

Transformative trends in the life insurance industry: Private equity, offshore reinsurance, and regulatory developments

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The life insurance industry is undergoing transformative changes, driven by evolving investment practices, innovative ownership structures, and regulatory developments. The historically low-interest rate environment and rising inflation, both undermining the sustainability of legacy insurance policies issued with high guaranteed rates of return, have contributed to the structural shift and new investment trends in the life insurance sector.

Insurers are increasingly allocating capital to private investments, such as pension funds and private equity ("PE"), while private equity firms are actively acquiring life insurance companies, reshaping the sector's ownership landscape. Concurrently, reinsurance transactions have become a critical tool for transferring asset-intensive liabilities and investment risks, often to offshore entities.

Historically low-interest rates and inflation have diminished the returns generated by traditional fixed-income investments, forcing life insurers to seek alternatives.

These trends have raised important questions about regulatory oversight, financial stability, and policyholder protection, prompting a wave of new regulatory initiatives from industry leaders aimed at addressing the complexities and risks associated with these practices.

This research paper explores these emerging dynamics, summarizes the key interrelated trends in the global insurance industry, and their implications for the life insurance sector.

Economic pressures and the rise of alternative investments

Historically low-interest rates and inflation have diminished the returns generated by traditional fixed-income investments, forcing life insurers to seek alternatives.

Following the 2008 financial crisis, insurers increasingly turned to private equity to diversify their portfolios, hedge longevity liabilities, and mitigate financial volatility. The longer investment horizons

associated with private equity assets align with the long-term liabilities of life insurers, making these investments particularly attractive.

However, this strategic shift has exposed insurers to riskier and less liquid assets, raising concerns about financial stability and policyholder protection.

The growing role of private equity in life insurance

Private equity firms have significantly altered the ownership landscape of the life insurance industry. Their interest lies in acquiring "safe" assets — those providing predictable and steady income streams — while also leveraging life insurers to access long-term capital. It allows PE firms to access long-term capital.

The NAIC also notes that in addition to adding diversifying assets to their portfolios, PE firms generate fee income from investment management fees.¹

Since the financial crisis of 2008, the U.S., like several European countries, has seen a wave of PE firms acquiring life insurance companies. While the number of PE-owned U.S. insurers remained constant in 2023, the total investments increased by double digits.²

To this end, PE firms have employed several strategies:

- (1) **Leveraged buyouts (LBOs):** Acquiring insurers through transactions funded by PE investors.³
- (2) **Direct ownership:** Purchasing insurers outright on their balance sheets.
- (3) **Strategic alliances:** Acquiring stakes below the 10% control threshold set by many state regulators and entering investment management agreements to exert influence over asset management and operations.⁴

The role of reinsurance in risk transfer and capital optimization

In addition to ownership strategies, private equity firms have actively utilized reinsurance arrangements to manage the liabilities of life insurance companies.

Reinsurance, particularly asset-intensive reinsurance (AIR), has become a key mechanism for transferring investment and longevity risks to affiliated or unaffiliated reinsurers.⁵ These transactions

often involve the cession of all risks, with reinsurers assuming control of the assets backing those liabilities under strict investment guidelines.

PE firms frequently establish offshore reinsurers, taking advantage of jurisdictions with less stringent capital and reserve requirements. These arrangements help life insurers reduce their risk exposure and capital requirements but also raise concerns about regulatory oversight, given the opacity and complexity of these transactions.⁶

Since the financial crisis of 2008, the U.S., like several European countries, has seen a wave of PE firms acquiring life insurance companies.

The increasing prevalence of offshore reinsurance has significantly altered the industry's risk profile, prompting U.S. regulators to reassess their monitoring frameworks to address potential vulnerabilities.

Regulatory challenges and industry responses

The structural changes introduced by private equity ownership and offshore reinsurance strategies have highlighted gaps in existing regulatory frameworks. Concerns about financial stability, policyholder protection, and the adequacy of oversight have driven regulatory bodies, particularly the NAIC, to develop initiatives to address these challenges.

