via a manual process. The NAIC Capital Markets Bureau identifies PE-owned insurers as 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>

**Table 1: PE-Owned U.S. Insurer Investments as of Year-End 2022 (\$BACV bil.)**

Asset Type	Life	P/C	Total*	Pct of Total
Bonds	335.1	17.3	352.8	66%
Mortgages	80.4	0.4	80.7	15%
BA	33.8	0.7	34.5	6%
Cash & Short-Term Investments	28.6	2.1	30.7	6%
Common Stock	11.9	2.9	14.7	3%
Contract Loans	5.8	-	5.8	1%
Derivatives	6.2	-	6.2	1%
Other Receivables	4.2	0.0	4.2	1%
Preferred Stock	2.9	0.1	3.0	1%
Real Estate	0.2	0.0	0.3	0%
<b>Total</b>	<b>509.2</b>	<b>23.5</b>	<b>533.7</b>	<b>100%</b>
Pct of Total	95%	4%	100%	

\*Total includes \$1 billion with title and health companies. Percentage of total in the bottom row may not add up to 100% due to rounding.

**Table 2: 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	27.1	0.6	27.8	6%
Cash & Short-Term Investments	25.0	2.1	27.8	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%		

\*Total includes \$1 billion with title and health companies. Percentage of total in the 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.



There were no year-over-year (YOY) changes with respect to the proportion of investments held by the different types of PE-owned insurers. That is, PE-owned life companies accounted for a significant percentage of investments at 95% of total cash and invested assets for PE-owned insurers at year-end 2022 and year-end 2021. PE-owned property/casualty (P/C) companies accounted for 4% of total cash and invested assets, and title and health companies accounted for the small remainder in 2022 and 2021.

In addition, at year-end 2022, there were 24 PE-owned U.S. insurers that were also Federal Home Loan Bank (FHLB) members, 21 of which were life companies. Sixteen reported about \$13 billion in FHLB borrowings, or advances (all of which were life companies), and \$15.6 billion in collateral pledged to FHLB.

### Like the Overall U.S. Insurance Industry, Bonds Are the Largest Asset Type

Bond investments continued to be the largest asset type among PE-owned insurers at year-end 2022, and they increased almost 8% to \$352.8 billion in BACV from \$327 billion at year-end 2021. In percentage terms, however, PE-owned insurers decreased the proportion of bonds for a second consecutive year to 66% of total cash and invested assets, compared to 69% at year-end 2021 (and 75% at year-end 2020). For the overall U.S. insurance industry, bonds were also the largest asset type at about 61% of total cash and invested assets at year-end 2022. A special report on the U.S. insurance industry's total cash and invested assets at year-end 2022 titled "[Growth in U.S. Insurance Industry's Cash and Invested Assets Declines to 1.3% at Year-End 2022](#)" was published in May 2023 by the NAIC Capital Markets Bureau.

In addition to an increase in BACV for bonds, there was a significant YOY increase in mortgages in terms of BACV and as a percentage of total cash and invested assets for PE-owned insurers. Mortgages were the second largest asset type held, and they increased 35% to \$80.7 billion at year-end 2022 (15% of total cash and invested assets) from almost \$60 billion at year-end 2021 (13% of total cash and invested assets). In comparison, for the overall U.S. insurance industry, mortgages were about 9% of total cash and invested assets at year-end 2022 and were the third largest asset type.

Common stock was 3% of total cash and invested assets, or \$14.4 billion, for PE-owned insurers at year-end 2022, most of which—or \$13 billion—was in affiliated non-publicly traded common stock. For *all* U.S. insurers, common stock was the second largest asset type at year-end 2022, at about 13% of total cash and invested assets (or \$1 trillion). The smaller exposure among PE-owned insurers is largely due to life companies accounting for the majority of PE-owned insurers, and P/C companies have a larger exposure to common stock than life companies.

Schedule BA assets comprised the third largest asset type for PE-owned insurers at year-end 2022 and year-end 2021, totaling \$34.5 billion and \$27.8 billion BACV, respectively, or 6% of total cash and invested assets in both periods. Similarly, for the overall U.S. insurance industry, Schedule BA assets accounted for 6.6% of total cash and invested assets.



### Largest Bond Type—Corporate Bonds—Increase in BACV but Decrease as a Percentage

Corporate bonds continue to remain the largest bond type among PE-owned U.S. insurers. At year-end 2022, they increased to \$177.3 billion from \$171.3 billion at year-end 2021. (Refer to Table 3.) However, as a percentage of total cash and invested assets, they decreased to 50% from 52%. Exposure to corporate bonds for *all* U.S. insurers was about 56% of total bonds at year-end 2022 and has been in the mid-50% range in prior years.

