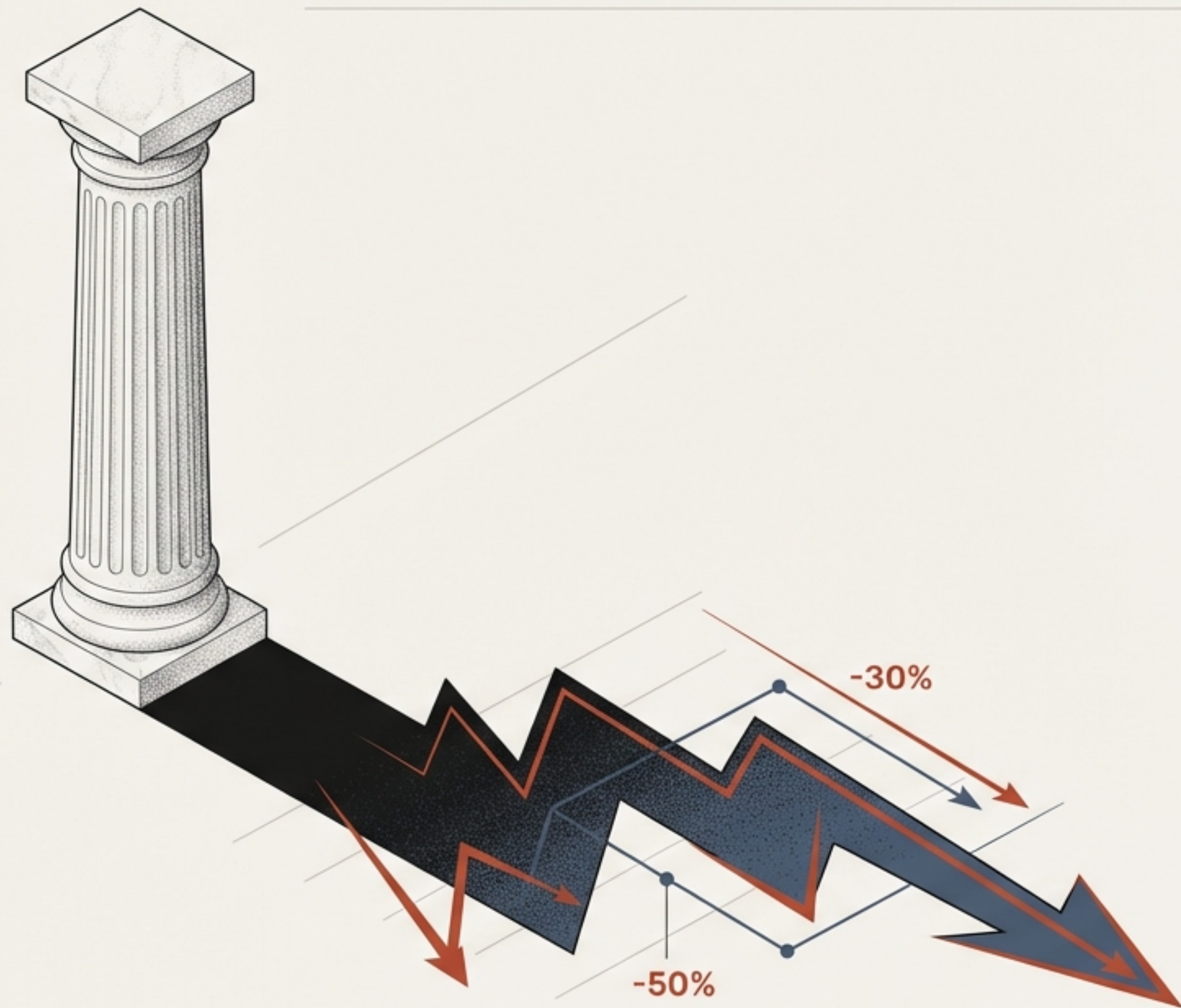


# SHADOW BANKING

*The Risky Evolution  
of U.S. Life Insurers*



How the hunt for yield is trading policyholder security for private equity profits.

Based on the investigation by Lucy Komisar

# The Quiet Shift from Safety to Speculation

## Executive Summary

A structural revolution is underway. Insurance mutuals have morphed into public companies and private equity vehicles. The goal has shifted from matching long-term liabilities with safe bonds to generating fees through high-risk strategies.

Key Players:

- Athene Life & Annuity (Apollo Global Management)
- MetLife (Largest U.S. Life Insurer)
- Accordia (KKR & Co.)

Context: These entities account for ~1 in 6 U.S. life insurance policies.

### 1. CLOs



Bundling high-risk loans into 'safe' securities.

### 2. Funding Agreements



Turning debt into assets via accounting tricks.

### 3. Affiliated Investments



Funneling cash into opaque, self-owned shells.

# Trading Boring Bonds for Wall Street Bets

## THE OLD DEAL (Mutuals)



- Owned by Policyholders
- Strategy: Buy 30-year bonds to match 30-year liabilities
- Assets: **Safe, liquid, transparent**
- Mindset: Boring stability

## THE NEW DEAL (Private Equity)



- Owned by Shareholders
- Strategy: Fee-based asset management
- Assets: **Illiquid, complex, high-yield**
- Mindset: **Aggressive speculation**

*“There’s more of a willingness to push the envelope, to game the rules... There’s some understanding that in a scenario like 2008, there’s going to be bailouts.”*

