Razor-Thin Surplus or Massive Deficit?

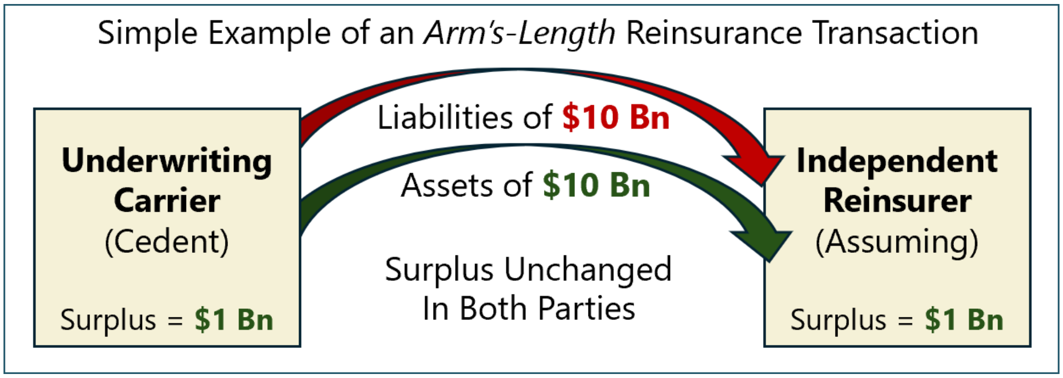
[Viva la Enron]

Large private equity firms have taken control of many life and annuity (L&A) carriers over the past decade, transforming them into higher risk, less transparent insurers. For the record, most of the *for-profit* insurers are also higher-risk, less transparent entities; but generally, not as extreme as the private-equity controlled ones. Mainstream financial media increasingly warn that many of today's private credit, private equity and commercial mortgage-backed securities are likely overvalued, illiquid and have overly optimistic ratings. But as worrisome as overvaluation of assets is, there is another danger lurking on the liabilities side: $1.3 trillion of affiliated "reinsurance" concentrated in just 40 carriers.

As of December 31, 2025, the roughly 700 U.S. life and annuity carriers reported combined assets of about $10 trillion. After deducting total liabilities, their combined surplus was $658 billion. Insurers are not allowed to go negative in surplus. This makes surplus critical; it is the only buffer between solvency and insolvency.

On the surface, liabilities are fairly easy to understand. For L&A carriers, their liabilities are basically long-term promises: future death claims and annuity payouts. Very capable actuaries make those calculations based on mathematics and probability factors. If their calculations are accurate, that should mean there are no adjustments necessary on the liabilities side of the balance sheet.

This is where reinsurance can enter the picture. Insurance companies may purchase insurance protection known as reinsurance; a way for an insurance company to spread its risks. The ceding company will *cede* (transfer) a block of business to another company, the *reinsurer*. As an example, they may cede a block of business that equals $10 billion in liabilities. But they must also move $10 billion in assets, commensurate with the liabilities. In this way, insurers spread their risks but otherwise surplus is not really impacted. This traditional form of genuine risk transfer reinsurance is not only legitimate: it makes the world go round.



Recently though, we've seen a rise in *affiliated* reinsurance. An insurance company or parent will form its own in-house reinsurance company and do the reinsurance with itself. As of December 31, 2025, there is a total of $1.5 trillion in-house affiliated reinsurance. Of the 700-U.S. L&A insurers, less than 200 are engaging in this practice and most of them are doing it only minimally. That's the good news. The bad news is that if we pare the list down to only the top 40 users, they still account for $1.3 trillion of in-house, affiliated reinsurance. If you're thinking that's an awfully big number for only forty insurance carriers, you would be correct. No matter how you look at it, that's a hefty amount of sleight-of-hand – and not compliant with the statutes in any of the 51 regulatory jurisdictions.

When a company does these deals with itself (related party transactions) there are two clear requirements. First: The transaction must be "fair and reasonable". In other words, the transaction must be handled as if it were with a sophisticated and informed independent entity. So, if you offload $10 billion of liabilities with an independent reinsurer, they'll require that you also send $10 billion in assets.

