# Private Equity's Growing Influence in the Insurance Industry

### *Introduction*

Private equity (PE) has long been a transformative force, driving innovation and growth across industries such as healthcare, technology, and real estate. With its vast capital reserves and strategic expertise, PE has reshaped traditional business models, often enhancing efficiency and profitability.

PE has experienced massive growth since the 2008 Global Financial Crisis (GFC), with assets under management (AUM) of PE firms almost tripling between 2016 and 2022 according to the International Monetary Fund—by mid-2022, AUM was close to $12tn. However, due to the recent reluctance of banks to fund leveraged buyouts (LBOs), PE firms are pivoting their strategy to private credit to compensate for the slowdown in traditional LBOs. To grow the private credit side of their business, PE is increasing its influence in the companies they control to help finance these operations. As a result, the insurance sector has emerged as a particularly attractive investment target for PE firms, drawn by its stable cash flows, substantial asset bases, and long-term policyholder commitments.

Insurance companies generate large pools of investable capital through premiums, which are traditionally allocated to conservative assets like bonds. However, PE firms see an opportunity to deploy these funds into higher-yield investments, potentially increasing returns while introducing new financial strategies. The mutually beneficial relationship between PE and insurance has led to an influx of high-profile acquisitions, reinsurance ventures, and asset management partnerships. At the same time, these investments have sparked debates over their long-term impact on financial stability and policyholder security.

This article will explore the growing role of PE in the insurance industry, beginning with an overview of the sector and its appeal to investors. It will then examine notable recent deals where PE firms have acquired or increased their stakes in insurance companies. Finally, the discussion will extend to the regulatory environment and ethical considerations surrounding these investments, including their broader societal implications.

### *A Primer on the Insurance Industry*

The insurance industry is colossal, encompassing various firms that provide different services to institutions and consumers alike. PE firms invest in each niche with a distinct investment rationale.

One major area for investment is insurance brokerages. Insurance brokerages are intermediaries between customers and insurance companies that showcase a range of different firms' products to help find a customer a beneficial deal. Revenue is mainly derived from commissions earned on completed deals. PE firms are heavily interested in this niche for various reasons. The low capital intensity of this business model provides ample free cash flow conversion, allowing for higher dividends, repayment of debt, and overall growth. Coupled with the opportunity for efficiency through rolling up different firms, this segment is a fertile breeding ground for PE investment.

Managing general agents (MGAs) operate and gain revenue similarly to brokerages with two key distinctions: specialty insurance and underwriting authority. MGAs have binding authority from insurance providers, allowing them to finalise quotes for clients. Additionally, MGAs are specialised in unique lines of insurance, such as personal auto coverage or travel insurance. MGAs are experiencing accelerated growth compared to the rest of the market, stemming from a combination of increased demand for custom insurance, lower capital requirements (relative to other insurance fields), and high underwriting control. This high growth and comparable benefits, like insurance brokerages, create an incubator for PE investment.

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Claims service providers (CSPs) manage, process, and settle insurance claims on insurers' behalf. More broadly, third-party administrators (TPAs) provide administrative services such as claims processing, regulatory compliance, and policy administration. CSPs traditionally earn profits through claims-related fees, while TPAs also derive income from recurring per-policyholder fees stemming from other administrative tasks. PE firms adore this subsector for three main reasons: a large fragmented market, new technologies, and a sticky consumer base. A large fragmented market allows for roll-up opportunities, which creates valuation arbitrage. New technology, such as AI, can be used to further digitalise operations and increase margins through automation. The sticky consumer base generates steady fee-based income on long-term contracts. This consistent cash flow and high margins are essential for PE firms.

Fronting carriers are insurance companies that issue policies on behalf of other insurers (MGAs, Reinsurers) while offloading most or all underwriting risk. These firms are used to bypass regulations and underwrite policies without an insurance license. They mainly generate revenue from fronting fees (fees for the use of their insurance license). PE loves this niche mainly due to its low-risk, high margin, capital-light business model.