— Daniel Schwarcz, University of Minnesota Law Professor

# Mechanism 1: The “New Subprime” (CLOs)

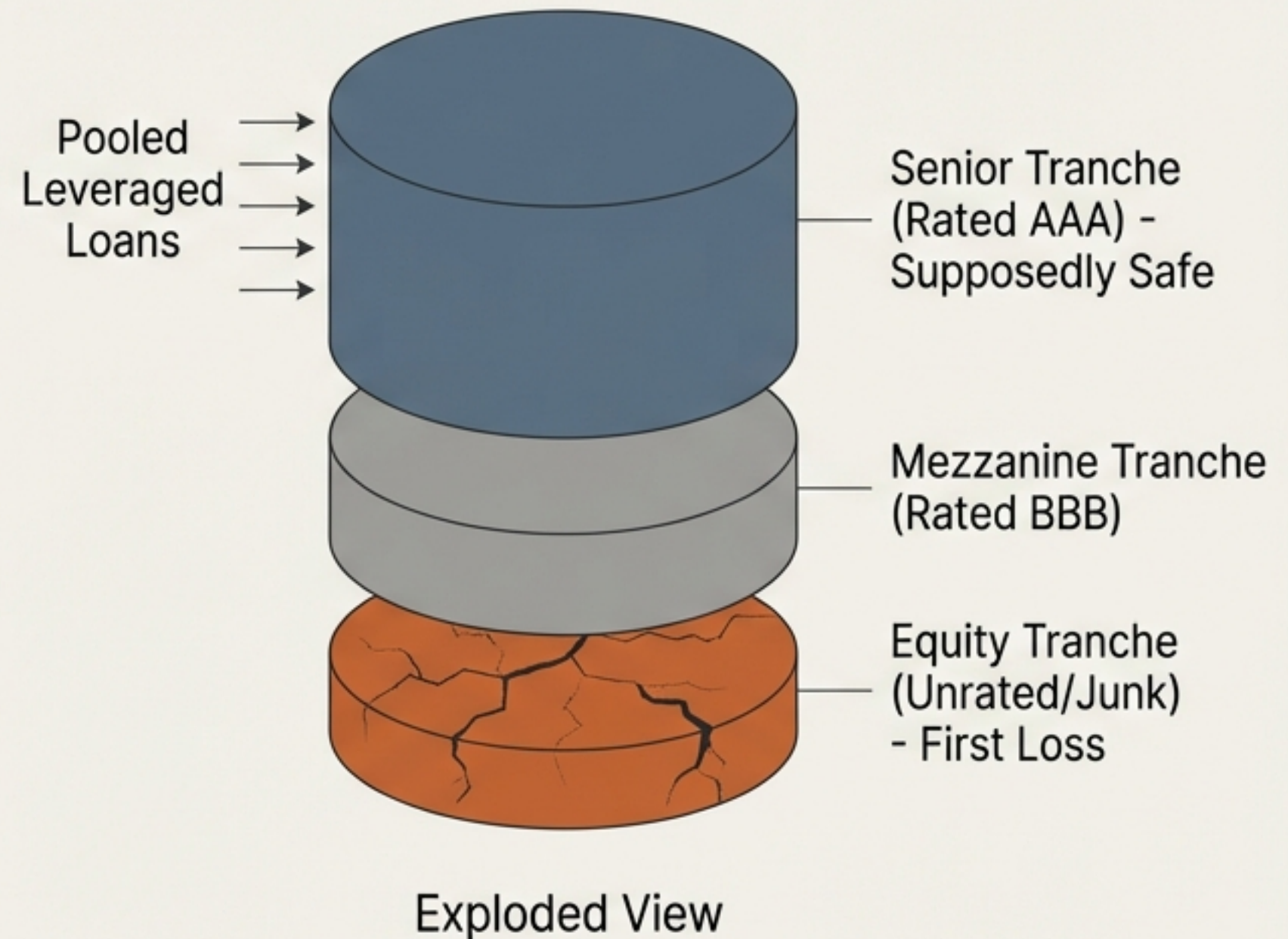
## Definition:

Collateralized Loan Obligations are bundles of low-rated corporate loans, often used by private equity firms for leveraged buyouts.

## The Mechanism:

1. Loans to leveraged businesses are pooled.
2. The pool is sliced into “tranches” with varying ratings.
3. **“Toxic” risk** is hidden in the complexity.

Quote: “Nobody except the seller knows exactly what’s in them.”