**Table 3: PE-Owned U.S. Insurer Bond Investments as of Year-End 2022 and Year-End 2021 (\$BACV bil.)**

Bond Type	YE2022 Total	Pct of Total	YE2021 Total	Pct of Total
ABS and Other Structured Securities	102.4	29%	90.2	28%
Agency-Backed CMBS	1.1	0%	1.6	0%
Agency-Backed RMBS	5.3	1%	5.8	2%
Bank Loans	5.9	2%	5.0	2%
Corporate Bonds	177.3	50%	171.3	52%
ETF-SVO Identified Funds	0.0	0%	0.3	0%
Foreign Government	2.7	1%	2.0	1%
Municipal Bonds	16.1	5%	15.6	5%
Private-Label CMBS	21.7	6%	18.9	6%
Private-Label RMBS	13.7	4%	12.5	4%
U.S. Government	6.5	2%	4.2	1%
<b>Total</b>	<b>352.8</b>	<b>100%</b>	<b>327.4</b>	<b>100%</b>

The decrease in the percentage of corporate bonds YOY for PE-owned insurers is due in part to an increase in higher yielding bond types, such as asset-backed securities (ABS) and other structured securities. As in previous years, ABS and other structured securities were the second-largest bond investment for PE-owned insurers at year-end 2022. They increased 13% to \$102.4 billion from \$90.2 billion in 2021. In addition, PE-owned insurers' exposure to ABS and other structured securities increased as a percentage of total bond investments to 29% in 2022 from 28% in 2021. In comparison, ABS and other structured securities for all U.S. insurers were significantly less at 11% of total bonds at year-end 2022. However, they were the fastest growing bond type for all U.S. insurers at year-end 2022, and they rose to be the second largest bond type from the third largest the year prior.

PE-owned insurers also have more exposure to private-label residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) than the overall U.S. insurance industry. Private-label RMBS and CMBS represent investments in nontraditional or alternative assets. As such, they have higher yields because of higher risk due to a more complex capital structure than, say, corporate bonds. At year-end 2022 and year-end 2021, private-label RMBS and CMBS made up 10% of PE-owned insurers' total bonds, compared to 6.3% for the overall industry. Furthermore, exposure to municipal bonds for PE-owned insurers as a proportion of bond investments was 5% at year-end 2022 and 2021, compared to 10% for all U.S. insurers. Municipal bonds are not considered alternative investments. Rather, they are considered safe fixed-income investments and tend to be more heavily invested by P/C companies.

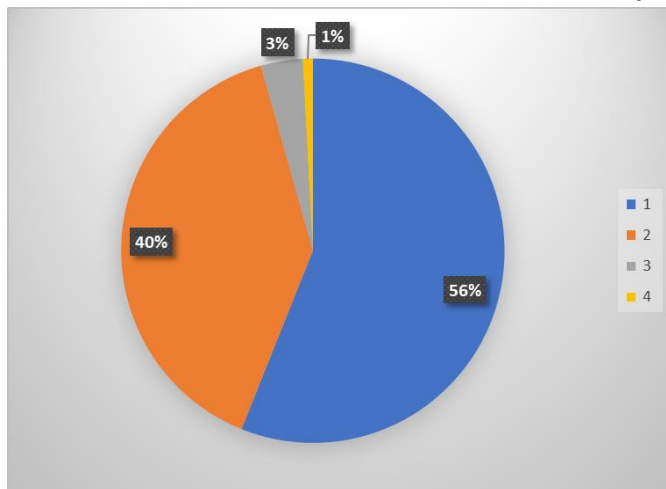


The higher proportion of ABS and other structured securities, private label RMBS, and CMBS among PE-owned insurers’ total bonds—coinciding with a smaller proportion of municipal bond investments—demonstrates a higher concentration of nontraditional, higher-yielding bonds and, perhaps, the potential for increased volatility and risk. Conversely, a higher concentration of investments such as municipal bonds, agency-backed RMBS, and U.S. government securities, which tend to carry less credit risk, exists in the overall U.S. insurance industry.

