life annuity specialist

Senators Grill Regulators on Private Equity's Control of Life Insurers

During a committee meeting, Sen. Elizabeth Warren suggested that insurers backed by private equity might "jack up their returns and short-term profits" by making riskier investments.

By Arthur D. Postal | September 9, 2022

Senate Banking Committee members grilled regulators Thursday on whether they are "stepping up" to address perceived risks that private equity involvement in the life insurance industry poses to retirees and workers.

Private equity firms control more than 10% of all life and annuity assets in the United States, despite having had almost zero presence just over a decade ago, according to Sen. Elizabeth Warren, D-Mass., a member of the committee.

She said private equity-backed insurers can "jack up their returns and their short-term profits" by making riskier and more complex investments. "But the pensions are more vulnerable to being wiped out by a market downturn which endangers the insurance companies' insolvency," Warren added.

She said that one-fifth of Athene's portfolio is invested in risky asset-backed securities and leveraged loans made to companies highly in debt. Its parent Apollo Global Management, whose website describes private equity as "the cornerstone of our equity business," also collects fees on investments that it manages for Athene, creating a problem of more risk, Warren said.

She expressed appreciation that the Treasury Department and the National Association of Insurance Commissioners are looking at the issue closely. "But enough studying," she said. "It is time to act."

The committee also held the hearing because of pressure from organized labor.

"Lawmakers have to get off the sidelines and do something about private equity's dangerous behavior around insurance and retirement assets," Sean O'Brien, general president of the Teamsters, said in a statement. "Our government needs to get serious about safeguarding workers' retirement benefits and start scrutinizing the investment actions of companies like Apollo."

But Kathleen Birrane, representing the NAIC, told members of the panel that private equity funds that acquire insurance companies "are not treated any differently than other insurers," except that since 2013 it has been common for states to actually impose greater requirements on them when they purchase carriers.

Birrane, who is also Maryland insurance administration commissioner, also said the NAIC has taken action in light of an increase in private equity ownership of insurers. One of its working groups has made a list of 13 regulatory considerations that are focused on investment disclosures, ownership and collateral and reliance on rating agencies.

"We use a variety of tools to assure that companies maintain the reserves that they need, particularly with life insurers that have very long-term risks," Birrane said. The regulatory system is designed to avoid failure and has "tremendous optics" into the financial standing of those companies, she remarked.

A Safety Net in Place

Steven Seitz, director of the Federal Insurance Office, noted that individual state guaranty funds back the obligations of all insurance companies and that his office is "making sure that the state system's regulatory mechanisms are being designed appropriately to reflect these new transactions."

The hearing also addressed the role of private equity in pension risk transfers.

In addition, it focused on the upcoming meeting of the International Association of Insurance Supervisors, which is considering whether the U.S. insurance system's review of capital adequacy standards meets international criteria, and whether the industry is prepared for developing risks.

"As more Americans face increasingly severe climate catastrophes like wildfires and hurricanes each year, we need to help communities prepare—and we need to ensure insurance watchdogs and the companies they oversee are prepared," said Sen. Sherrod Brown, D-Ohio, committee chairman.

Sen. Chris Van Hollen, D-Maryland, used the occasion to drum up support for his Empowering States to Protect Seniors from Bad Actors Act legislation.

The bill would enable the Securities and Exchange Commission to provide both state securities and insurance regulators with additional resources to crack down on fraud.

"We know it is a huge problem, $3 billion a year, at least, in financial scams," he said.