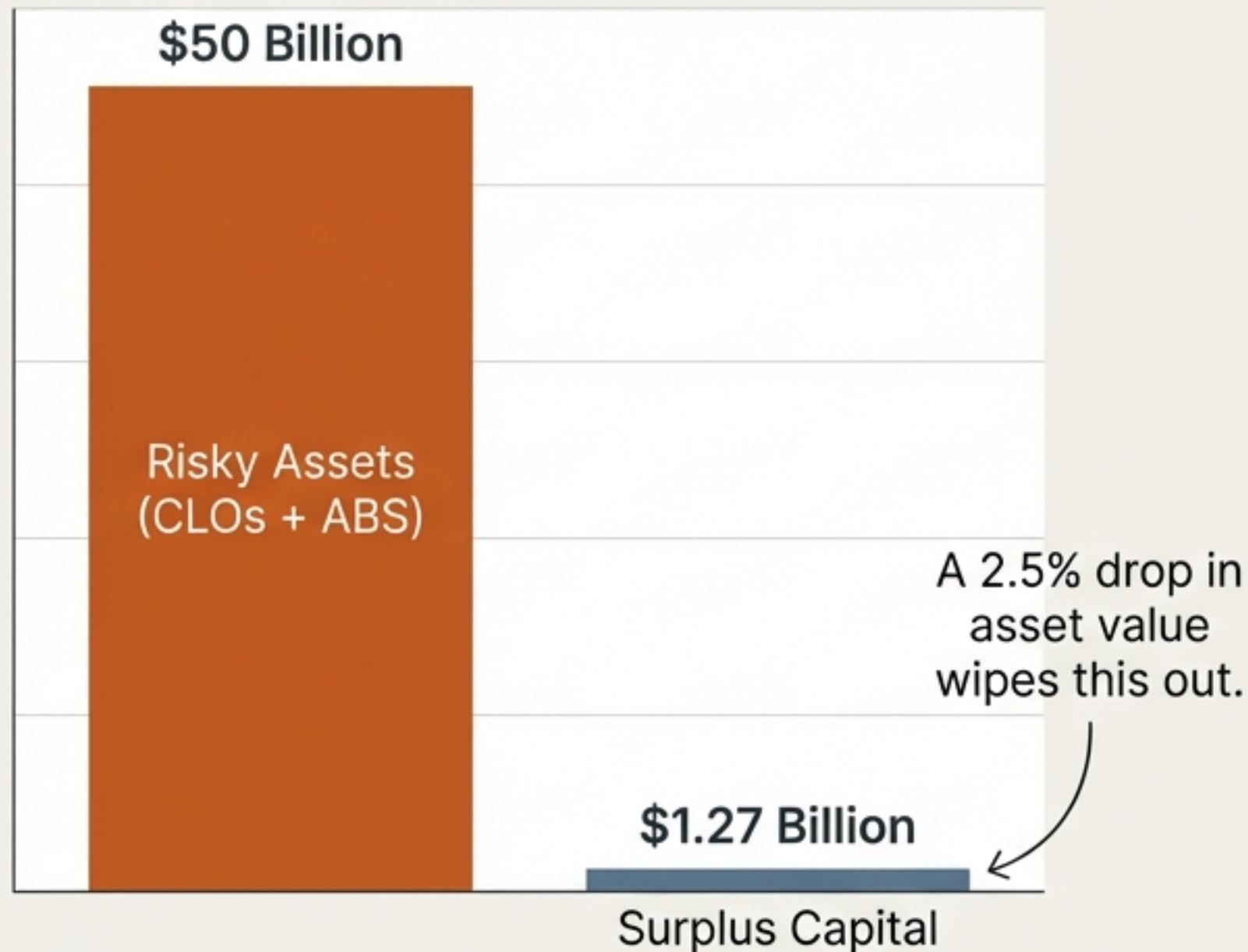


The Bank for International Settlements compares the growth of CLOs directly to the sub-prime mortgage crisis of 2008.

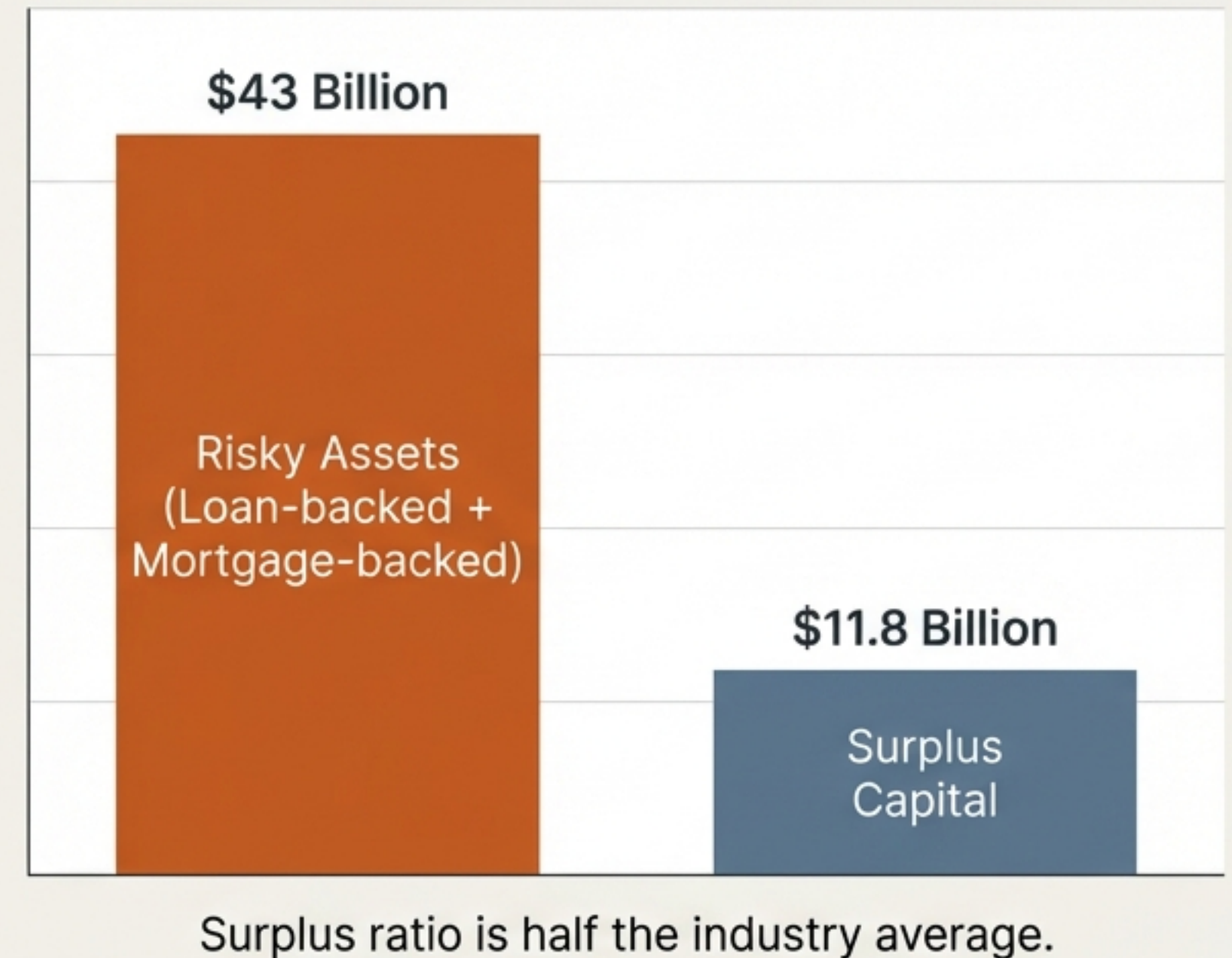
# Data Focus: Exposure Overwhelms the Safety Net

