



GFSN Private Equity and Life Insurers

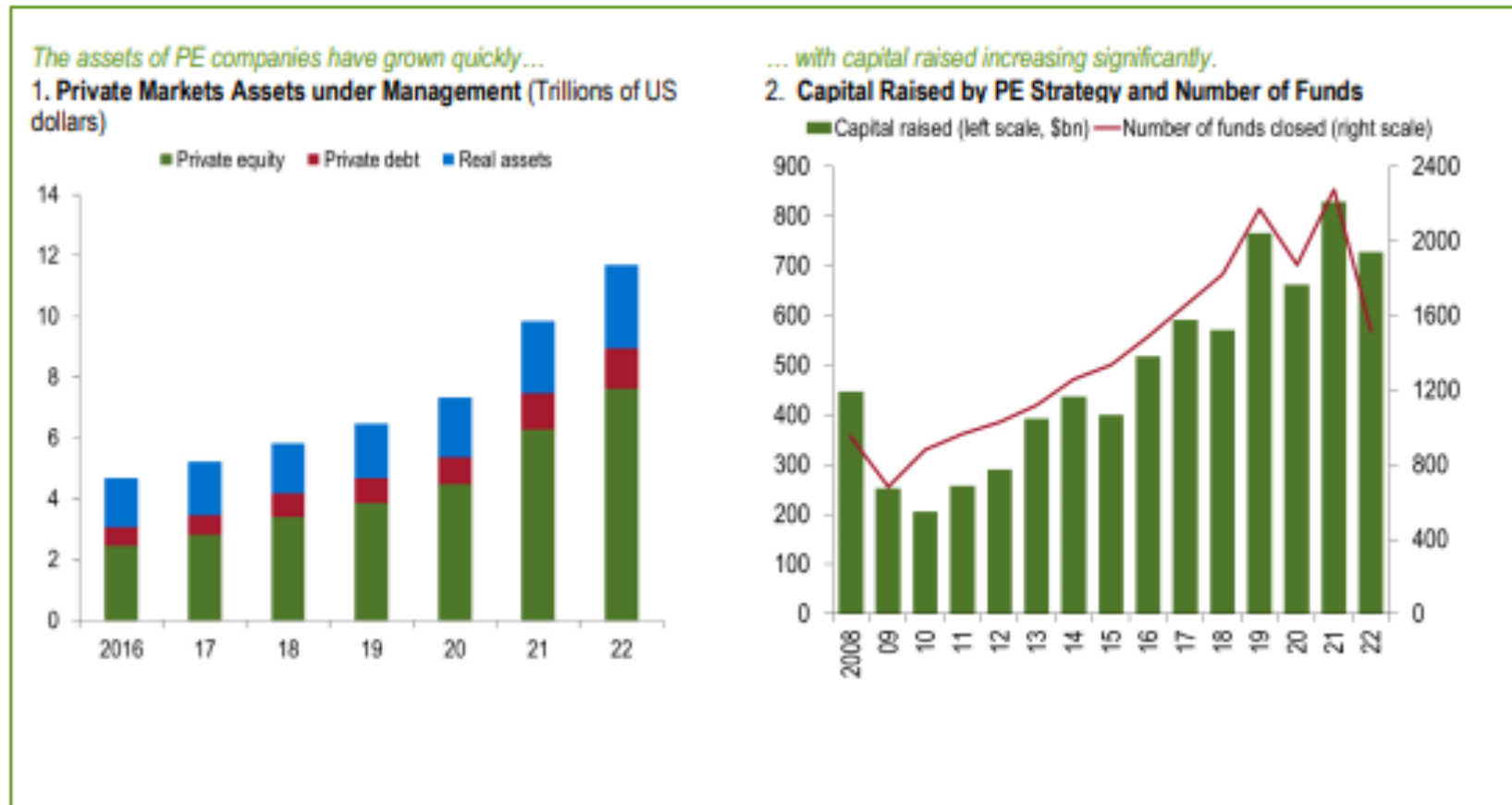
