life annuity specialist

Private Equity Insurers Wrap Up Massive $61.2B of Reinsurance Deals

KKR and The Carlyle Group have backed recent reinsurance deals in the life insurance industry.

By Aaron Smith | May 31, 2023

A blockbuster deal between **MetLife** and **Global Atlantic** capped off a busy May for reinsurance deals that involved private-equity-backed insurers.

The "particularly active month" included $61.2 billion of agreements, said **Tim Zawacki**, an analyst at **S&P Global Market Intelligence.** MetLife announced last week that Global Atlantic Financial Group will reinsure about $19.2 billion worth of U.S. retail life insurance and fixed annuity liabilities.

Life insurers have been using the multibillion-dollar deals to free up capital while offloading liabilities, with the help of investors from the world of private equity. **KKR** has a controlling share in Global Atlantic, having acquired 60% of the company in 2021 for $4.7 billion.

Fortitude Reinsurance, which is backed by **The Carlyle Group**, said this month it will reinsure $28 billion of obligations from **Lincoln National**. The reinsured block of life insurance and annuities consists of $9 billion of guaranteed universal life, $12 billion of MoneyGuard policies and $8 billion of fixed annuities.

Tim Zawacki, a principal research analyst at S&P Global Market Intelligence

Lincoln CFO **Chris Neczypor** said, in a business update call with analysts on May 2, that the deal reduces its exposure to guaranteed universal life and increases cash flow.

MetLife's agreement includes $14 billion of life insurance made up of universal, variable universal and guaranteed universal life policies. It also includes $5.2 billion worth of fixed annuities.

Also, on May 24, **Prudential Financial** said **Constellation Insurance Holdings** would reinsure $10 billion of traditional variable annuities issued by its Pruco Life Insurance unit.

Zawacki said in an interview that the reinsurance deals are motivated by a "desire by life insurers and annuity writers to de-risk and to free up capital." He said carriers can use this capital to reinvest in assets that take advantage of rising interest rates. Zawacki called this a strategic decision that is driven in part by shareholders seeking higher returns and more predictable results.

'Out of Sight'

Forensic accountant **Tom Gober** is wary, though, about the magnitude of the reinsurance deals and what they could mean for the industry.

Tom Gober, a forensic accountant

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"The sheer size and frequency of these deals are extraordinary," said Gober. "They appear to be for offloading liabilities, not strategic risk-sharing."

He said he's uncomfortable with transactions where the assuming reinsurer is controlled by a private equity group.

In answer to concerns about private equity influence in the life insurance industry, the National Association of Insurance Commissioners reported last year that private equity investors owned 132 U.S. life insurers at the end of 2021, compared with 117 in 2020.

Part of Gober's opposition arises from his concern that liabilities could be sent offshore, where they will be "out of sight and U.S. regulatory control."

"If I can't see what's on the other end of the deal, I'm uncomfortable," said Gober. "Transparency is everything."

'End of the Line'

Other recent reinsurance deals in include an agreement announced on May 17 between Resolution Life U.S. Holdings Inc., a unit of **Resolution Life Group Holdings**, and **Farmers New World Life Insurance**, a unit of **Farmers Group**.

Under the agreement, Farmers New World Life Insurance will cede its in-force individual life insurance business to Resolution Life's **Security Life of Denver Insurance** unit. Resolution Life is partnering with **Swiss Re** to further reinsure the term life liabilities. But the companies didn't specify financial terms of the deal or return messages about it.

Matt Zagula, founder of **Smart Advisor Network**, said the boom in reinsurance deals is a sign that insurers have reached the "end of the line" for risks they have accumulated over the years, taking in more premiums than their balance sheets can handle.

He's also concerned about obligations going overseas and about the ultimate ability of the reinsurers to make good on their promises.

"I believe the size of the transactions is very troubling for the industry because these liabilities are really promises made to policyholders," Zagula said in an interview.

When asked about concerns about reinsuring assets offshore, S&P's Zawacki noted that some of the reinsurance companies have robust policy service capabilities that are onshore.