When risky assets exceed the capital buffer, insolvency is one market correction away.

## ATHENE (Apollo)

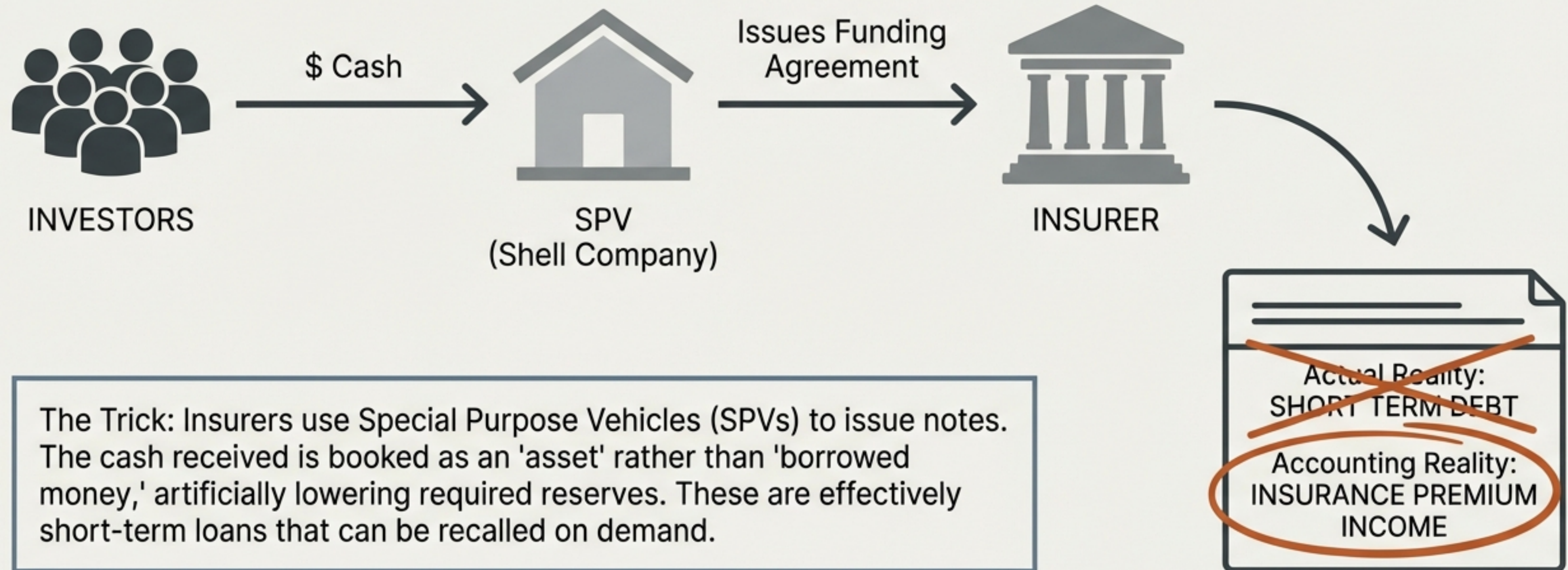


## METLIFE

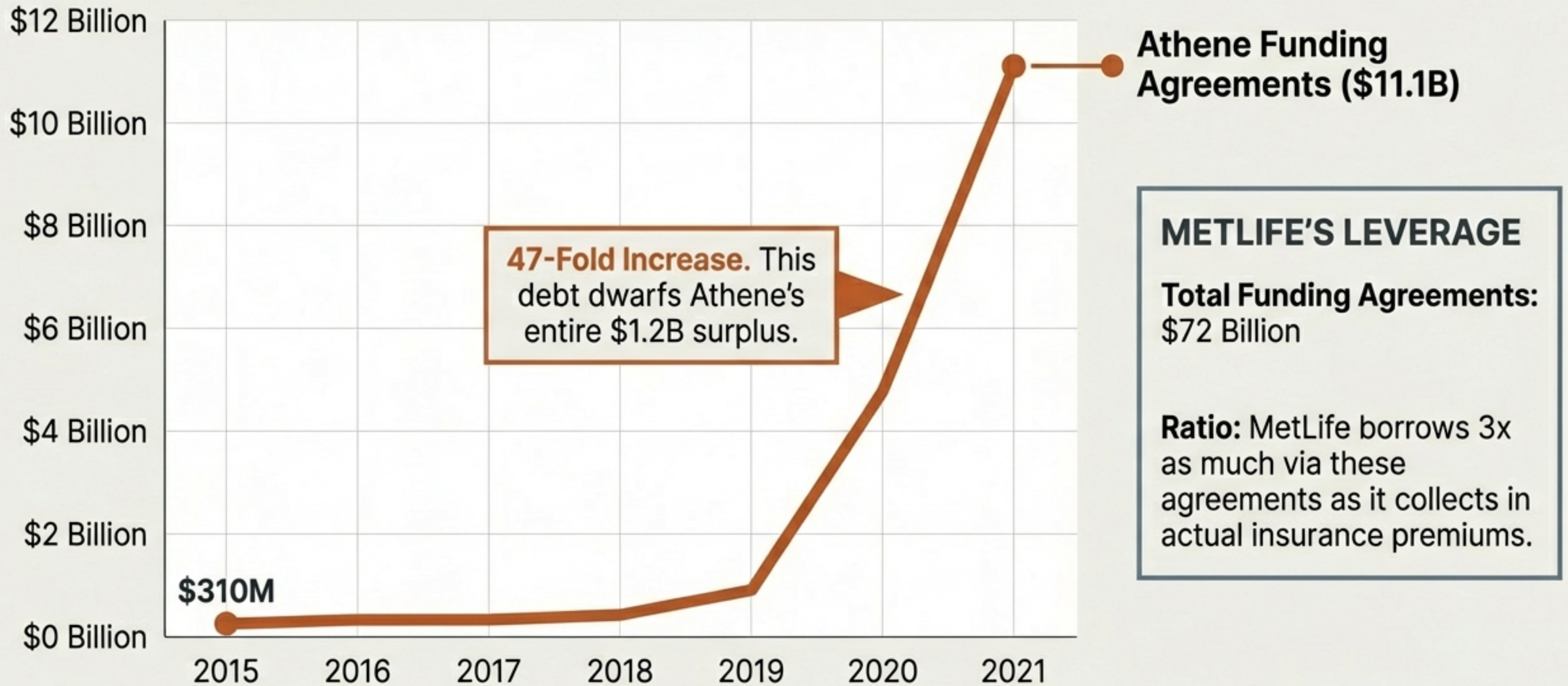


# Mechanism 2: The Accounting Sleight of Hand

How 'Funding Agreements' transform debt into income.

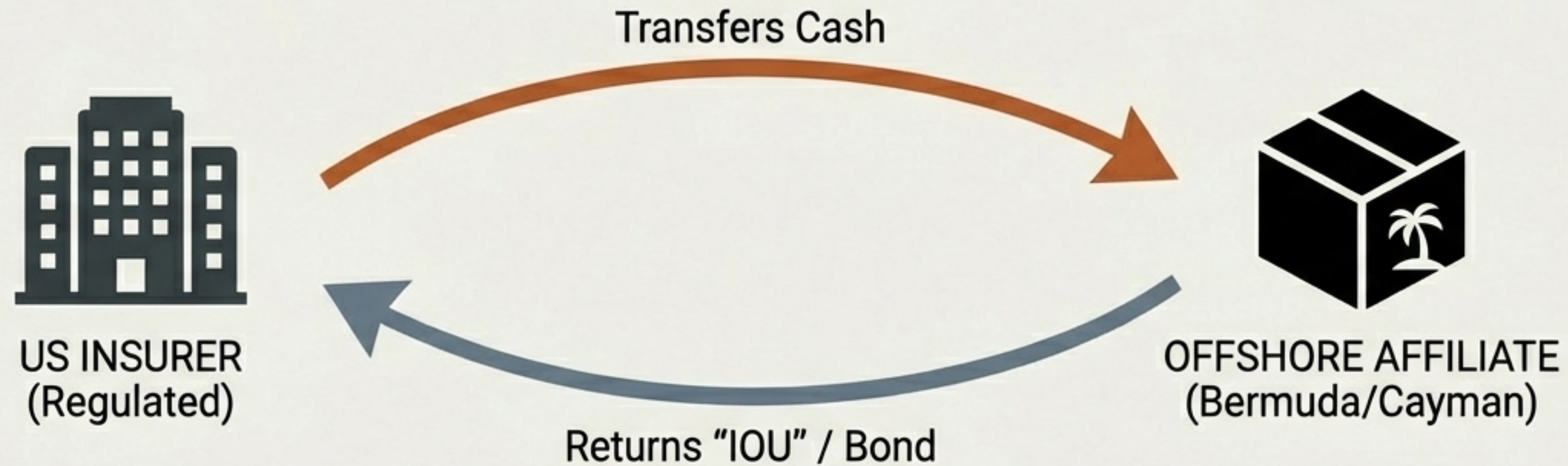


# Data Focus: The Explosion of Hidden Debt



# Mechanism 3: The Offshore Shell Game

Affiliated Investments: Investing in yourself to hide risk.




**The Strategy:** Transfer cash to a subsidiary in a secrecy jurisdiction. Receive an internal bond in return.

**The Danger:** "Books in Bermuda are largely secret." The assets are illiquid, hard to value, and create a circular capital structure where the insurer is buying a piece of itself.

# Data Focus: Conflict of Interest in Action

- Athene's affiliated investments spiked 700% in four years, reaching **\$10.4 billion**.
- Accordia: Affiliated investments now represent **80%** of their entire surplus.



