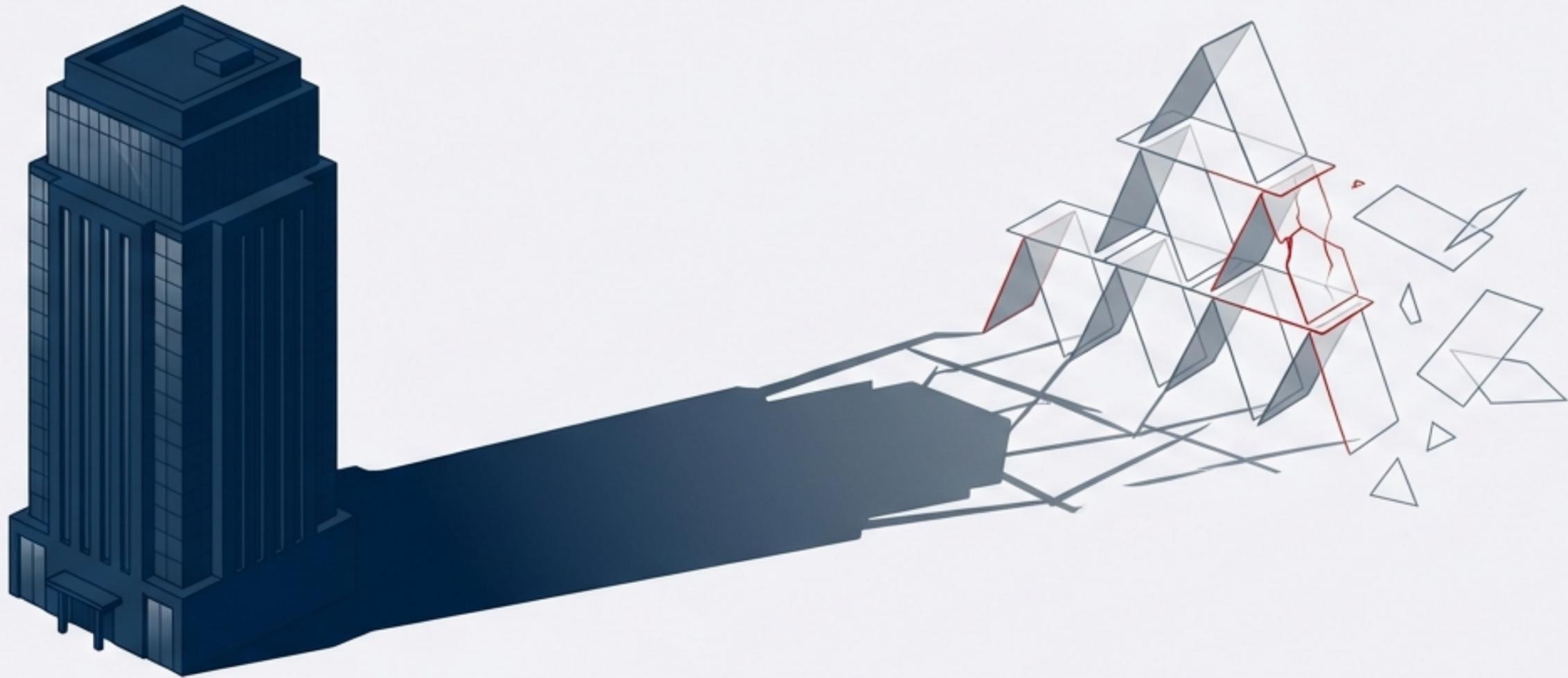


Captives of Industry: The Shadow Insurance Game

How Wall Street uses offshore accounting gimmicks to jeopardize policyholders and the financial system.



Based on the investigative report by Lucy Komisar, 100 Reporters.

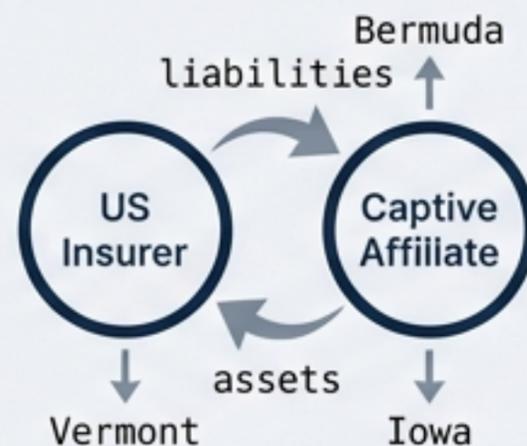
Executive Summary

The new owners of life insurance are playing a dangerous game of regulatory arbitrage.



