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Research Announcement: Moody's - Private equity M&A of life insurance to continue apace, but credit impact varies

New York, April 20, 2021 --

» Transactions tend to be credit positive for sellers, but less so for policyholders and creditors under the new owners

» Private equity finds the investment diversification opportunities are a good use of private credit expertise

Private equity-funded life insurance transactions accounted for six out of the last 10 merger and acquisition (M&A) transactions announced since December 2020, Moody's Investors Service says in a new report. Persistently low interest rates, in tandem with the economic fall out from the pandemic has accelerated the trend as insurers look to offload growing volumes of interest-sensitive, complex and volatile life insurance and annuity business.

"Both the continuing earnings and capital pressures of ultralow interest rates on insurers, and abundant private equity capital seeking investment opportunities, support a growing stream of deals in 2021," Moody's Vice President Laura Bazer says. "Life insurers are continuing to pivot toward simpler, more fee-based, capital light insurance products; and private equity sees investment and asset management opportunities, as well as expense take outs, as a lure." The prospect of new accounting standards and a disconnect between valuations in the private and public markets are also drivers of the increase in transactions.

However, as M&A deals increase, regulatory scrutiny is also likely to intensify, as transactions grow larger and more complex and riskier, and private equity capital becomes more diverse and less experienced. The experience of the buyer is a key consideration for regulators in an insurance acquisition. Additionally, policyholders of acquired businesses often face private equity buyers that have weaker credit characteristics and greater risk appetites than the life insurers they originally transacted with, which might put them at a greater risk of loss. For certain recent PE transactions involving capital-challenged businesses, however, the opposite has been true, with buyers more creditworthy than the businesses sold.

The credit impact of a transaction on the insurance seller and the policyholders and creditors under new owners is highly deal dependent. Specifically, an acquisition may not be enough to impact the credit strength of the seller, or the acquired firm. For the seller, the materiality of the transaction, the loss of earnings if the business sold was profitable, the risk of the business sold, and the firm's ultimate capital structure are key determinants of the credit impact on the seller. Additionally, the credit impact is affected by the structure of the transaction, sale or reinsurance, and the counterparty and reputation risks of the private equity buyer.

Subscribers can access the report "Life Insurance – US: PE-driven M&A: good for life insurance sellers, less so for remaining policyholders," at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1271403

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