BEST'S NEWS & RESEARCH SERVICE

BestWire - March 20, 2025 03:12 PM (EDT)

ASSET MANAGEMENT

Update: PineBridge Exec: Regulatory Shifts Will Be Among Top Asset Management Issues in 2025

By Terrence Dopp

OLDWICK, N.J. //BestWire// - (Updates assets under management in fourth paragraph to reflect all PineBridge entities) Regulatory changes, particularly those around long-term private asset rules, will be among the issues most impactful on insurance asset management in the coming year.

Luke Schlafly, global head of insurance solutions at PineBridge Investments, said topping that list will be an effort by the National Association of Insurance Commissioners to redefine what constitutes a long-term bond within an insurance company's investment portfolio. Bonds traditionally are the largest portion of insurers' portfolios, he said.

"That's very impactful. Of course, there's a lot of nuance in that," he said. "Clearly, this is a reaction to the proliferation of private and structured assets in portfolios. I think they're trying to modernize the framework in recognition of how insurance company investments have evolved."

PineBridge, which counts insurance assets among the $190.3 billion total it manages including joint ventures, recently released its insurance team's outlook for 2025.

PineBridge expects that as public yield spreads tighten, insurers will continue allocations to private assets. The firm also predicted leveraged finance and collateralized loan obligations will remain attractive investments for insurers. LME yields will stay at historical averages and CLOs, due to their complexity and illiquidity premium compared to corporate bonds, will both remain attractive.

Private credit holdings accounted for over 44% of bonds in 2023, up from 27% in 2013 though that growth slowed in 2023, AM Best said in a July 29 Special Report titled Asset Manager Relationships Lead Insurers' Shift to Private Credit.

Non-mortgage-backed structured securities such as collateralized loan obligations drove the growth, according to the report. More than half of the companies with non-MBS exceeding 20% of bond portfolios are backed by either private equity or asset managers, AM Best said.

Update: PineBridge Exec: Regulatory Shifts Will Be Among Top Asset Management Issues in 2025

(continued)

This year ushered in changes to the way insurers classify, value and report bond and security investments as the National Association of Insurance Commissioner puts its new principles-based bond definition into action (BestWire, Dec. 12, 2024).

Under the new guidance, an issuer credit obligation is defined as a bond that draws its primary source of repayment based on the creditworthiness of the operating entity. Conversely, primary repayments on asset-backed securities come from cash flow associated with the underlying collateral as opposed to the operating entity (BestWire, Aug. 14, 2024).

The NAIC adopted this definition in 2023, and it went into effect Jan. 1, 2025.

Conceptually, the NAIC rules "make sense," Schlafly said.

One major outstanding question revolves around exactly how regulators will exercise discretion to challenge those assets and the ratings they receive. Asset managers are waiting to see exactly how the body chooses to do so and what the outcome of any changes will be, he said.

"I think the industry recognizes that there are certain types of assets or structures which are more capital arbitrage in nature, more aggressive in nature, and are naturally probably subject to that process," he said. "But there might be some other asset types that could surprise people."

Schlafly said the change could create a framework where an insurer can invest in almost anything and then have no certainty around the capital they need to hold against it because it's possible that asset could be reviewed, challenged and changed.

The PineBridge insurance report also found 2025 is likely to be a strong year for strategic partnerships and investment structuring.

On the asset management side, "successful partnerships should allow insurers to gain increasing access to attractive alternative assets in 2025," PineBridge said.

"One element there is with how competitive the insurance industry has become, especially on the life and annuity side of things, they more and more need access to different types of investment or different ways in which to get more out of the asset portfolio," he said.

Update: PineBridge Exec: Regulatory Shifts Will Be Among Top Asset Management Issues in 2025
(continued)

Schlafly said partnerships can take many forms, including more typical arrangements with managers, ownership stakes and reinsurance sidecars.

"The lines are really blurring in the ways in which the partnership is set up," he said. "It spans a lot of varieties. I think for the most part it makes sense, there's just a lot of additional work that needs to go into governance, conflicts of interest and making sure you get all those things right."

MetLife Investment Management, the institutional asset management business of MetLife Inc., said it has reached a definitive agreement to acquire PineBridge Investments from the Pacific Century Group (BestWire, Dec. 23, 2024).

The transaction is comprised of $800 million in cash at closing, $200 million subject to achieving certain 2025 financial metrics, and $200 million subject to a multiyear earnout, MetLife said in the announcement. The deal is expected to close in 2025, subject to customary closing conditions, including regulatory approvals.

Life and annuity insurers' obligations often match well with private investments, which can both bring longer term profiles, Schlafly said. Carriers can also benefit from the higher yield that results from them being illiquid.

On the nonlife side, he said illiquidity can make them a poor match with liabilities because of that same longer investment horizon and the need for money to remain invested.

"You have to make sure it's the right risk that you want to take, that you're getting paid for that illiquidity," he said. "We expect to continue to see insurers lean in there."

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com)