The Private Equity Takeover

Private Equity firms (Apollo, Blackstone, Carlyle, KKR) have aggressively entered the insurance market, **controlling over \$471 billion (11%)** of industry assets as of 2020.



The Captive Shell Game

Firms use 'Captive' reinsurance affiliates in lenient jurisdictions (Bermuda, Vermont, Iowa) to bypass standard US accounting rules and offload liabilities.



Financial Alchemy

To feign solvency, they replace hard assets with 'Letters of Credit' (contingent debt) and book them as assets, inflating their books with fake capital.



Systemic Insolvency

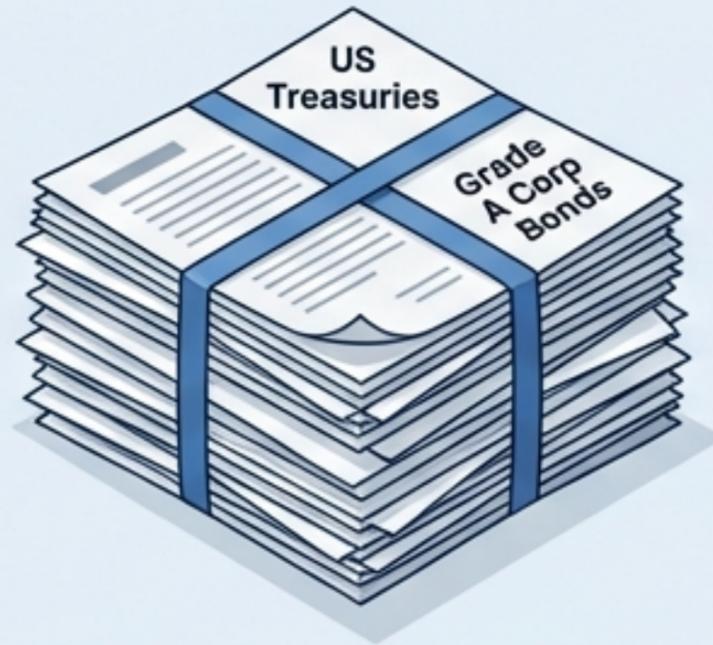
If standard US Statutory Accounting Principles were applied, major industry players **would likely be technically insolvent.**

The Context: From Boring Safety to High-Risk Profit

Global consultants call it a "once in a generation opportunity" to access cash flow.