The second requirement is transparency. To guarantee that these transactions *are* fair and reasonable, they must be transparent. We must be able to see both ends of the transaction. The NAIC and all 51 jurisdictions mandate this. We must impose "fair and reasonable" on related parties; therefore, we must see both ends of the transaction. The statutes require:

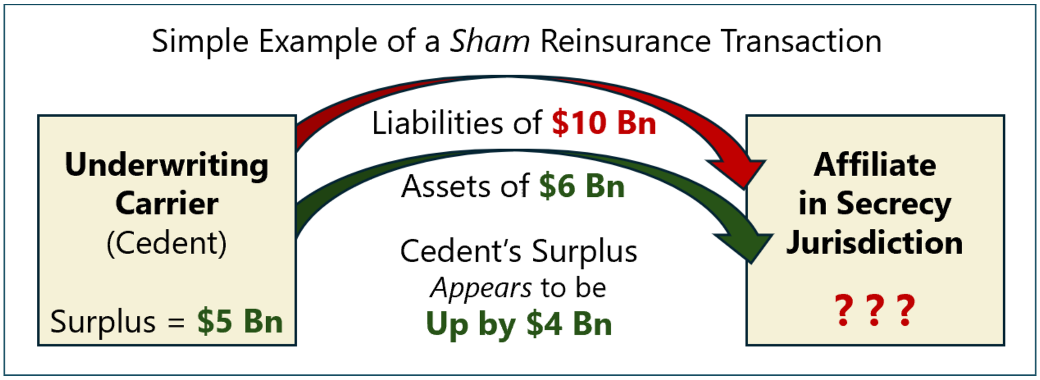
> Material transactions by insurers with affiliates must be on (a) terms that are **"fair and reasonable"** and (e) "**The books, accounts and records of each party to all such**

> **transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions**."

The problem with this type of reinsurance is that we can't see the other end at all. These 40 U.S. companies are ceding this $1.3 trillion to affiliated reinsurers in "secrecy jurisdictions." These may include captive reinsurers in Vermont, Delaware, Iowa or Arizona in the U.S. Bermuda, Barbados, and the Caymans are among the offshore locations. Some U.S. states boast that their records cannot even be made available by subpoena. It is my professional opinion that these black box deals are prohibited by law even though state regulators often turn their heads and allow it.

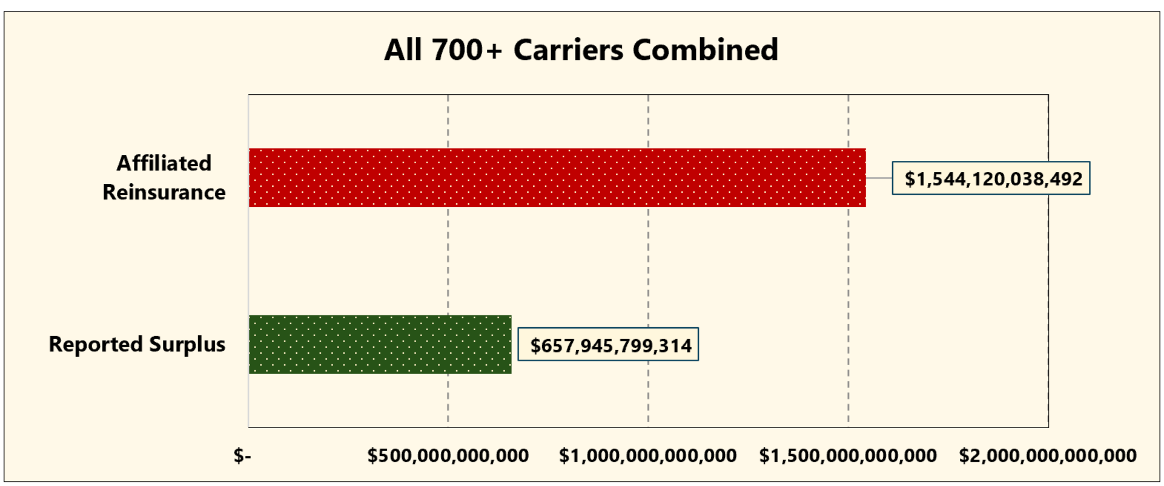
This means we have forty insurance companies with high concentrations of internal, opaque, captive and offshore reinsurance to the tune of **$1.3 trillion.** These same 40 carriers have only **$182 billion** in combined surplus. If the reinsurance recoverables from these black boxes turn out to be uncollectible by just 20 percent, these 40 carriers are insolvent. (See attached list of the 40 carriers' surplus & affiliated reinsurance)