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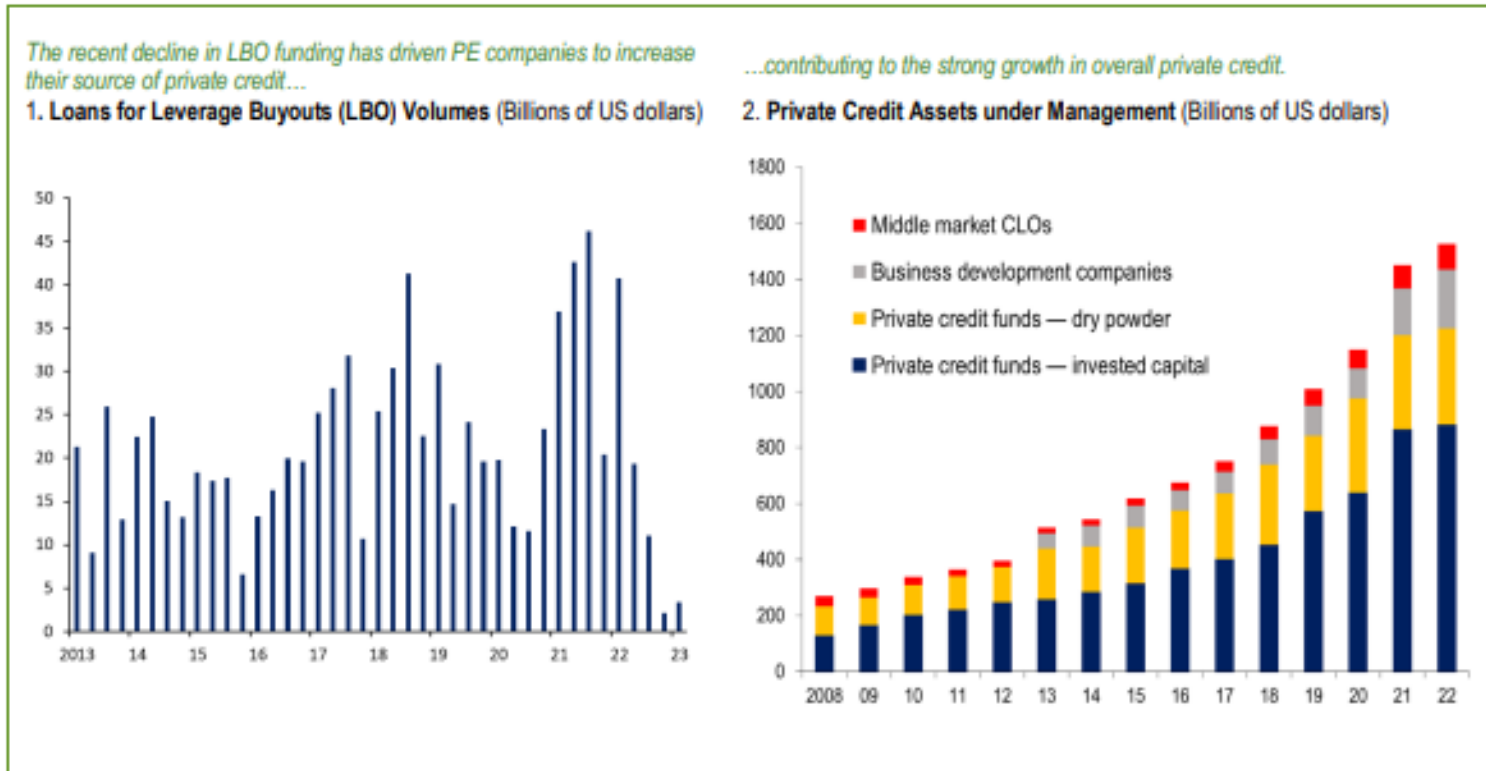
Growth of Private Equity