The Old Guard

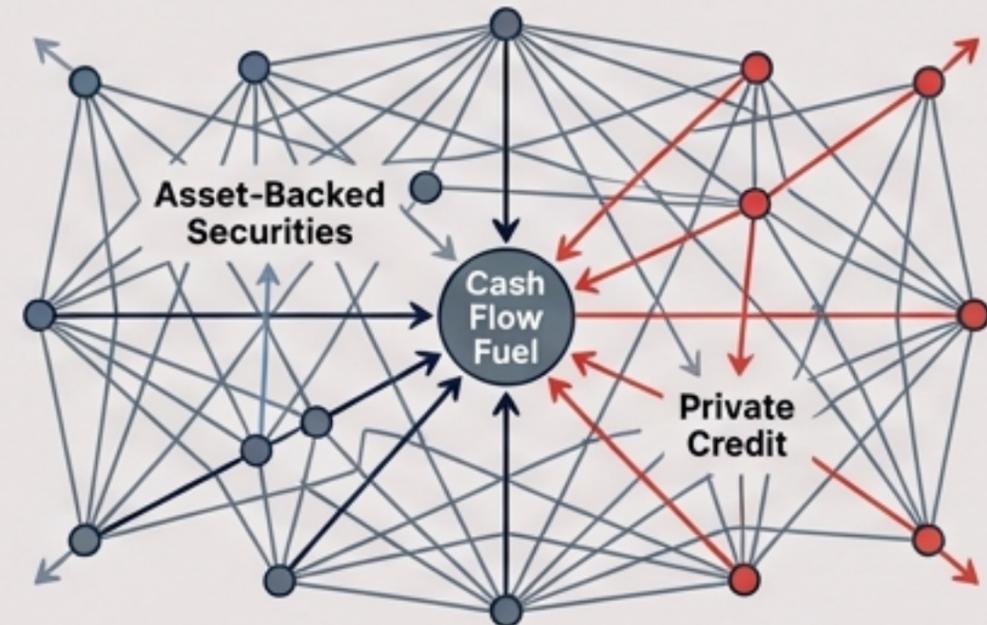
Traditional Insurance Model



Low Risk / Steady Returns

The New Owners

Private Equity Model (Blackstone, Apollo, Carlyle)



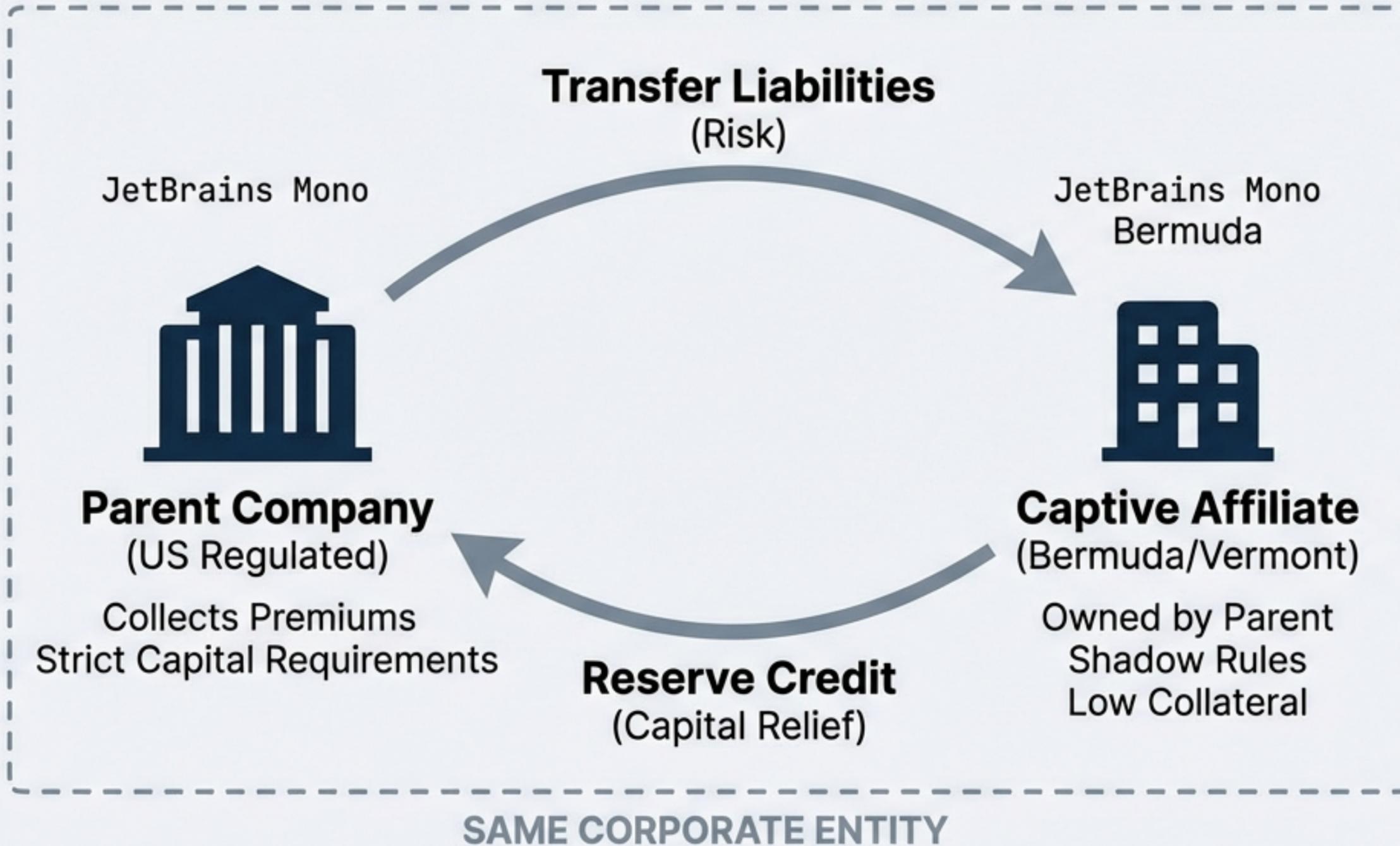
High Risk / Cash Flow Fuel

PE control of industry assets: **\$0 → \$471 Billion (2010-2020)**

"We know that workers end up worse off when Wall Street private equity firms get involved." — Sen. Sherrod Brown (D-Ohio)