## CASE STUDY: THE CASINO BAILOUT

**Step 1:** Athene buys "AAA Investments" (a generic vehicle).

**Step 2:** "AAA Investments" funnels money to Caesars Entertainment.

**Step 3:** Context: Caesars is owned by **Apollo (Athene's owner)**.

**Result:** The casinos went bankrupt. **Policyholder money was used to prop up a failed private equity bet.**

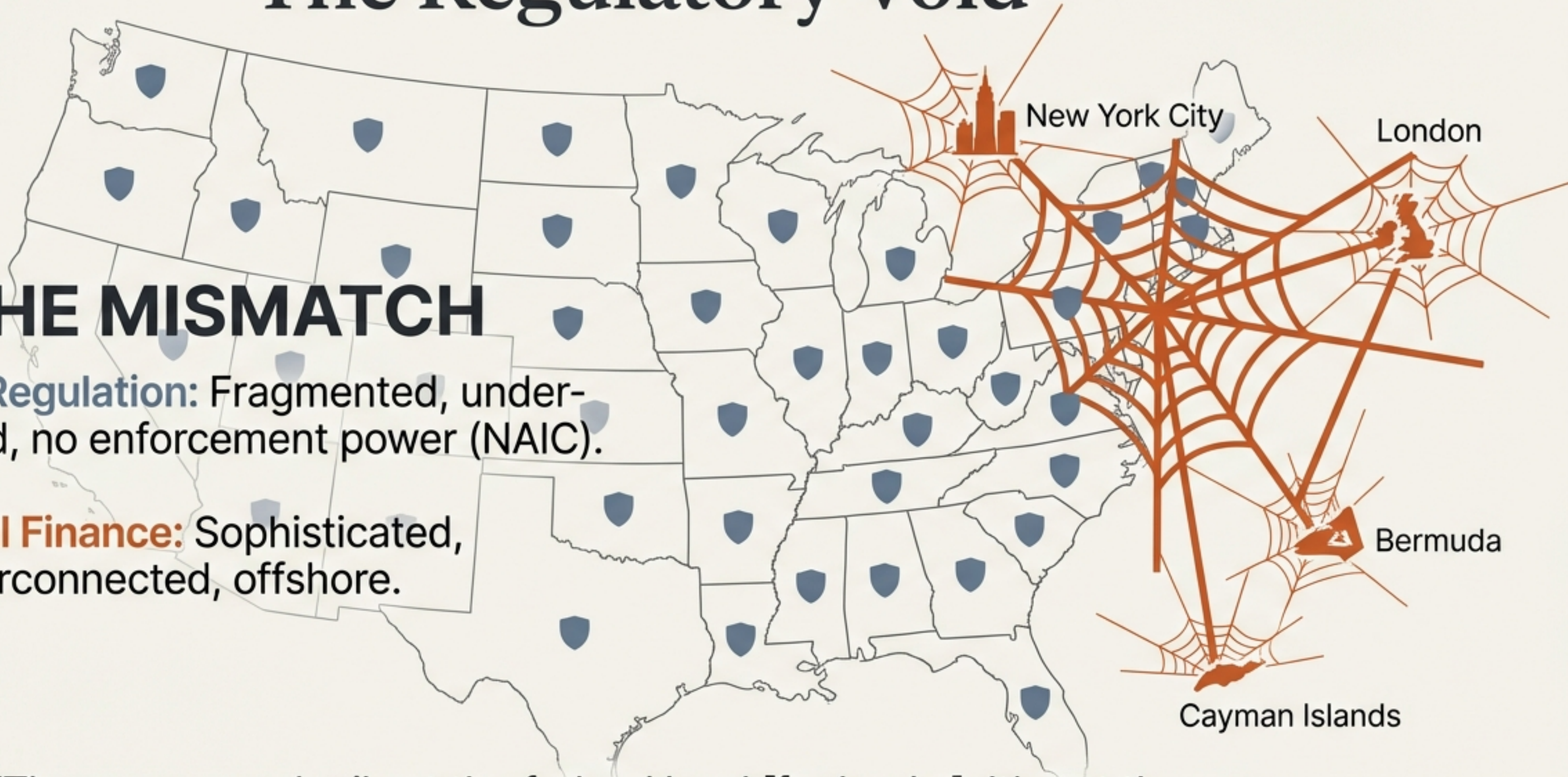
# The Regulatory Void

## THE MISMATCH

**State Regulation:** Fragmented, under-resourced, no enforcement power (NAIC).

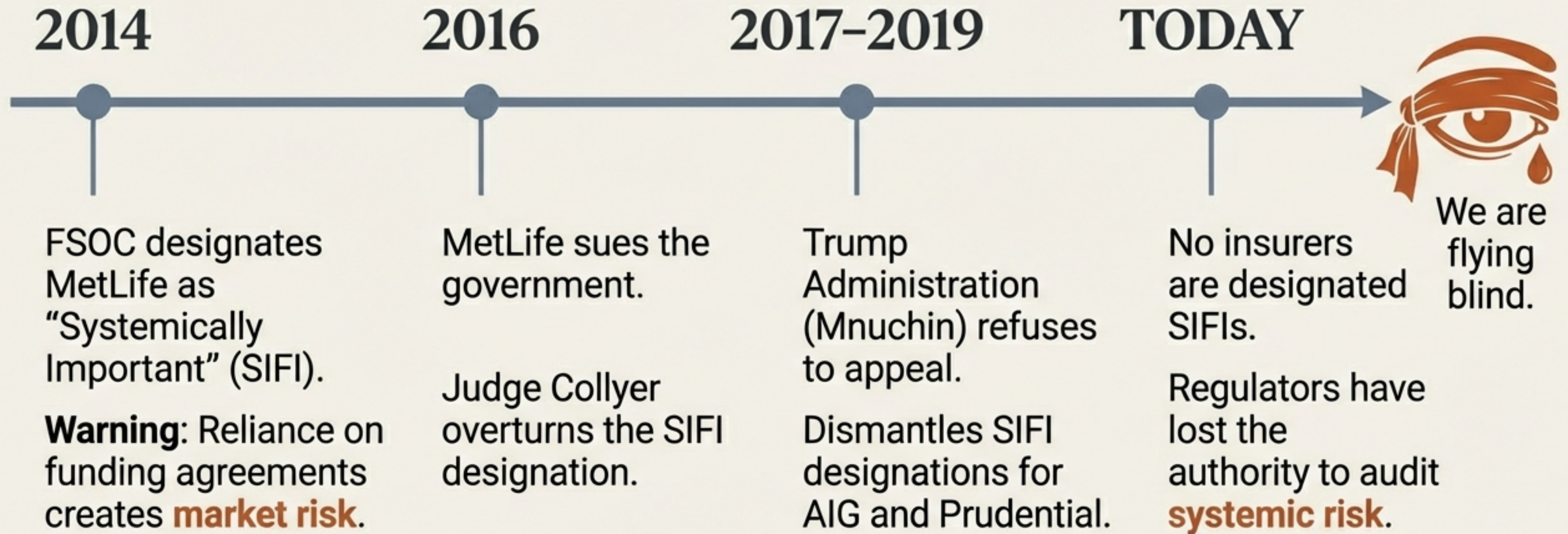
**Global Finance:** Sophisticated, interconnected, offshore.

