THE CONVERGENCE OF INSURANCE, ALTERNATIVES AND PRIVATE EQUITY

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CONTENTS

INTRODUCTION

Private Market investing continues to experience robust growth compared to other asset classes. For Private Equity (PE), Alternative Managers and Insurers, this is an opportune moment to consider coming together.

$9.8 Trillion
size of private market assets by end of 2021

$1.2 Trillion
in new funds raised through private market investments in 2021

14,000
number of private market transactions in 2021

18.5%
% of portfolio now allocated to private assets or credit by a typical asset manager

27%
pooled Internal Rate of Return (IRR) that PE generated in 2021

THE TRENDS

We can look to several market trends currently acting as catalysts driving growth for each side.

Rising interest rates and inflation caused by pent up consumer demand to shop and travel coupled with supply chain shortages	→	Opportunity for attractive private credit transactions
Labor market challenges and the great migration due to the global pandemic and shift to remote work	→	Driving demand for more housing and residential real estate investment opportunities
Growth in online shopping	→	Fueling opportunities to invest in commercial real estate projects such as warehouses, data centers and transportation-related logistics
Increased focus on Environmental Social, Governance (ESG) and sustainable investing	→	Spurring opportunities to invest in multi-family/affordable housing and clean energy infrastructure/technologies through partnerships/joint ventures
Limited partnerships (LP) are increasing exposure to earlier stage private investments	→	Opportunity to generate higher rate of returns

Against this backdrop, PE and life and annuity companies have an opportunity to help each other. The insurance side of the equation represents a stable source of permanent capital for investment and PE brings domain expertise, a pipeline of unique deals and access to higher yield investments. Here are some reasons why this is true.

Well-stocked with long-term assets to match future liabilities

Spread represents an attractive margin to PE firms

Cost of servicing the liabilities is often low relative to the potential investment return

10x asset-to-equity ratios

Next, we'll discuss Insurance and Alternatives M&A, its potential, key considerations and requirements.

General Partners (GP) are setting up insurers and acquiring/reinsuring books from other insurers, then applying their investment expertise to generate higher alpha on certain assets. Below, we see how PE Limited Partners (LP) are applying their expertise to different types of private investments to generate higher returns on the insurance books they are building or acquiring.

- Asset-backed securities
- Potential for 10 – 14% IRRs
- Private loans
- Provides stable base for GPs to rapidly build alternative credit capabilities

THE IMPACT: BY THE NUMBERS

5 – 50%
Percentage of total AUM that the top 5 private equity firms now have invested in life insurance holdings

$200 Billion
Amount of liabilities acquired or reinsured in the US by private investors in 2021

$620 Billion
Amount of life and annuity assets now owned by private investors equating to 12% of their total assets

$760 Billion
Current size of the collateralized loan obligations (CLO) market

$6 Trillion
In general account assets and variable annuity liabilities among US life and annuity companies – offering potential for scale

THE VALUE-CREATION PLAYBOOK

Once invested, there are levers that PE managers and LPs can apply to life, fixed or variable annuity portfolios to increase returns on investment by 4-7%.

Potential increase in return on equity by lever[1], percentage points

Relevance to book type: ● Fully ○ Moderately

		Life	FA/FIA[2]	VA[3]
Operations/IT More efficient cost structure	1.0-1.5	●	○	○
Investments Improve investment return/cost	0.5-1.0	○	●	○
Capital Greater capital efficiency	0.5-1.0	●	●	●
Technical Pricing adjustments	0.5	○	○	●
Commercial uplift Cross/upsell and retention	0.5-1.0	●	○	○
Franchise growth New block acquisitions, new distribution	1.0-2.0	○	○	○
Total	4.0-7.0			

[1]If carrier matches best-in-class benchmark.
[2]Fixed annuity/fixed indexed annuity.
[3]Variable annuity.

KEY CONSIDERATIONS AND REQUIREMENTS

For PE Firms Interested in Life and Annuity Investments

Requirements

- Strong and proprietary deal pipeline
- Value-creation skills and expertise to maximize closed deals
- Strong risk management capabilities

Considerations

- Liquidity and credit risk – maintaining liquidity needs for policyholders, managing mark-to-market volatility
- Regulatory uncertainty – engaging with regulators, ratings agencies, etc.
- Optics – public opinion, LP reactions to acquisitions of a life company

HOW SS&C CAN HELP

Operational Scale and Efficiency | Technical Excellence | Risk Management | Regulatory Assistance

Alternative Investment Managers

- Investing in insurance companies
- Launching re-insurance ventures to create a steady stream of capital inflows from premiums
- Struggling with a lack of in-house insurance experience
- Challenged by compliance with insurance accounting and regulatory reporting

SS&C Delivers

- Holistic view of portfolio across all asset classes
- Robust risk and performance analytics
- Deep insurance and alternatives expertise
- Accurate investment accounting and statutory reporting
- Transparency into underlying holdings

Insurance Companies

- Increasing allocation to alternative investments
- Acquiring alternative investment managers to immediately gain deal flow and expertise
- Struggling with a lack of transparency
- Challenged by lag on information, data and document collection

ABOUT SS&C

SS&C is a leading innovator in technology-powered solutions and operational services for the global investment management industry, with a long track record in insurance investment operations and expertise across the full range of alternative investments, including hedge funds, private equity, funds of funds, real estate, real assets and direct investments. SS&C serves a worldwide clientele with a network spanning the major financial and commercial centers of North America, Europe, Asia and Australia.

Source for pages 3,4,5,7,8: McKinsey – [Why private equity sees life and annuities as an enticing form of permanent capital]. February 2, 2022

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