The Mechanism: What is a 'Captive'?

Moving money from the left pocket to the right pocket to hide the risk.



“

“It’s a shell game; you’re not actually offloading the risk. You’re moving it to the other pocket.”

— Daniel Schwarcz,
Law Professor

The 'Magic' Trick: Letters of Credit (LOCs)

Financial alchemy turns contingent debt into 'hard assets'.

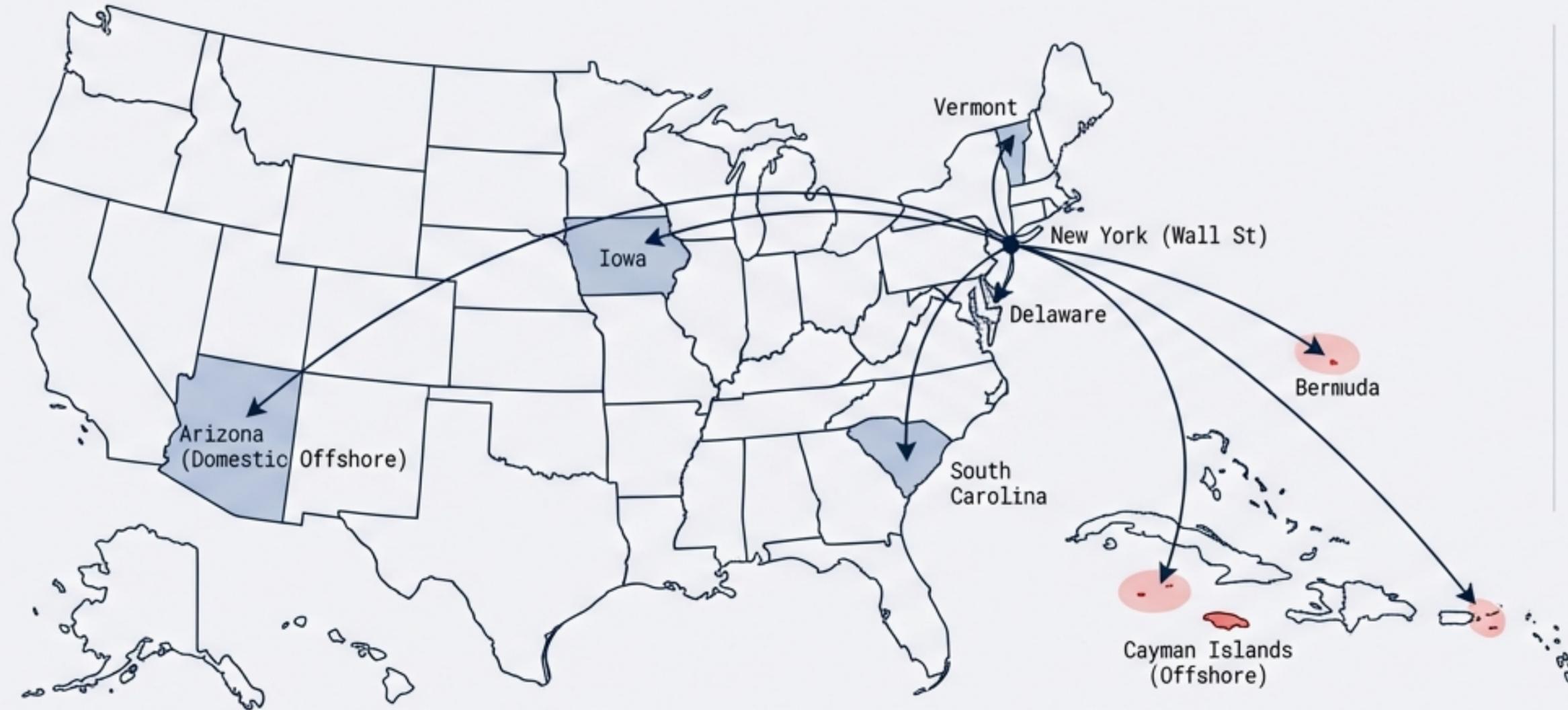


The Problem: Companies use these fake assets to meet mandatory reserve requirements. If claims spike, the money isn't there.

