# PRIVATE EQUITY'S RESHAPING OF THE ASIAN LIFE SECTOR HAS FURTHER TO RUN

**Private equity-backed reinsurers' appetite for Asian life insurance assets is unlikely to be sated any time soon, as there is USD 2 trillion of assets/liabilities under management that are currently providing sub-par capital returns. Shareholder pressure and new capital standards are likely to drive companies in Japan to move first.**

As of December 31, 2023, private equity-backed reinsurance transactions representing USD 25 billion of assets had occurred in Asia, only 2 percent of the addressable total. However, the value of deals rose tenfold between 2019 and 2023, led by recent transactions between insurers such as AXA HK, Manulife, FWD, T&D, Daiichi and Japan Post and reinsurers such as KKR-backed Global Atlantic, Apollo-backed Athene, Blackstone-backed Resolution, Carlyle-backed Fortitude and Reinsurance Group of America (RGA).

The influx of private equity money delivers considerable benefits to the Asian life sector, which is experiencing an unprecedented wave of regulatory change, as well as grappling with the introduction of International Financial Reporting Standard 17 (IFRS-17). New regulatory regimes are being introduced across the region to make them more focused on risk-based capital frameworks, with changes already in place in Australia, Mainland China, South Korea, Hong Kong and Singapore, and due to come into effect in Japan and Taiwan.

These reforms are leading life insurers to de-risk their balance sheets and seek to exit longer-term, or more capital-intensive, liabilities. Through entering these transactions, insurers are able to free up capital they can then use either to improve their solvency ratio or reinvest in areas such as digitisation or new, more-profitable products.

Concurrently, just as private equity firms are becoming more bullish on the life insurance sector, Asian insurers have become increasingly bullish on investing in private equity and private credit, with the Asian trend toward investing in these areas outpacing the change in EMEA and the US.[1]

For private equity-backed reinsurers, the transactions deliver access to in-force books of business that provide permanent capital, which can be re-invested. In addition, through buying up insurance assets in different markets, private equity-backed reinsurers benefit from greater diversification.

While private equity investment in reinsurance may be relatively new to Asia, it is well established in such regions as the US, where private equity interest in life insurance began with Berkshire Hathaway's acquisition of National Indemnity in 1967. This interest accelerated after the 2008 financial crisis. At the end of 2022, private equity firms owned 137 US insurance companies with USD 533.7 billion in assets, representing 6.5% of total US insurance assets, according to data from the National Association of Insurance Commissioners.[2]

[1] 2024 Global Insurance Survey by Goldman Sachs Asset Management, quoted in Asia Investor.
https://asianinvestor.net/article/asian-insurers-plan-to-add-duration-credit-risk/495380

[2] Insurance Newsnet article, January 9 2024.
https://insurancenewsnet.com/innarticle/private-equity-stake-in-life-insurers-draws-new-round-of-critical-reports

The involvement of private equity firms globally has been met with increased scrutiny from some regulators, with a US Treasury Department Panel and the International Monetary Fund both raising concerns about systemic risks to the economy. This has been caused at least in part by issues raised by some smaller deals in Europe that failed, putting policyholders' funds at risk.

However, these unsuccessful transactions represent a small fraction of the overall trend. The majority of insurers continue to see private equity-backed reinsurance as a vital source of capital, with their funds collateralised and quarantined from other assets within substantial, well-funded reinsurers financed by credible global firms.

## IN THE VAST MAJORITY OF CASES, CUSTOMERS EXPERIENCE NO CHANGE, WHICH IS VITAL FOR A SECTOR RENOWNED FOR LONGEVITY AND STABILITY.

In the vast majority of cases, customers experience no change, which is vital for a sector renowned for longevity and stability. The carrier retains servicing and administration of the policies. Ultimately, consumers stand to benefit, as the insurers—with newly bolstered balance sheets—redeploy the proceeds into new initiatives and products that enhance the customer experience. This also gives the carrier greater stability to pay any benefits that are non-guaranteed, such as dividends and bonuses, which provides additional certainty that customers receive the product that they have purchased.

In addition, these private equity-backed reinsurers are carefully monitored both by Asian regulators and at home. Almost all of these acquiring groups are domiciled in Bermuda, which received Solvency II equivalence from the European Commission in 2016, putting the regulatory regime on a par with those in countries such as the US and Canada,[3] and where the Bermuda Monetary Authority has continued to make changes to tighten its already conservative and effective supervisory regime.

## THE PRIVATE EQUITY-BACKED REINSURERS PROVIDE ACCESS TO ASSET CLASSES AND INVESTMENT EXPERTISE THAT OFTEN DON'T EXIST WITHIN THE TRADITIONAL CARRIERS THEMSELVES.

As with traditional reinsurers, all elements of the reinsurance structure are negotiated, analysed, tested and transparent. In line with an insurer's appetite for volatility and risk, the reinsurer will find the appropriate balance of asset classes to invest in, and the private equity-backed reinsurers provide access to asset classes and investment expertise that often don't exist within the traditional carriers themselves.

Private equity interest in Asia's life insurance sector is likely to remain strong over the next decade, which will be welcomed by the region's carriers as they look to satisfy the dual demands of increased capital requirements and enhanced profitability.

While the recent uptick in transactions has managed to grab the headlines, this may just be the tip of the iceberg. Ultimately, this new injection of funds can only be beneficial for the long-term health of the sector overall.

[3] KPMG report into Life/Long-Term Structures in Bermuda. https://assets.kpmg.com/content/dam/kpmg/bm/pdf/2021/04/kpmg-life-industry-bermuda-web.pdf

## How Guy Carpenter Can Help

Guy Carpenter is the largest life reinsurance advisor in the Asia-Pacific region and has placed USD 40 billion of present value premiums in total. Guy Carpenter has a successful track record advising and executing large, complex and value-accretive asset-intensive deals in Asia, including the first-in-market whole life participating portfolio (Hong Kong 2021). We continue to help insurance companies throughout Asia enhance capital efficiency and maximize value by advising on capital management, reinsurance strategy and specific reinsurance placements.

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### About Guy Carpenter

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