Figure 1. The Growth of Private Equity since the Global Financial Crisis



Private Credit is also big business for PE companies

Figure 2. The Evolution of Private Credit



Sources: Goldman Sachs; PitchBook Leveraged Commentary and Data; Prequin; and IMF staff calculations.

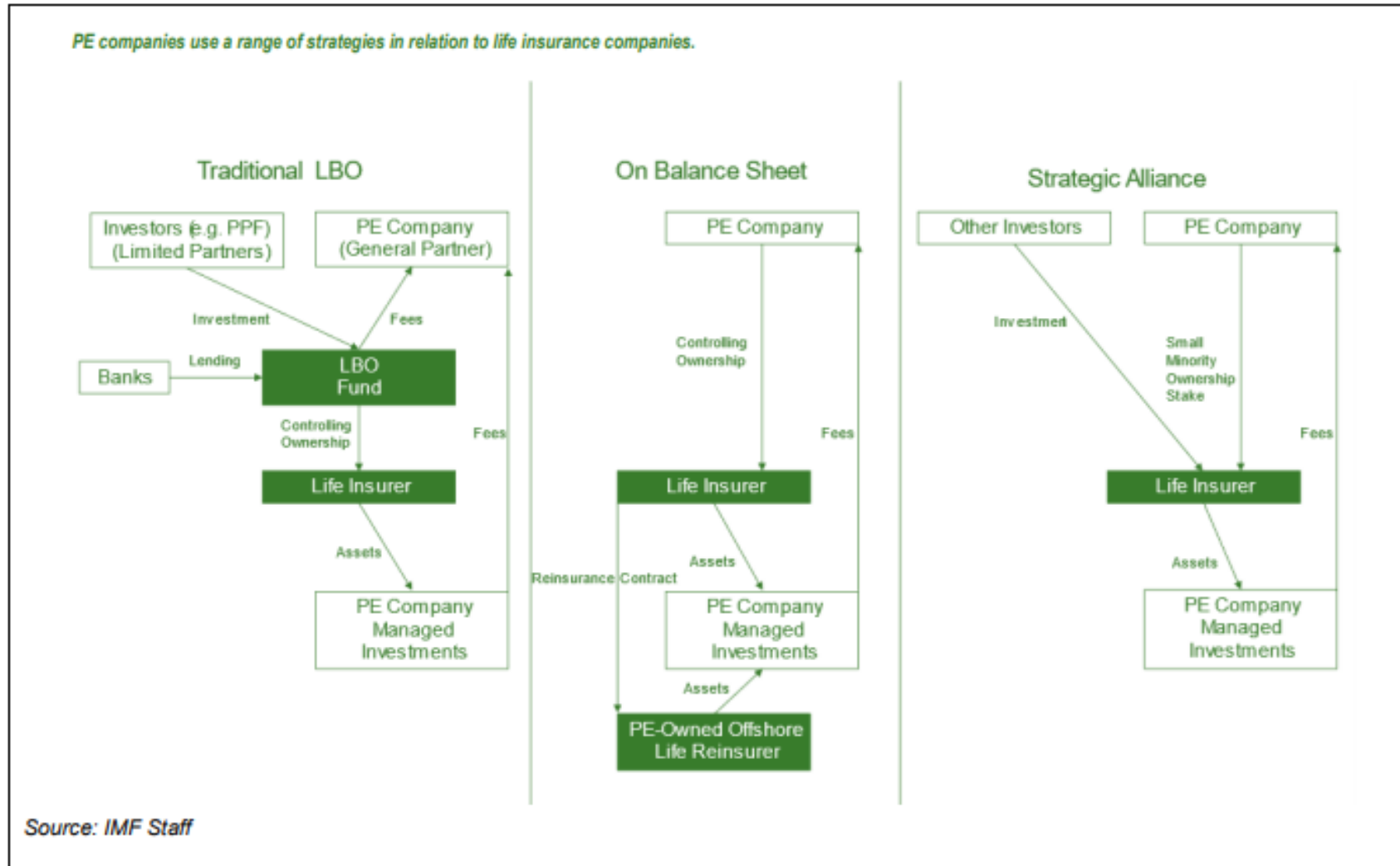
Note: CLO = collateralized loan obligation.

