

'Buffetization' of Private Equity: Private Equity partners with Insurance Companies

Jun 2023



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Private equity's quest for permanent capital

There is a rising trend of private equity firms acquiring and partnering with insurance companies with an objective of accessing permanent capital. Permanent capital is a type of long-term capital that is available for an unlimited amount of time. Insurance companies are a source of permanent capital as they collect premiums before paying any claims resulting in generation of cash that is available for investment. Acquiring insurance companies gives PE players access to this capital and it is seen as means to increase assets under management and generate additional fee income. Access to steady stream of assets offered by insurance books also means lower dependence on traditional LP-backed investment vehicles and reduced frequency of fundraising.

According to McKinsey & Co. private-capital-owned platforms own 9% of U.S. life-insurer assets, up from 1% decade ago. In total, private investors in the U.S. acquired or reinsured more than \$200 billion in 2021 and owned over \$900 billion of life and annuity assets in Western Europe and North America.

Model pioneered by Berkshire Hathaway

This trend of private investing in insurance for permanent capital is not entirely novel and was started with Berkshire Hathaway but has gained momentum only in the recent years. In the alt space, this model of combining insurance and investing has been pioneered by Apollo that co-founded Athene in 2009. Athene operated as an insurance holding company and accepted annuities & other retirement commitments. In return for investment management fees, Apollo provided asset allocation services and investment management services that resulted in higher yield for Athene.

What
does
Athene
do?

1

ATHENE
GENERATES
INFLOWS

By **providing a suite of principal protected investment products** to the retirement market

2

INVESTS
WITH
APOLLO

In a **high-quality resilient portfolio** optimized for risk-adjusted return

3

KEEPS SPREAD
ABOVE
FUNDING COST

Resulting in **strong growth** in spread related earnings



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Various strategies to engage with Insurance companies

Private equity can engage with insurance companies from an asset light model to an asset heavy approach:

- Insurance companies can be acquired as a platform to generate constant high-quality capital which can be invested to generate higher spread
- PE firm can partner with the insurance company to manage a portion of their assets in return for management fees
- Firms can also use a mix of both by taking a minority stake in the insurance company in exchange for the right to manage all the company's assets.

Acquisition/Partnership

Mar
2022

Carlyle Group

In March 2022, Carlyle raised \$2.1 billion in equity capital for Fortitude Re from existing investors and entered in a new strategic advisory service to provide M&A, transaction origination, execution, and capital management services, as well as source new growth opportunities.

Oct
2022

Blackstone

Blackstone announced Strategic Partnership with Resolution Life to manage directly originated assets across private credit, real estate and asset-based-finance markets – managing up to \$25 billion in the first year, growing to an expected over \$60 billion over the next six years.

Jan
2021

Blackstone

Blackstone announced its agreement to acquire Allstate Life Insurance Co. from Allstate in a \$2.8 billion deal. The deal transferred 80% of Allstate's total life and annuity reserves to Blackstone.

Dec
2020

Ares

Ares Management Corporation and its indirect subsidiary Aspida Holdings announced acquisition of F&G Reinsurance Ltd, a Bermuda-domiciled life & annuity reinsurer with approximately \$2 billion in invested assets. Ares will provide asset management oversight, capital optimization and strategic M&A origination and advisory services.

Jul
2020

KKR

KKR acquired over 60 percent of Global Atlantic Financial, largest fixed rate and fixed indexed annuity providers in the United States with over \$70 billion of invested assets. KKR to source low-cost liabilities that build fee related earnings and profitability for the firm.

Nov
2019

Carlyle Group

Carlyle Group along with T&D Holdings acquired majority Interest in Fortitude Re from AIG for approximately \$1.8 billion in November 2019.



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Challenges of executing an insurance strategy

With rising number of deals between private equity and insurance companies, this strategy has come under the scanner of the regulators to protect interests of policyholders. There is an increased risk to policyholders with more allocation towards higher risk assets in private debt and asset backed securities. Some possible regulations being considered are to limit the management fees from retirement savings vehicles, increase reserve requirements, and a ban on self-dealing which is investing insurance assets in their own funds.

The road ahead

With stamp of approval from the leaders of the private equity industry, we expect continued deals making under this strategy despite the regulatory challenges and risks involved with managing an insurance business. Insurance players have also become more accepting of the new role of the private equity firms as they experience benefits from the advanced money-making capabilities of these evolved species of managers.

Currently, this strategy is more prevalent amongst the sophisticated and large names in the industry but going forward, we expect more adoption by smaller players in the industry. As more firms engage in building their base of permanent capital, private credit will continue to gain weight and change the fabric of the industry in the long run. Overall, private equity's foray into insurance is trend expected to be the motivation for deal making in the insurance sector with potential to create significant value for insurers and investors.



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About Evalueserve:

Evalueserve is a leading analytics partner powered by mind+machine™, that helps clients get the most out of their core processes. Our global team of 4,000+ experts is dedicated to helping our clients and partners meet their goals. We've successfully applied our mind+machine™ approach to the management and transformation of business processes across all functions.

We work with 500+ clients across a wide range of industries and business functions, helping them to make better decisions faster; reach new levels of efficiency and effectiveness; and see a tangible impact on their top and bottom line.

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- Karishma has 15 years of experience working across private equity and structured finance engagements

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Thank You

