Policyowner Beware:
Private Equity-Owned Life Insurance Companies
Outsourced Life Insurance Policy Administration

Approximately 30 life insurance companies have some form of private equity ownership. Private equity owners usually want to maximize their business ownership profits in five years or less, and then move on to other business opportunities. Life insurance policyowners are seeking financial strength and service from their life insurance companies for decades, to pay claims and other contractual promises. Policyowner and life insurance company owner objectives can be completely opposite. **The private equity owners control the life insurance company, and the policyowner must beware. A list of private equity-owned life insurance companies is included with this white paper.**

A number of other life insurance companies have outsourced their life insurance policy administration to third party administrators. This is usually done to cut costs, and often results in service declines. Examples include Met Life, Brighthouse Financial, and Athene.

How and Why Did This Happen?

The genesis of this trend has been good news for U.S. life insurance policyowners. U.S. life insurance pricing has been so competitive that some companies have abandoned this market. Met Life went from being one of the largest U.S. life insurers to being totally out of writing new life insurance in the U.S. Met Life formed Brighthouse Financial and spun off much of its U.S. life insurance business to this new separate company.

Another example is ING, the Dutch financial holding company. ING acquired Security Life of Denver, Equitable of Iowa, Aetna Life Insurance Company, and Reliastar for well over $16 billion dollars(1). Subsequently, ING decided to exit the U.S. life insurance market. Their U.S. life insurance business was segmented into a new company called Voya. As this white paper is being written, Resolution Life, a private equity life insurance company has an offer pending regulator approval to purchase Voya for approximately $1.2 billion dollars(2).

One strategy employed by private equity owners is to establish one or more reinsurance companies outside the U.S. where there are different capital requirements and less U.S. regulatory oversight. If long term policy liabilities can be transferred to these subsidiary companies, through accounting adjustments, it can lessen the reserves required to pay claims. Excess reserves can be paid as dividends to the private equity owners, increasing their profits and reducing the resources available to policyowners to pay future policy claims.

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Why Does It Matter to Your Clients?

Private equity ownership and outsourced policy administration matter for many reasons – some obvious and some less obvious.

1. Life insurance companies must have adequate reserves, especially in our challenging economic environment, to meet their policy contractual obligations such as paying death claims or surrender values.

2. Accurate and timely policy administration can be critically important. The examples below are some of the service breakdowns we have already observed.

    a. The inability to generate timely premium billings and process premium payments – California had so many complaints it banned a major life insurance company from writing new policies for over a year until the outsourced billing payment and reporting system functioned correctly.

    b. Mistakes in updating billing addresses and beneficiary changes

    c. Mistakes in tax documents, including difficulty with Forms 712 – An attorney indicated that it took months, and many telephone calls, to get an important 712 valuation for a gift. In several of the inquiries to the outsourced customer service, the representative did not even know what a Form 712 gift valuation was!

    d. Incorrect 1099 reporting by an outsourced administrator for the ordinary income gain on policy surrender – The administrator showed the basis as zero on two policies, and reported a gain of approximately $600,000. We had obtained information prior to the policy surrender, enabling the client's CPA to correct the basis to reflect an actual taxable gain of less than $20,000!

What Can Your Clients Do to Minimize or Avoid Risks Related to Private Equity Ownership?

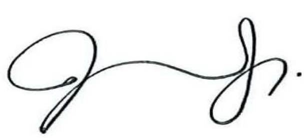
There are several steps your clients can take to avoid or minimize a solvency risk or other possible risks with a private equity-owned life insurance company, or a life insurance company outsourcing its policy administration.

1. Life insurance policies and life insurance companies need to be reviewed regularly. This is an everchanging environment, especially with very low interest rates. Who could have known ten years ago that Met Life would be out of the U.S. life insurance business today?

2. Life insurance company due diligence is more important than ever when considering the purchase of new life insurance. **As an independent life insurance firm, we work with approximately ten life insurance companies that are financially strong, competitively priced, and committed to the U.S. life insurance market. These companies offer our clients a combination of well-designed and competitively priced policies, along with access to favorable insurability determinations, so our clients can obtain a very good life insurance value from one or more of these quality life insurance companies. Ten different life insurance companies give our clients good choices, and yet this is a very small subset of the hundreds of possible insurers.**

3. If someone has life insurance with a private equity-owned life insurance company, the policy should be reviewed very carefully to see if it makes sense to rewrite the policy. Sometimes this change can be accomplished cost effectively. Other times, a life insurance company change is not possible. When a change can be made, we recommend that clients avoid private equity-owned life insurance companies and companies that outsource their policy administration.

If you have any questions about private equity-owned life insurance companies, or their policies, please contact us at 800/448-2927 or info@zimdars.com.



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Footnotes:
(1) Reported purchase prices of ING acquisitions: 1977 Security Life of Denver (price unknown); 1997 Equitable of Iowa ($2.2 billion); 2000 Reliastar ($6.1 billion); 2000 Aetna Life ($7.7 billion)
(2) *Voya Dumps U.S. Policyholders To Private Equity*, Lawrence J. Rybka, JD, CFP, July 2020