Private Credit – the need for access to investible funds

- 2022 Slowdown in private equity deals – pivot by PE companies to private credit
- Banks now reluctant to fund LBOs – private credit filling the void
- What do life insurers have? Investible funds, long commitment horizon, need for higher yields (until recent rate rises)

PE and Life insurers – the strategies

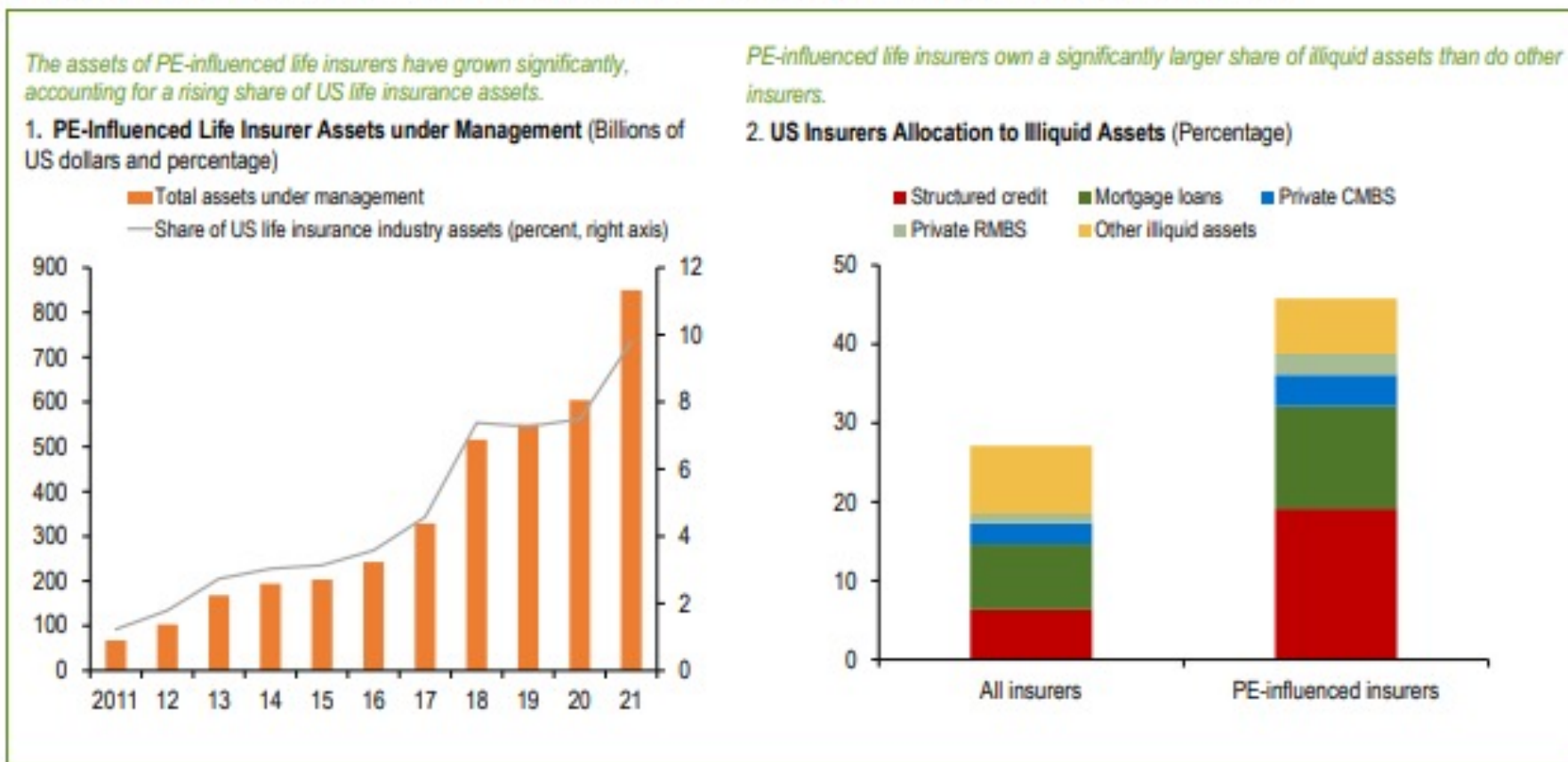
Figure 3. Strategies of Private Equity Companies in Relation to Life Insurance Companies



