

Private Equity Investments in Insurance Companies: Regulators Approach From All Directions

September 08, 2022

In 2021, as a result of increases in private equity firms' investments in insurers, particularly life and annuity insurers, and growing interest among state insurance regulators about the role of private equity firms in the business of insurance, the NAIC Macroprudential (E) Working Group began studying the issue.

In December 2021, the working group presented to the Financial Stability (E) Task Force its work on a list of regulatory considerations related to insurers owned or controlled by private equity firms. The working group noted that owners of insurers may be focused on short-term results or may have little prior market experience, which could impact governance, market conduct, or operational practices. The regulators also expressed concern over potential conflicts of interest and the possibility of hidden or excessive fees in the portfolio structure of owners of insurance companies. Moreover, regulators have indicated that their concerns are not related only to private equity-controlled insurers.

After comments from other regulators, consumer advocates, and industry stakeholders, the Financial Stability (E) Task Force and the Macroprudential (E) Working Group met jointly on June 27, 2022, to consider the adoption of proposed regulator responses to the regulatory considerations. The regulator responses reiterated that, while state insurance regulators have tools to monitor insurers' solvency, additional required disclosures and stipulations may be needed.

The regulator responses refer many of the considerations to other NAIC working groups, task forces, and committees, as several NAIC groups are already reviewing related issues. For example, the considerations regarding the manner in which holding companies may structure contractual

agreements, or affiliated/related party agreements, and the manner in which an insurer may be subject to control were referred to the NAIC Group Solvency Issues (E) Working Group.

On July 21, 2022, the Financial Condition (E) Committee adopted the regulatory considerations and referred them to the NAIC Executive Committee for consideration. Industry stakeholders should continue to monitor regulators' comments and NAIC responses to the role of private equity firms in the business of insurance, especially following the NAIC Summer National Meeting in Portland, Oregon, on August 9–13, 2022.

We will continue to monitor the work of the various committees that are reviewing these issues throughout the coming months and report on any developments that make headway.

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