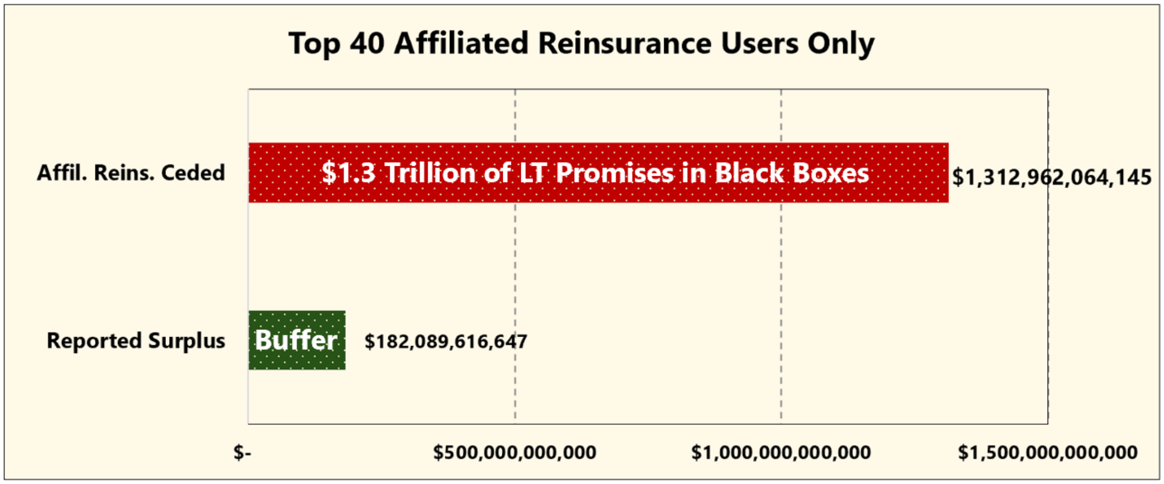
Suppose you're the CEO of a for-profit insurer, and you have stockholders who expect dividends. They want more dividends each year. You need a larger surplus to meet that demand. You can enlarge the surplus with fresh earnings or new paid-in capital, but it's much less expensive and faster to create a captive reinsurer who will assume $10 billion in liabilities from you but, thanks to conflicted management and more flexible capital requirements in its jurisdiction, ask for only $5 billion in assets to back them. Instantly, poof, you add $5 billion to your surplus and your hungry stockholders get fed. How easy is that? Way too easy:



This is why affiliated reinsurance ceded into secrecy jurisdictions is my greatest concern. Private credit and commercial mortgage-backed securities are also worrisome. But at least we can see assets and have their values re-assessed. But "black box" affiliated reinsurance is complex, arcane and impossible to confirm. As stated before, statutes require transparency. Nonetheless, this industry has more than $1.5 trillion of opaque, secret, captive reinsurance. My data shows that the lion's share of the black box deals are done by only 40 carriers. Since these affiliated reinsurers do not file public statutory annual statements, we don't know how underfunded they may be.

The first image below shows the affiliated reinsurance and surplus of all 700+ carriers. The 2nd image reflects just the top 40 users:





[Note: All data related to reinsurance in the above images are taken from the December 31, 2025, statutory annual statements, Sch. S, Part 3, Section 1, col. 9 Reserve Credit and col. 14, Modified Coinsurance (ModCo)]

Whenever we've had an opportunity to peer into these black boxes—when an insurer posts them by accident or when an insolvent life insurer's books are examined--the liabilities are found to be dramatically underfunded. One insurer went so far as to fund only 5% of its liabilities with real assets. Perhaps that's why state regulators and the industry are so secretive. They don't want us to know how big the hole is or how overvalued certain "assets" are.

When someone takes your money, hides it offshore and says, "Trust me it's fine," chances are it's anything but *fine*.