Reinsurance companies, as the name suggests, provide insurance for insurers. They take on risk in exchange for premium income from the original insurer. Reinsurers tend to have high ROE (20%) stemming from active investment of the "float" or the premiums collected upfront (investable capital) and high diversification of risk resulting from insuring different tranches of the market, such as property or life insurance. PE firms are ideal investors for reinsurance companies as they maximise efficiencies and consolidate while recouping predictable long-term returns.

While not a subsector per se, it is futile to speak about PE involvement in insurance without mentioning Insurtech. Insurtech refers to technology meant to disrupt the traditional insurance market. Data analytics, digital platforms, and AI all work to improve risk modelling, create more scalable platforms, and gain accurate customer insights, optimising costs, which in turn boosts profitability.

### *What does Private Equity see in Insurance?*

PE has increasingly entered the insurance market as the sector presents a unique set of opportunities. The aftermath of the GFC left many insurers short on cash and, at the same time, market uncertainty made it difficult to forecast future payoffs and raise new capital from investors that had become weary. As a result, insurers faced significant challenges in maintaining strong balance sheets, which are essential to their credibility, prompting some insurers to spin off their life insurance businesses. In this environment, with their liquidity and expertise, PE firms have stepped in as critical players. However, the partnership is rewarding for both ends as insurance companies bring valuable assets to the table, such as well-established brand names, high credit ratings, and extensive industry experience. PE firms, in turn, contribute smart management and financial structuring expertise, creating a theoretical win-win for both parties.

The insurance deals market has been very active in 2024, primarily due to ongoing demand for insurance brokerages and managing general agencies (MGAs) as well as life and annuity (L&A) assets. Private equity firms played a significant role, accounting for many acquisitions in the sector. For PE firms, insurance represents a relatively non-correlated asset class, offering a guaranteed long-term pool of assets under management and consistent income streams that they can leverage to increase returns. This makes insurance an attractive investment for private equity, particularly as rates in the industry have been rising in recent years, driven in part by the pandemic.

Beyond providing stable returns, insurance also offers opportunities for product innovation and expansion. With an extended product lifecycle and straightforward implementation processes, PE firms can scale and diversify their

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investments efficiently. Additionally, private equity firms bring expertise in operational and financial structuring, helping to optimise insurance businesses and enhance profitability. This combination of steady income, scalability, and operational improvement potential has solidified private equity's interest in the insurance market, positioning the sector as a key area for investment growth.

## *An Overview of Recent PE-Insurance Deals*

**Insurance brokerages draw the attention of KKR**

As highlighted above, insurance brokerages have long attracted the attention of PE firms. One of the landmark deals involving private equity and insurance brokers was the 2017 joint acquisition of USI Insurance Services by PE firm KKR and Canadian pension fund Caisse de dépôt et placement du Québec (CDPQ) in a transaction valued at $4.3 billion. This strategic move aimed to capitalise on the stable, long-term returns characteristic of the insurance sector, particularly focusing on small and medium-sized businesses—a vital segment of the U.S. economy.

USI Insurance offers a comprehensive range of services: property and casualty insurance, employee benefits, personal risk management, and retirement solutions. At the time of the acquisition, the company operated over 140 local offices with more than 4,400 professionals across the United States. The acquisition's immediate impact included a significant infusion of capital, enabling USI to pursue growth initiatives and transformative acquisitions. Over the subsequent six years, the company expanded its workforce to over 10,000 employees and increased its presence to more than 200 offices nationwide. This growth solidified USI's position as a leader in the insurance brokerage and consulting industry.

In September 2023, KKR announced an additional equity investment of over $1 billion in the insurance broker. This investment involved purchasing more than 50% of the shares held by CDPQ and other investors, positioning KKR as the largest single shareholder upon completion of the transaction. The rationale behind this increased investment was to support USI's long-term growth and continued innovation, reflecting KKR's confidence in the company's performance and strategic direction.

**Warburg Pincus dives into the world of MGAs**

With their high growth potential and low infrastructure costs, MGAs have continued to perform well and have caught the eye of private equity in recent years. In 2023, however, Oliver Wyman noted that it became harder to identify worthwhile new MGA acquisitions. To circumvent this, PE firms have begun to buy portfolios and platforms that are effective in identifying and on-boarding successful programmes, rather than pursuing niche MGAs.

