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Carriers Offloading Policies to Private Equity

WRITTEN BY

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Carriers have been quietly offloading old life insurance and annuity liabilities to private equity (PE) firms for the last decade, but the activity has reached a crescendo in the last couple of years. Whether through a reinsurance transaction (the most common approach) or outright purchase, the carriers are cleaning up their books in a reaction to sustained low interest rates, accounting changes on the horizon, and a focus on efficiency of capital deployment. Why should you care? In short, because the changes can carry a variety of risks for the policyowners you serve.

Not Just the Little Guys

While it's easy to envision small carriers involved in these PE transactions, there have been a lot of well-known brands that have either spun off business lines, exited the business, sold subsidiaries, sold off blocks of business, or entered into large reinsurance transactions on blocks of business. AXA spun off Equitable. MetLife spun off Brighthouse. Lincoln National just executed a big reinsurance deal with Resolution. AIG. Principal. Voya. Ohio National. Hartford. Great-West. Prudential. Sometimes a carrier changes hands multiple times like Lincoln Benefit passing from Allstate to Resolution and then to Kuvare in just a few years. All indications point to a continued flow of private equity money into the business.

Carrier Strength

How committed is PE to the business? Are they going to invest in risky assets? The answer to the first will be learned over time. There's evidence of some very long term holdings of carriers by PE and some evidence of shorter holding periods. There's simply no way to predict it. As far as investment risk, PE often employs investments with less liquidity, but that doesn't necessarily translate to higher credit risk of the investment. It's also important to recognize that unlike an outright purchase, a reinsurance transaction doesn't absolve the original writing carrier of the risk entirely. Rating downgrades may often accompany such changes. Spin offs aren't going to end up with the best assets from the parent. Private equity companies aren't trying to hold top financial strength ratings, but they generally look to be investment grade. The point is you should avoid broad mischaracterizations of PE companies without doing the research on a specific carrier, and you should monitor the financial strength over time.

Product Performance

Are they going to make pricing changes to policy expenses to drain value from clients? The truth is there's no way to know for sure, but most PE firms are actually trying to hold onto policies rather than see them leave because they want a stable asset base for earning investment margins. So, there's an incentive to treat the policyholder fairly. Of course, they'll adjust interest crediting rates or dividends or caps like every other carrier based upon prevailing market rates and their investment results. However, there's a ton of scrutiny by life settlement companies who will sue in a heartbeat if carriers try to change the expenses. So, expense changes will be less common but devastating when they occur. Regardless, you need to be monitoring the policies for the impact of changes to the policy earnings, expenses, or premium payment patterns over time.

Administrative Risks

One of the risks with any transition of policies to another company is with day to day policy administration. Will policyowners get premiums notices and statements? Will premiums go to the correct carrier address and be applied in a timely manner? Can new administrative systems handle the normal carrier activity like loans, distributions, face reductions, and billing changes? In 2018, New York regulators imposed a $15 million fine and ordered remediation efforts that could be valued at $40 million over issues with premium notices and annual statements on 15,000 policies.

Many of the popular no-lapse guarantee policies (whether on a UL or VUL chassis) inforce nationwide are extremely sensitive to small deviations in the timing and amount of premium. If the carrier's premium remittance address changes and a client mails the premium to an old address, it's very possible the premium could be applied late and make the policy guarantee go off track. What if a premium notice gets lost in the mail? What if a natural disaster like a wildfire or hurricane interrupts mail service? MetLife announced changes to electronic payment systems, servicing addresses and service phone numbers impacting approximately 350,000 policies going into effect in November of 2021. Will everyone notified know this is important information? Will it get misplaced? Will addresses get updated in bank bill pay systems? It's easy to see how critical information can be overlooked or forgotten. Do you have a way to identify impacted policies? Proformex can help you identify off-track policies quickly and easily.

Not all bad...not all good

At the end of the day, the involvement of PE firms in the life insurance business is here to stay. Some of the involvement will yield favorable outcomes while some will likely yield less favorable outcomes. Policies require monitoring regardless of PE involvement, but the introduction of change in client-carrier communication pathways necessitates greater scrutiny than normal. Proformex can help you triage your policies and catch those policies that fall through the cracks.

About the Author - Kelly Lytle

Kelly joined Proformex in 2019 and now serves as Vice President of Sales.

Previously with Proformex, Kelly oversaw carrier partnerships and customer operations.

Prior to Proformex, Kelly oversaw business development for Findaway's AudioEngine, the world's largest B2B audiobook platform. While at Findaway, he also created and launched Findaway Voices, a global marketplace helping authors create, market, and sell audiobooks.

He has extensive experience leading and growing software businesses in addition to working for Citigroup and AllianceBernstein.

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