How Does Private Equity Impact Insurer Asset Management?

We study the effects of private equity (PE) acquisitions on life insurers' operating expenses and asset management strategies. We find PE-acquired insurers restructure their operations. While insurance function expenses fall, aggregate investment expenses remain statistically stable because cuts to internal investment staff salaries are offset by higher non-salaried costs. The reallocation reflects a substitution of internal labor for external asset management platforms. Acquired insurers simultaneously adjust their asset allocation toward high-opacity, short-duration, non-securitized privately placed corporate obligations. The shift to high-opacity assets facilitates regulatory capital arbitrage, enabling PE-acquired insurers to underreport credit risk. The tilt toward short-dated assets suggests the PE parent uses the insurer's assets to facilitate fee extraction through recurring private credit. The portfolio adjustments do not achieve an excess risk-adjusted yield or greater issuer diversification. These findings suggest that PE involvement may prioritize fee generation over fundamental investment performance.

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