In December 2022, Warburg Pincus agreed to acquire K2 Insurance Services from Lee Equity Partners, aiming to support K2's continued growth strategy, including M&A and new business development. Founded in 2011, K2 Insurance is a specialty insurance services company that owns and manages a diverse set of MGAs. The company distributes innovative programmes and products through retail and wholesale channels.

Warburg Pincus's acquisition of K2 was driven by several strategic considerations. Firstly, K2's diversified portfolio and strong carrier relationships position the company as a leading consolidator of specialty insurance. Secondly, the investment aims to support K2's growth strategy by leveraging Warburg Pincus' experience in scaling financial services companies. Thirdly, K2's experienced management has a proven track record of growing insurance companies, a trait that aligns with Warburg Pincus' investment philosophy.

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**Blackrock's failed venture into Claims Services**

Claims management services have become an increasingly interesting investment for PE firms due to the combining of different services and technology solutions along the claims value chain. In February 2023, Blackrock acquired a majority interest in Alacrity Solutions Group through the investment company's Long Term Private Capital (LTPC) strategy.

Founded in 1976, Alacrity is a market-leading diversified provider of outsourced solutions to US insurance carriers. The provider has a presence in all 50 states in the US, and processes over 2.8 million claims annually. At the time of the acquisition, André Bourbonnais, Global Head of Blackrock's LTPC strategy, commented on the strategic considerations behind Blackrock's investment. He highlighted Alacrity's position as a differentiated market leader with long-tenured customer relationships and impressive growth.

However, after Blackrock's initial investment, Alacrity began to face financial challenges as it struggled with its debt load and was forced to hire advisers to lead it through restructuring discussions with its creditors. As a result, it was announced in January 2025 that Blackrock's more than $600m equity investment will be wiped out as part of the restructuring. Furthermore, a group of private credit funds led by Antares Capital, Blue Owl Capital, KKR, and Goldman Sachs Asset Management have agreed to take control of the business.

## *Regulatory Landscape*

The increasing involvement of PE with the insurance industry has prompted heightened regulatory scrutiny to ensure policyholder protection and financial stability. In particular, regulators are focused on the investment strategies employed by PE-owned insurers—they are cracking down on the shift from traditional, low-risk assets to higher-yield, private credit investments. This transition seeks to enhance returns but also raises concerns about potential liquidity risks and the overall solvency of insurance entities.

The National Association of Insurance Commissioners (NAIC) has identified key regulatory considerations, including the need for structural transparency and the adequacy of state regulatory frameworks to manage these evolving risks. Furthermore, Solvency II in the European Union and risk-based capital (RBC) standards in the US have increased the minimums of capital relative to risk for reasons of promoting greater financial stability. New regulations are in the projects, such as the European Insurance and Occupational Pensions Authority (EIOPA) recommendation for additional prudential treatment for European insurers holding fossil fuel stocks or bonds.

In response to these developments, industry leaders have expressed support for increased oversight. Roy Gori, outgoing Manulife CEO and a leader in de-risking deals, welcomed greater regulatory scrutiny of PE deals involving insurers. He specifically emphasised the importance of selecting reputable reinsurance partners and establishing protective terms to prevent industry problems.

## *Outlook: Trends that will Define PE in Insurance*

As we progress through 2025, the intersection of private equity and the insurance industry is poised for significant evolution. This outlook examines anticipated trends in PE-insurance deals that have been showing up consistently for a few years and will certainly shape the future of the industry.

**Distribution Aggregation and Diversification**

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Insurance distributors such as brokers and MGAs are targeted by sponsors due to their low capital intensity, high free cash flow and recurring revenue models making them an excellent case. These businesses are particularly attractive as they demonstrate resilience across economic cycles, offering stable returns even during downturns that can be expected considering the climate crisis. Additionally, the consolidation of distributors can gain momentum in a favourable M&A environment that is still expected for 2025, allowing PE firms to build aggregation platforms that achieve economies of scale, streamline operations and enhance market reach.