“There are guard rails at the federal level [for banks]. It’s not the same with insurance.” — David Birnbaum, Veteran Advisor to the Fed

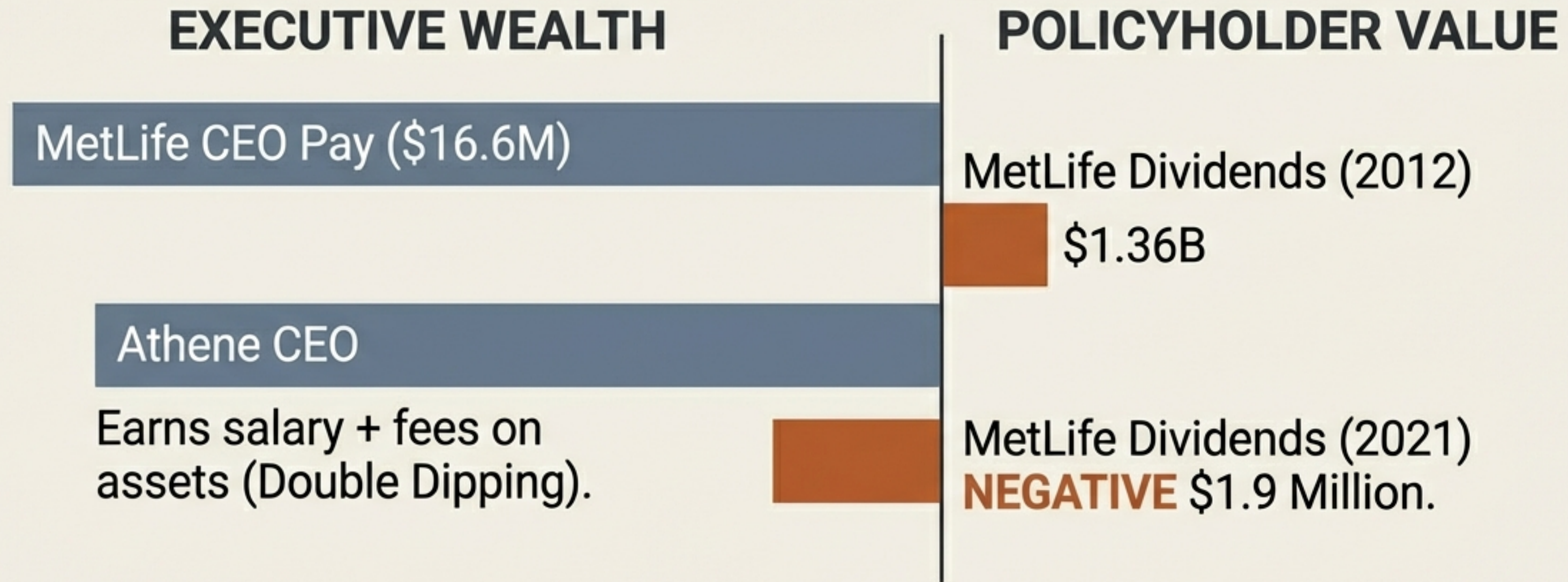


# Too Big to Fail? (The MetLife Case)

Fighting for the right to be unregulated.