NAIC's 13-point framework for PE-owned insurers

In recent years, state insurance regulators have established an initiative to further assess any negative implications and potential regulatory risks associated with the evolution in asset allocation and PE-owned insurers.

The NAIC's Financial Stability (E) Task Force ("FSTF"), together with a working group composed of NAIC staff and state insurance regulators — the Macroprudential (E) Working Group — has recently created a list of 13 considerations ("List") regulators believe need to be addressed in relation to PE-owned insurers.

This List covers a wide range of issues, such as disclosure and monitoring of affiliation, control and ownership, investment and capital maintenance management agreements, PE and non-publicly traded assets such as pension risk transfer ("PRT"), offshore reinsurance transactions, and asset adequacy testing.

The List was adopted by the FSTF and its parent Financial Condition (E) Committee in 2022 and has led to the development of supervisory and regulatory policy by working groups within NAIC.⁷

Enhanced guidelines for reinsurance arrangements

Recognizing the complexities introduced by offshore reinsurers, the Life Actuarial Task Force (LATF) proposed new actuarial guidelines to strengthen oversight of asset-intensive reinsurance transactions.

These guidelines require insurers to use cash flow testing methodologies for reserves held by cedents and reinsurers. Scheduled to take effect for year-end 2025 reporting, the guidelines aim to enhance the adequacy of reserves and protect policyholders.⁸

Updates to ownership and investment management oversight

The NAIC has also revised its Financial Analysis and Condition Handbooks to provide additional guidance for regulators reviewing complex ownership structures and affiliated investment management agreements. These updates help ensure that transactions are fair, reasonable, and compliant with state regulations.⁹

Liquidity stress testing and future safeguards

In November 2024, the NAIC released revised proposals for a liquidity stress testing (LST) framework applicable to U.S. life insurers and reinsurers. This framework incorporates cash flow projections and applies stress scenarios to evaluate liquidity under adverse conditions. Implementation is expected by year-end 2025, reflecting the industry's ongoing efforts to strengthen resilience against financial shocks.¹⁰

Conclusion

The life insurance industry is navigating a period of profound transformation, driven by economic pressures, private equity involvement, and offshore reinsurance strategies.

PE firms frequently establish offshore reinsurers, taking advantage of jurisdictions with less stringent capital and reserve requirements.

While these developments create opportunities for innovation and growth, they also introduce significant risks that require careful management. Regulators, insurers, and private equity firms must work collaboratively to ensure that financial stability and policyholder protection remain central priorities in this evolving landscape.

Notes:

¹ NAIC also notes that in addition to adding diversifying assets to their portfolios, PE firms generate fee income from investment management fees.

² While the number of PE-Owned U.S. insurers remained constant in 2023, the total investments increase by double digits.

³ The traditional and initial approach, at least until 2022, has been to acquire life insurers through LBO transactions funded by PE investors.

⁴ A PE firm acquires a stake in a life insurer, generally below 10 percent, threshold usually applied by states insurance regulators to determine when control exists.

⁵ AIR transactions involve the cession of all the risks and, pursuant to investment guidelines, the reinsurer manages the assets, which are usually held in a local custodian account and pledged as collateral to the cedant.

⁶ The transfer of assets under these reinsurance arrangements have raised new regulatory and monitoring issues.

⁷ This List covers a wide range of issues, such as disclosure and monitoring of affiliation, control and ownership, investment and capital maintenance management agreements, PE and non-publicly traded assets such as pension risk transfer (“PRT”), offshore reinsurance transactions and asset adequacy testing.

⁸ The draft actuarial guideline is intended to establish additional safeguards within the domestic cedent to ensure that it has a high enough liability and creditworthiness on an assumed basis to meet the asset adequacy requirements.

⁹ The updated Handbook also includes new procedures and guidance for use by regulators in reviewing Form A (Change of Control) and Disclaimer of Control/Affiliation filings related to “complex ownership structures” transactions.

¹⁰ The guideline applies to U.S. Life insurance legal entities, including reinsurers, regardless of corporate structure.

About the author



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