Note: LBO = leveraged buyout; PE = private equity, PPF = public pension fund.

What is different about PE-owned life insurers

Figure 4. Growth and Asset Allocation of Private Equity–Influenced Life Insurers

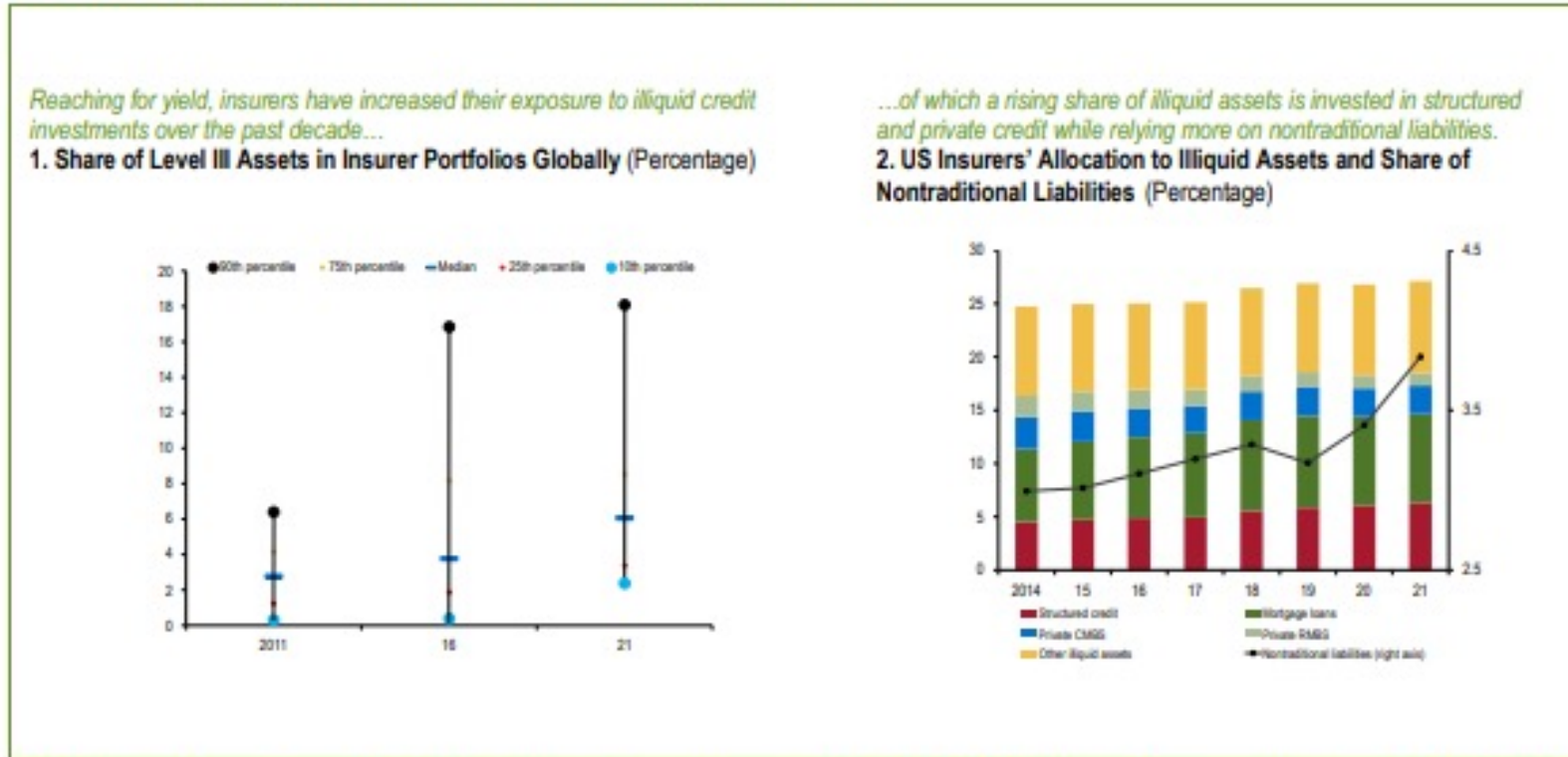


Sources: A.M. Best; National Association of Insurance Commissioners; and IMF staff calculations.

Note: Panel 1 is only for US insurers, where data are available. Panel 2 is as of December 2021. PE = private equity. RMBS = residential mortgage-backed security. CMBS = Commercial mortgage-backed security.