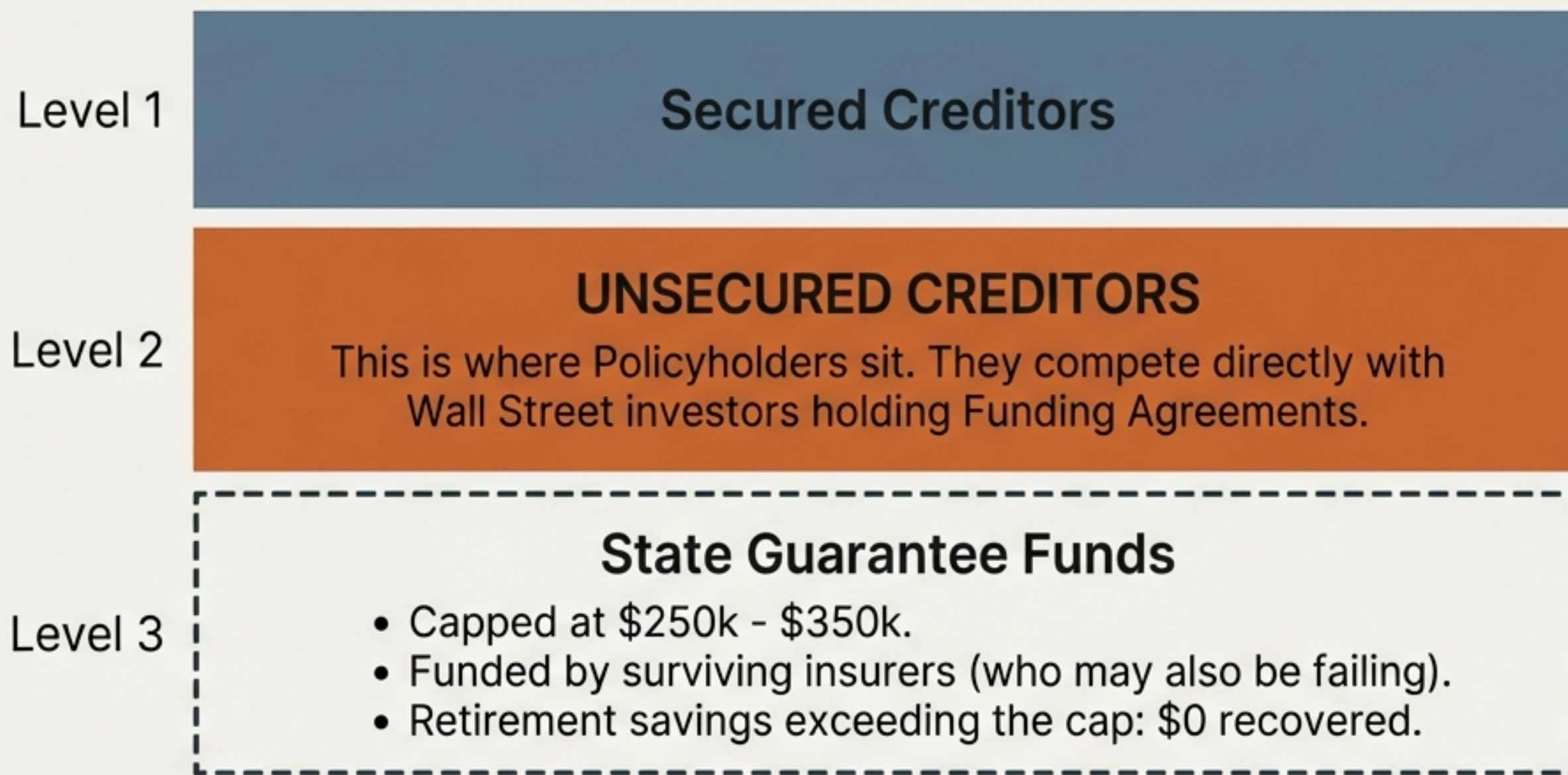
# Follow the Money: The Incentive Mismatch



While executive compensation soared by ~25%, policyholder dividends crashed to negative values.

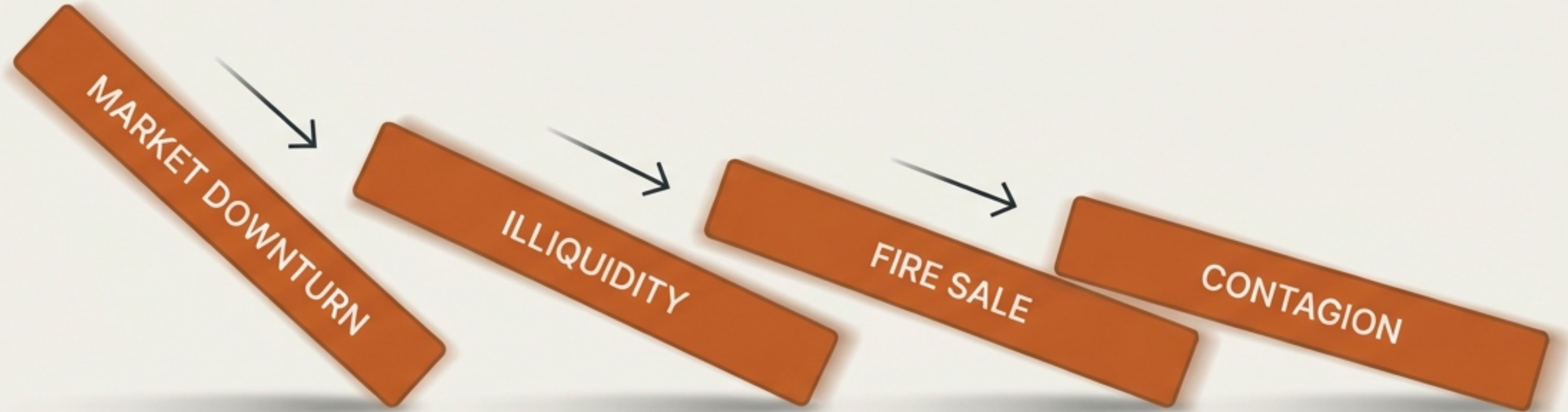
# The Human Impact

In a collapse, the safety net is full of holes.



**Insurance is not a bank account. It is an unsecured loan to a private equity firm.**

# Systemic Threat: The Domino Effect



## MARKET DOWNTURN

Investors demand repayment of Funding Agreements (A Run).

## ILLIQUIDITY

Insurers hold illiquid CLOs and can't sell fast enough.

## FIRE SALE

Forced selling crashes asset prices globally.

## CONTAGION

Banks and pension funds holding similar assets collapse. Credit freeze.

“If there are numerous significant failures, the guarantee fund system won't be able to handle that.”

# A Precarious Future

**The industry has traded stability for short-term profit, built on a foundation of shadow banking.**

- CLOs hide toxic risk.
- Funding Agreements hide massive leverage.
- Affiliated Investments hide solvency issues.

**Without federal intervention and transparency, the next financial crisis may not start in a bank, but in a life insurance policy.**