“They are fake assets.”
— Thomas Gober, Fraud Investigator.

Regulatory Arbitrage: The Enablers

A race to the bottom in regulatory standards.



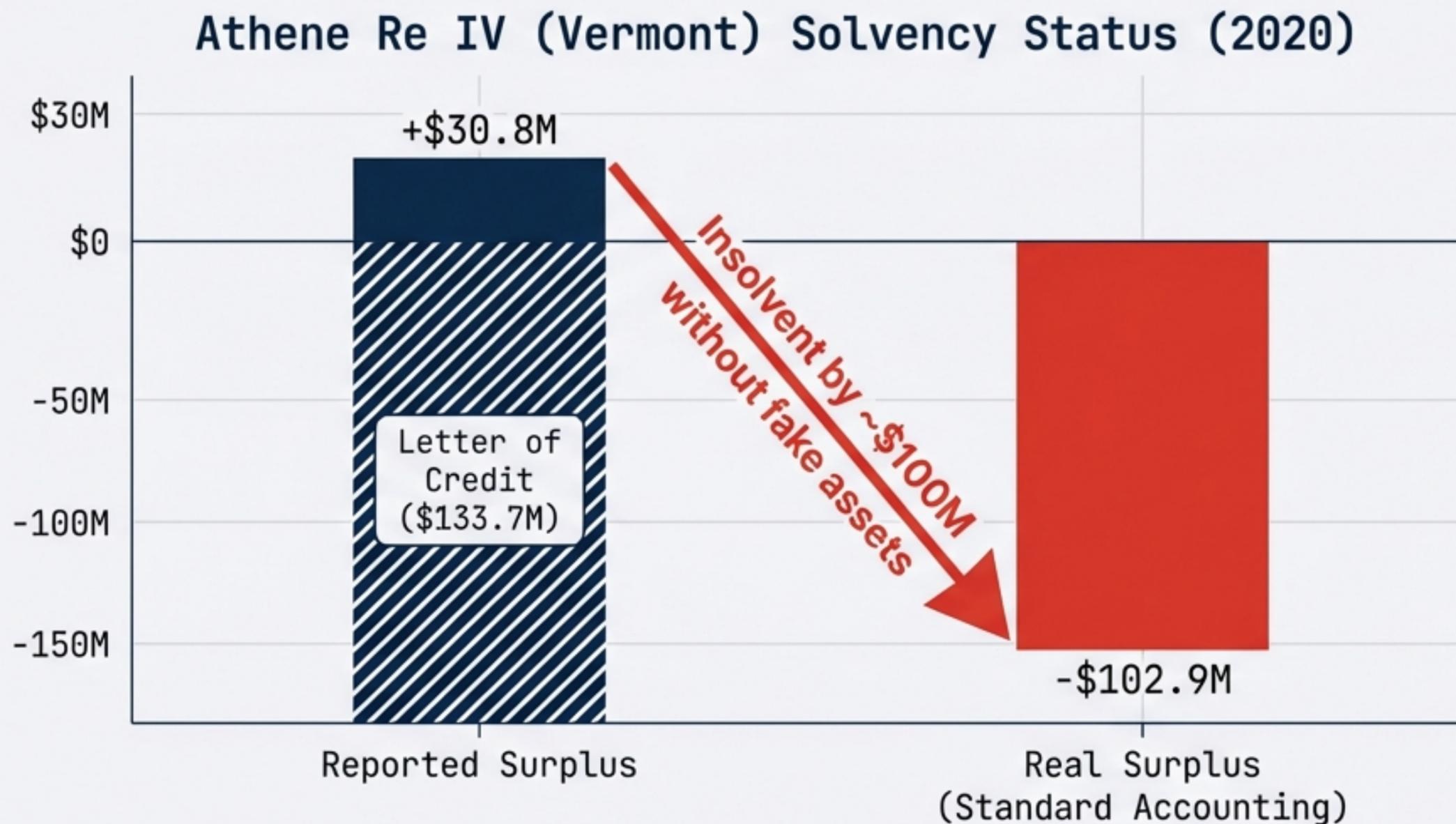
Secrecy Jurisdictions

- States compete for business fees by offering “lax” oversight.
- NAIC (National Body) has no enforcement power.
- Patchwork system allows firms to shop for the weakest regulator.