PE-owned life insurers creating herding behavior

Figure 5. Rising Exposure of Insurers to Illiquid Assets

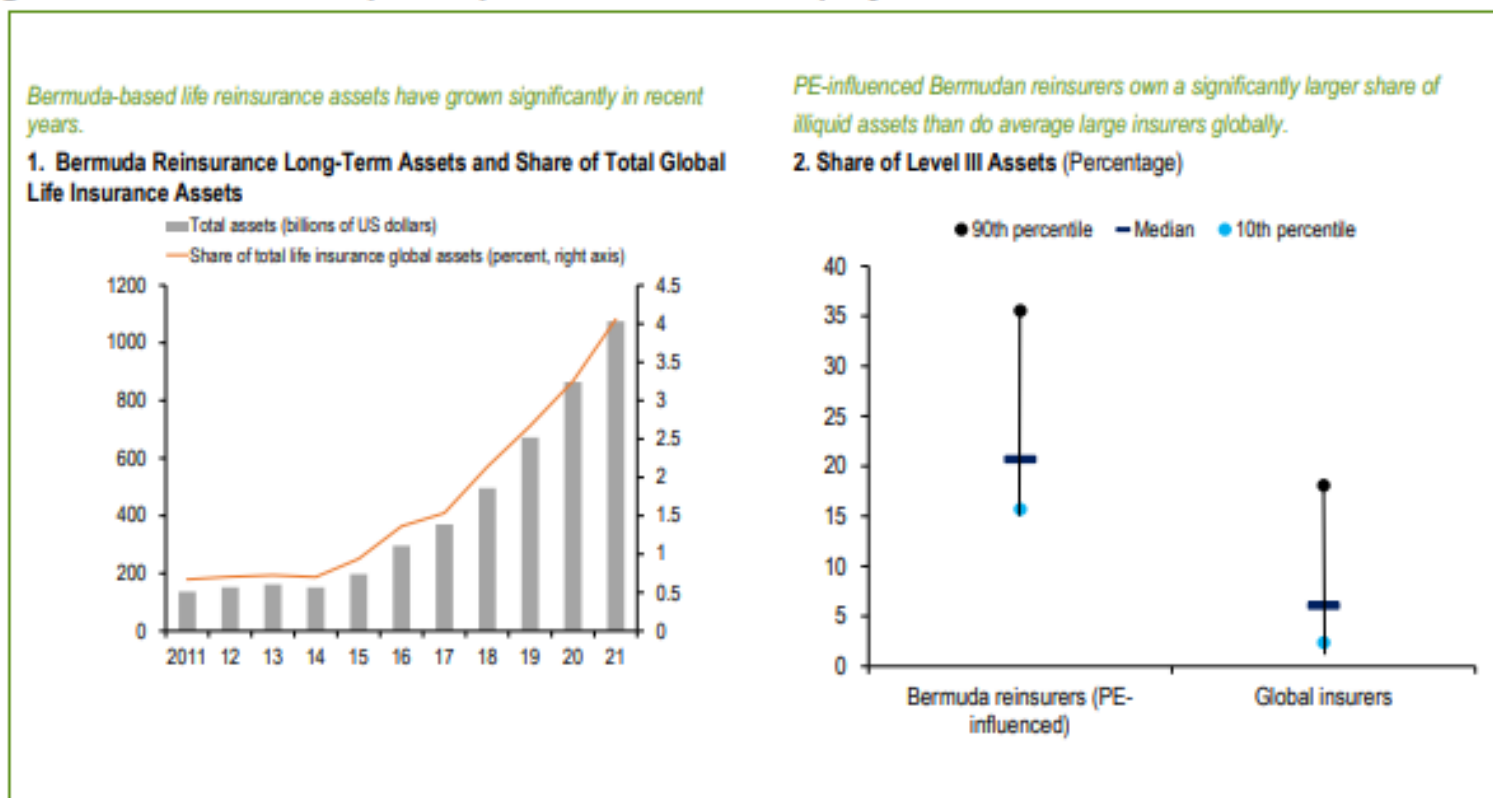


Sources: Haver; National Association of Insurance Commissioners; S&P Capital IQ; St. Louis Federal Reserve Bank; US Flow of Funds; and IMF staff calculations.

Note: Panel 1 includes a sample of 50 selected insurance groups from 18 jurisdictions across Europe, North America, Asia, and Australia. Level 3 assets are those considered the most illiquid and hardest to value. Their values are typically estimated using a combination of complex market prices, mathematical models, and subjective assumptions. The nontraditional liabilities estimate in panel 2 is calculated as the share of total liabilities for US life insurers. They include funding-agreement-backed securities, Federal Home Loan Bank advances, and cash received through repurchase agreements and securities lending transactions. RMBS = residential mortgage-backed security. CMBS = commercial mortgage-backed security.

Growth in Bermuda life reinsurance

Figure 6. Growth and Illiquid Exposures of Private Equity–Influenced Reinsurers



Sources: Bermuda Monetary Authority; and IMF staff calculations.

Note: The Bermuda reinsurers series in panel 1 is based on the sample of six PE-influenced reinsurers in Table 1. The data in panel 2 are dated as of the latest available annual reports. The global insurers category in panel 2 includes a sample of 50 selected insurance groups from 18 jurisdictions across Europe, North America, Asia, and Australia. Level 3 assets are those considered to be the most illiquid and hardest to value. Their values are typically estimated using a combination of complex market prices, mathematical models, and subjective assumptions. PE = private equity.