### Continued High Credit Quality for Bonds

Bonds held by PE-owned insurers have consistently been high credit quality, as 96% carried NAIC 1 and NAIC 2 designations at year-end 2022, which was relatively consistent with previous years. (Refer to Chart 1.) The remaining 4% carried NAIC 3 and NAIC 4 designations. Within PE-owned insurers’ bond investments, and also similar to prior years, 95% of ABS and other structured securities carried NAIC 1 and NAIC 2 designations. This trend perhaps mitigates any concern over the relatively high investment concentration in these nontraditional bonds and any concern that may arise when the markets experience volatility. In addition, 97% of PE-owned insurers’ investments in corporate bonds carried NAIC 1 and NAIC 2 designations.

**Chart 1: PE-Owned Bond Investments’ Credit Quality – NAIC Designations, Year-End 2022**



### Double Digit Increase in Schedule BA Investments’ BACV, but Proportion Remains the Same

The BACV of total Schedule BA – Other Long-Term Invested Assets held by PE-owned insurers increased by 24% to \$34.4 billion at year-end 2022 from \$27.8 billion at year-end 2021. The proportion of Schedule BA investments, however, remained the same at 6% of total PE-owned insurer-invested assets at year-end 2022 and year-end 2021. In comparison, total Schedule BA investments held by *all* U.S. insurers were about 6.6% of the industry’s total cash and invested assets at year-end 2022. *Unaffiliated* Schedule BA investments were about 37% of total PE-owned U.S. insurers’ Schedule BA investments at year-end 2022, down from 50% at year-end 2021. This coincided with a YOY decrease in BACV to \$12.7



billion in 2022 from \$13.9 billion in 2021. For the overall U.S. insurance industry, unaffiliated Schedule BA investments were 33% of total Schedule BA investments at year-end 2022, down from 48% at year-end 2021. This trend implies a YOY increase in affiliated Schedule BA investments not only for PE-owned insurers, but also for the overall U.S. insurance industry.

Within PE-owned U.S. insurers' Schedule BA investments, the largest proportion, or 38%, was in collateral loans at year-end 2022 (totaling \$12.9 billion in BACV), compared to 39% at year-end 2021 (or \$10.8 billion). This was followed by 30% (\$10.5 billion in BACV) in PE—i.e., common stock (JV) — compared to 29% at year-end 2021. For *all* U.S. insurers, PE comprised 35% of total Schedule BA investments at year-end 2022, and collateral loans were one of the smallest asset types, at 3% of total Schedule BA investments.

### Slight Increase in Schedule DA – Short-Term Investments

Short-term investments, or those reported by U.S. insurers in Schedule DA, totaled \$12.3 billion in BACV for PE-owned insurers at year-end 2022 out of a total of about \$116 billion for the overall U.S. insurance industry, or 10.5% of the total. This was a slight increase from \$11 billion at year-end 2021. In addition, about \$2.3 billion of all PE-owned Schedule DA assets at year-end 2022 were reported as affiliated investments (19%), a decrease from \$3.4 billion (31%) at year-end 2021.

The top three PE-owned U.S. insurers (all life companies) accounted for 60% of PE-owned insurers' short-term investments at year-end 2022, up from about half at year-end 2021. One PE-owned life company accounted for about 23% of the exposure to short-term investments, compared to 30% at year-end 2021.

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

The trend with PE firms acquiring U.S. insurers dates back more than a decade, initially triggered by what was 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, as well as an opportunity to add to assets under management and generate fee income from investment management opportunities. In recent years, state insurance regulators have noted increased activity with PE firms acquiring U.S. insurers and have established an initiative to further assess any implications. A working group including NAIC staff and state insurance regulators—the Macroprudential (E) Working Group of the Financial Stability (E) Task Force—has recently created a list of considerations to review activities commonly associated with PE-owned insurers. In addition, U.S. lawmakers have called for regulators to ensure that there are sufficient safeguards in place such that PE-owned U.S. insurers avoid unnecessary and excessive risk-taking, according to research by S&P Global.<sup>2</sup> Perhaps a mitigant to this concern, there has been a recent

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<sup>2</sup> S&P Global, *PE's Commitment to Insurance Space to Prove Resilient Despite Deal Downturn*, January 2023



slowdown in the acquisition of U.S. insurers by PE firms due in part to rising interest rates and high inflation. With rising rates, the cost of capital increases for acquiring insurers.

PE-owned insurers may leverage the capital markets networks of their parent company for higher risk and less liquid assets that, in turn, have the potential for increased volatility. This trend is evidenced by the increased Schedule BA investments held by PE-owned U.S. insurers (and particularly the decrease in the percentage of unaffiliated Schedule BA investments), 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.

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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