“The states are pretty much given a free hand to regulate the way they want to now.”
— Don Bratcher, Insurance Examiner

Case Study I: Apollo Global Management (Athene)

The smoking gun in the Vermont audit files.



The Scheme:

Athene transfers liabilities to Bermuda and Vermont.

The Verdict:

"If Athene Re IV had not been permitted to include the letters of credit in surplus, its risk-based capital would have been below Mandatory Control Levels."

- PwC Audit Note

Case Study II: MetLife

Even the blue-chip giants admit to relying on “Explicit Permission”.

FORM 10-K

	Government Financial Statements				
	2014	2013	2012	2011	2010
Assets:					
Investments	\$ 11,000	\$ 3,401	\$ 3,801	\$ 3,600	\$ 3,000
Other assets	2,000	2,000	10,200	5,000	0,200
Liabilities	30,000	30,000	10,200	10,200	10,200
Capital and surplus	3,000	3,000	3,400	3,000	0
Reserves for losses and claims	16,300	10,200	9,799	10,300	10,200
Other reserves	3,300	3,000	3,000	999	-54
Other assets	16,400	10,200	10,200	10,200	10,200
Other liabilities	4,300	3,000	3,000	3,300	3,000
Total assets	1,000	1,000	999	1,000	1,000
Total liabilities	1,000	1,000	1,000	1,000	1,000

...MRV's RBC (risk-based capital) would have triggered a regulatory event without the use of the state-prescribed practice.

Category	2014	2013	2012	2011	2010
Other assets	1,000	1,000	1,000	1,000	1,000
Other liabilities	1,000	1,000	1,000	1,000	1,000
Total	1,000	1,000	1,000	1,000	1,000

TRANSLATION: Without special permission to use accounting gimmicks, we would be insolvent.

Subject:
MetLife Vermont
Affiliate (MRV)