Policy Considerations

- **Insurance supervisors are beginning to identify issues of concern with respect to PE influence in the life insurance sector and are working on regulatory or supervisory responses to address those concerns.**
 - ▶ Concerns are with lack of transparency and additional risks inherent in the relationships between insurance companies and PE company owners and other contractual arrangements with PE companies.
 - ▶ Concerns include related party investments, structured securities, and other complex assets whose share has been increasing in insurer's portfolios
- **Insurance supervisors are encouraged to deepen their analysis of the trend in portfolio transfers and takeovers by PE-owned and PE- influenced insurers and reinsurers**
- **Data quality and availability is a key constraint in analyzing the impact of PE ownership for the life insurance sector.**
- **Actual or perceived opportunities for regulatory arbitrage should be addressed through widespread adoption of a globally consistent consolidated capital standard for the insurance sector.**

Policy Considerations

- **Valuation uncertainty should be addressed by intrusive supervisory review of insurers' valuation process, supervisory review of audit processes as well as asset quality review by the supervisor when necessary.**
- **Liquidity risk of PE led insurers should be addressed by supervisors through enhanced liquidity monitoring and by conducting liquidity stress testing.**
- **Supervisors are encouraged to work closely with other authorities in charge of systemic risk to analyze the possible contagion to other parts of the financial system and in the real economy.**