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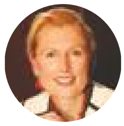
The race for permanent capital



Guest comment by **Deborah Smith**

The insurance industry is becoming a mechanism to drive long-term growth, says The CenterCap Group's co-founder and CEO

The alternative asset management space is undergoing a structural change – the race for permanent capital – and insurance companies are in the thick of the action.

Permanent capital is not new, but more private equity firms are now seeing insurance company corporate transactions as a way to access permanent capital to create long-term value. Berkshire Hathaway nailed the concept 50 years ago with its acquisition of National Indemnity, but what is different now is the steady pace and volume of assets bringing the investment management and insurance industries together.

Five years ago, the permanent capital of Apollo, KKR and Blackstone collectively represented on average 12 percent of real estate AUM ($128 billion). In 2021, that percentage increased to 33 percent ($554 billion).

These three firms all completed corporate insurance company transactions in the past two years. KKR acquired Global Atlantic and took its permanent capital from $19 billion to $217 billion, where capital can be recycled for 20 to 30 years. Following Apollo's acquisition of Athene, permanent capital vehicles account for nearly 57 percent of Apollo's AUM. Blackstone had $150 billion in insurance assets as of December 2021, on the back of deals with AIG and Allstate.

These three firms aren't alone. At least a dozen more alternative asset managers have entered, or have announced intentions to enter, the insurance company market. Why? The global insurance industry is estimated to have $30 trillion in invested assets. In today's low interest rate environment, insurance companies are looking for alternative investments in pursuit of higher returns. Furthermore, insurance products represent stable long-dated liabilities that need to be backed by pools of long-duration assets. To private equity, that's a code for longer holds, more products, more clients, more fees and less effort on the fundraising trail.

Investing insurance assets provides a stable base to rapidly build alternative credit capabilities. Acquiring an insurance portfolio provides readily accessible long-term assets for the manager to invest. It's less painful than raising credit funds and a much faster, cheaper and efficient way to reach scale.

"Insurance companies can provide a significant source of fee-related earnings"

Fee-related earnings

Then there is the revenue story. Depending on the investment vehicle structure, insurance companies can provide a significant source of fee-oriented earnings, which are more stable, longer in duration and less volatile to market change than carried interest.

Through Global Atlantic, KKR estimated that its fee-paying AUM would increase by 45 percent, in line with management fees increasing by $200 million over the following two years, both as Global Atlantic's investment manager and due to KKR's ability to generate carried interest. Another revenue benefit is increased fee duration, as KKR looked to reach 85 percent of its AUM with a fee stream duration of at least eight years from inception. Which investor doesn't love this message of predictability?

All the positives add up to economies of scale. These deals allow the manager to get bigger, faster, and with more products to offer, all of which come with fee streams attached. The investment management and insurance sectors have found material common goals, so much so that they are willing to enter into corporate transactions to pursue them. No guts, no glory. More structural change is on the horizon. ■