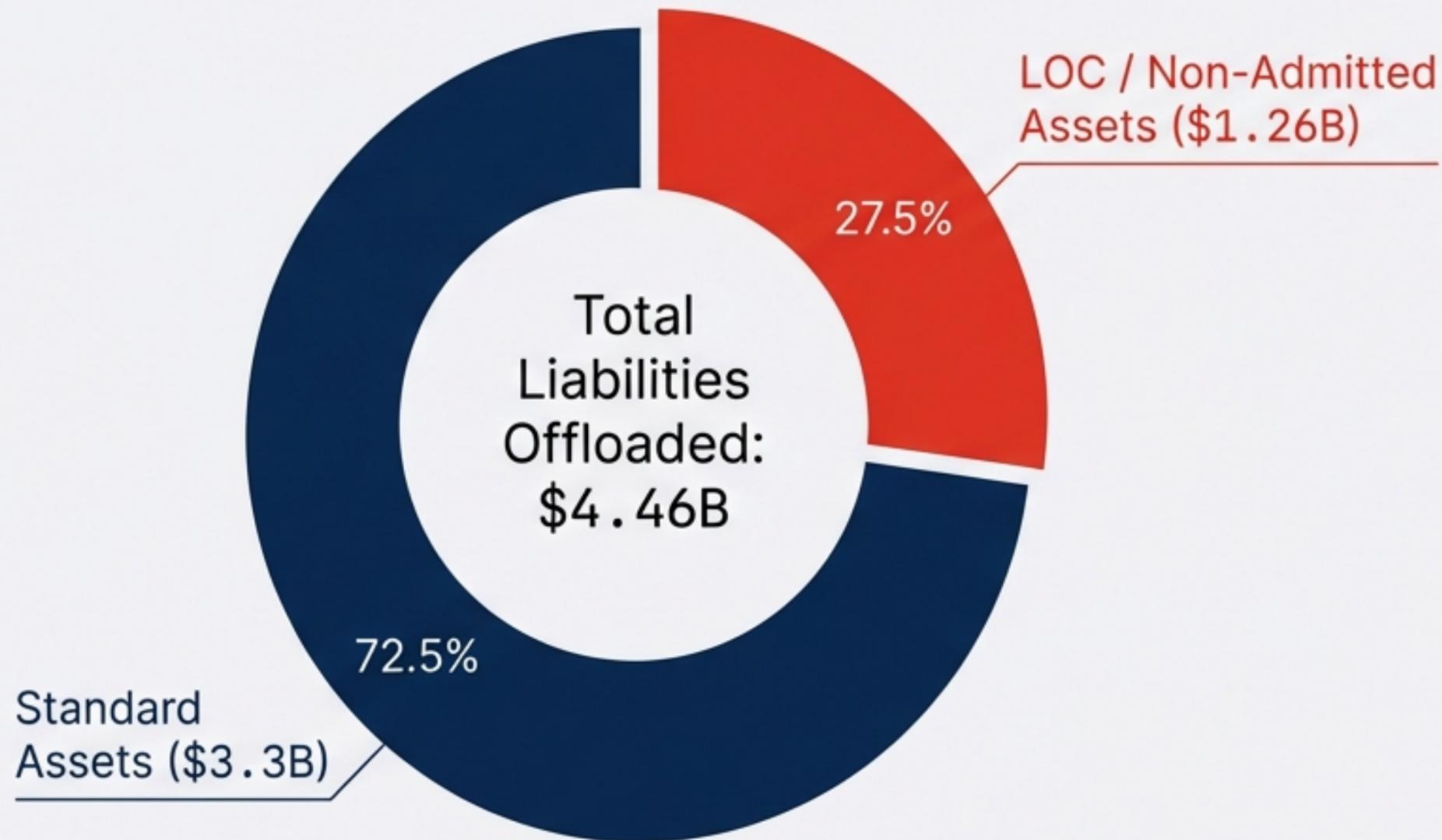
LOCs Held:
\$396 Million

Potential Hole:
A **\$14 Billion** gap if standard accounting applied to all shadow affiliates.

Case Study III: Accordia (Goldman Sachs / KKR)

When one-third of your assets are questionable.

Cape Verity III (Iowa Affiliate) Asset Composition



Key Insight

The Insolvency Risk:

Total LOC assets (\$1.99B) across affiliates are more than double the company's total surplus (\$952M).

Conclusion: Rejecting these "fake" assets wipes out the company's surplus twice over.

The Risk Multiplier: The Contagion Loop

How LOCs link the Insurance industry to the Banking industry, recreating 2008 risks.



Insurer assets drop,
need cash.

Insurer calls the
Letter of Credit (Loan).

Insurer defaults.
Bank takes the loss.
Systemic Crisis.

“Significant losses could reverberate through the financial system.”

— **Anonymous Federal Government Analyst**

The Human Cost

Major corporations are offloading pensions to these shadow insurers. Retirees bear the risk.

Entity	Backstop	Status
Bank Deposits	FDIC Insured (up to \$250k)	
Corporate Pensions	Federal ERISA Guarantees	
PE-Backed Annuities	NONE (State Guaranty Assns are limited)	

Consequence: If the shadow insurer fails, retirees are merely “unsecured creditors” standing in line for scraps.

The Regulatory Gap

A system designed to fail: No federal regulator has true oversight.



- **State Level:** Patchwork regulation. Commissioners are outmatched by global Wall Street firms.
- **Federal Level:** The **Financial Stability Oversight Council (FSOC)** tried to designate **MetLife “Too Big to Fail”**.
- **The Defeat: MetLife sued and won.** The government can only “**monitor**” but **cannot enforce** solvency rules.

“Do we really trust the states... to make decisions that help save our entire financial system?” — Daniel Schwarcz.

Conclusion: The System is Blinking Red

- **ASSETS** are overstated using debt as equity.
- **RISKS** are hidden in opaque offshore and domestic captives.
- **SAFETY NETS** for retirees are being hollowed out.



Without federal intervention, Wall Street is leveraging the **safety of life insurance** to fuel **high-risk speculation**.