[See spreadsheet information on following pages.]

Below are the top 40 largest (out of all 700+ life & annuity carriers) users of affiliated reinsurance (Reserve Cr & ModCo)

	L&A Carrier Name:		Surplus 2025		Total Affil Reins 2025
1	Athene Annuity & Life Co.	$	4,121,783,748	$	235,713,150,171
2	The Prudential Ins Co Am	$	15,909,283,246	$	74,505,257,098
3	RGA Reinsurance Co.	$	2,989,595,089	$	72,721,259,073
4	John Hancock Life Ins Co (USA)	$	10,527,069,109	$	60,934,169,592
5	Hannover Life Reassurance Co.	$	577,663,808	$	56,942,016,127
6	Pruco Life Insurance Co	$	5,821,450,377	$	56,544,447,642
7	Lincoln National Life Ins Co.	$	8,001,920,364	$	52,662,299,101
8	Equitable Finl Life Ins Co.	$	2,156,930,999	$	48,596,304,185
9	Cmnwlth Annty & Life Ins Co.	$	6,879,864,050	$	47,231,364,576
10	Forethought Life Insurance Co.	$	4,628,214,064	$	36,516,298,911
11	Amer Equity Invt Life Ins Co.	$	2,760,681,104	$	35,561,043,201
12	Venerable Insurance & Annty Co	$	1,812,286,411	$	34,363,418,677
13	Metropolitan Life Insurance Co	$	8,622,805,698	$	33,280,636,580
14	AuguStar Life Insurance Co.	$	1,986,296,494	$	29,473,160,587
15	Principal Life Insurance Co	$	4,802,261,588	$	24,501,796,608
16	The US Bus. The CAN Life Assr	$	284,412,368	$	24,455,992,562
17	Brighthouse Life Ins Co.	$	3,600,052,924	$	24,430,681,434
18	American General Life Ins Co.	$	12,503,238,854	$	22,672,056,004
19	Wilton Reassurance Co.	$	1,167,254,187	$	22,294,918,639
20	Massachusetts Mutl Life Ins Co	$	29,227,071,601	$	22,252,208,176

	L&A Carrier Name:		Surplus 2025		Total Affil Reins 2025
21	Frst Allmerica Finl Life Ins C	$	147,818,878	$	21,971,816,746
22	Amer Natl Ins Co	$	2,418,468,725	$	21,171,843,005
23	Symetra Life Insurance Co.	$	2,711,083,413	$	20,401,832,760
24	Talcott Resolution Life&Annty	$	736,495,132	$	19,432,220,847
25	Jackson Natl Life Ins Co of NY	$	721,897,143	$	18,233,660,834
26	Transamerica Life Insurance Co	$	5,281,190,503	$	17,692,782,584
27	The Variable Annty Life Ins Co	$	2,552,191,297	$	17,502,375,822
28	Pruco Life Insurance Co. NJ	$	1,354,369,637	$	16,190,624,018
29	Banner Life Insurance Co.	$	652,235,599	$	14,751,699,559
30	Swiss Re L&H America Inc.	$	1,553,717,818	$	14,635,311,712
31	Principal National Life Ins Co	$	76,089,097	$	13,492,835,345
32	Midland National Life Ins Co.	$	5,139,913,397	$	13,284,604,382
33	Brighthouse Life Ins Co. of NY	$	784,965,153	$	12,907,583,058
34	North American Co. for L&H Ins	$	2,460,601,667	$	12,864,972,825
35	Munich Amer Reassurance Co.	$	723,936,172	$	11,393,007,244
36	Empower Annuity Ins Co. Am	$	4,332,905,489	$	11,122,511,859
37	Fidelity & Grty Life Ins (IA)	$	1,735,069,555	$	11,073,258,341
38	Eagle Life Insurance Co.	$	359,589,931	$	10,493,615,342
39	Pacific Life Insurance Co.	$	14,576,781,798	$	9,356,478,824
40	Protective Life Insurance Co.	$	5,390,160,160	$	9,336,550,094
Top 40 Carriers Surplus & Affil Reins:		**$**	**182,089,616,647**	**$**	**1,312,962,064,145**