**Insurtech**

The investment landscape for Insurtech experienced a slowdown following IPO valuation declines and reduced venture funding after 2021. However, with inflation under control and interest rates beginning to decline, new investments are picking up, particularly in embedded insurance solutions for sectors like travel and automotive, or in start-ups, creating an eco-system insurance experience. Additionally, a new wave of innovation is emerging through collaborations between traditional players and Insurtech start-ups. These partnerships focus on expanding traditional insurers' product offerings and modernising legacy systems, leveraging PE capital to drive growth and technological transformation in the industry.

**Life and Annuities (L&A)**

L&A remains a particularly interesting source of quasi-permanent capital for private equity firms due to their long-dated liabilities, which provide stable funding for investments in counterbalancing assets. With expertise in managing these investments, PE-backed platforms collectively held over $600 billion in US life and annuity assets as of October 2023, with the market valued at $4 trillion, offering significant potential for scaling. This segment is evolving in three key aspects.

First, some investors are shifting from traditional spread-based liabilities like fixed annuities to more complex and risky liabilities such as secondary guarantee universal life (a type of permanent life insurance policy that provides a guaranteed death benefit, regardless of the policy's cash value).

Second, PE firms are expanding their value-creation strategies beyond investment alpha to include operational and liability-focused approaches as was explained before in the reasons PE is still entering insurance.

And lastly, the PE insurance landscape is increasingly global, with activity spanning the U.S., Western Europe, and developed Asia where regulation is changing and therefore presents an untapped market for private equity.

**Reinsurance**

Private equity firms are increasingly entering the reinsurance space by establishing offshore-based reinsurers, primarily in Bermuda, as part of a broader strategy to diversify their portfolios and optimise capital structures. This trend allows PE firms to acquire and manage blocks of life insurance and annuity businesses, leveraging Bermuda's favourable regulatory environment, including flexible solvency frameworks. By reallocating these assets into illiquid investments such as structured credit and private equity, PE-backed reinsurers generate higher returns while benefiting from fee income and accounting advantages. This approach not only provides stable, long-term funding but also expands PE's influence in the financial ecosystem, offering new revenue streams while exposing the industry to potential systemic risks tied to illiquidity and regulatory arbitrage.

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One specific example is the sponsors' growing involvement in the Asian reinsurance market. With $25bn in transactions by 2023, this growth is driven by insurers seeking to de-risk balance sheets i.e. reducing capital-intensive obligations via sponsors amid regulatory changes like IFRS-17.

PE-backed reinsurers provide insurers with capital to boost solvency or reinvest in profitable areas, while gaining access to a diversified pool of existing insurers with predictable cash flows and long-term assets. This trend mirrors established practices in the U.S., offering mutual benefits: insurers improve stability, and PE firms access high-yield investments, reinforcing their foothold in the global insurance sector.

## *Conclusion: Ethical and Societal Considerations*

Insurance is at the core of society, providing safety nets for all types of activities. While, financially, PE firms and insurance companies have a mutualistic relationship, there exist concerns for consumers who are mostly excluded from the benefits while absorbing risks for insolvency. It must be noted that typically PE firms will invest on a short-term basis (5-10 years), financing acquisitions with extraordinarily high levels of debt. These risks leave previously healthy insurers over-leveraged, causing long-term solvency issues, which ultimately harm consumers who simply want to protect themselves. Furthermore, PE firms tend to demand higher returns, therefore investing in riskier assets and increasing financial instability.

A 2023 paper by Divya Kirti, economist at the International Monetary Fund, and Natasha Sarin, Professor of Law at Yale Law School, studied the consequences of PE involvement for consumer welfare in the insurance industry. The paper compared annuity pricing between PE-owned and non-PE-owned insurers in their database and found that the yield guaranteed by PE-owned insurers was higher than that of their non-PE-owned counterparts. Although PE involvement results in better prices for consumers, the regulatory arbitrage strategies that allow them to do so also results in heightened consumer exposure to greater risk. The study found that PE-backed insurers are responsible for over 20% of the reduction in RBC, despite constituting below 5% of total life insurance AUM. Interestingly, Kirti and Sarin estimated that expected losses scaled by capital held increase by more than 50% following the entry of private equity.

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