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Insurers Take Bigger Risks Than Before 2008-09 Crisis

BY HEATHER GILLERS

Most insurance companies got through the 2008-09 financial crisis all right. A ratings firm just warned that the industry might not get through the next one unscathed.

A.M. Best published a report Friday that finds that the investment portfolios of insurers that sell annuities hold more risky debt than they did in 2007, the year before the worst downturn since the Great Depression. The ratings firm adds that annuity portfolios had a slightly smaller financial cushion in 2024—the most recent year for which data was available—than they did in 2007.

Annuity portfolios also held more investments that had been sold by companies with which they shared some affiliation (such as a common corporate owner).

“We’re significantly worse off,” said Erik Miller, A.M. Best senior director. “The chance of not being able to pay your claims is just higher.”

The study looked specifically at the reserves that insurers set aside to make payments on annuities, the savings vehicles that promise guaranteed income in retirement. In its examination, A.M. Best compared the 2024 investment portfolios that backed those annuities with a snapshot of a similar universe of portfolios in 2007.

Life and annuity insurers have snapped up some \$1 trillion in private-credit investments that promise high returns for investors willing to be patient. The trend was driven in part by several private-asset firms, including Apollo Global Management

and KKR, which acquired insurance companies and moved significant amounts of private debt onto their balance sheets. The arrangement can be lucrative for insurers (and the investing firms that draw fees for managing insurers’ accounts) and can increase income for policyholders. But it carries risks if underlying loans go bad.

A recent spate of problems in private credit, including some defaults and losses, have brought scrutiny to the sector, prompting individual investors in some funds to flee and dragging down stock prices for private-fund owners and exposed banks.

Annuity sales have doubled in the past decade. The Center for Retirement Research estimates that around 10% of older Americans now hold such policies. With that, the pool of money backing individual annuities has grown to nearly \$1.6 trillion, surging ahead of the dollar amount backing individual life-insurance policies.

In the worst-case scenario, when an insurer collapses, a guaranty fund supported by other insurers in its state helps pay claims. But those payments are capped and policyholders can end up losing much of the money they were promised.

Private Credit Companies!

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Insurance companies said their portfolios are well-protected against the additional risks that come with private credit. Note
The National Association of Insurance Commissioners, a group made up of the top insurance regulators in each state, said that regulators have closely monitored changing portfolios and have required insurers “to maintain capital appropriate to their risk profile.”

That conclusion was backed up by an October report from S&P Global Ratings. “Private credit may bring some added liquidity and complexity risks, but according to the S&P report, these risks are being handled responsibly,” said David Chavern, president and chief executive of the American Council of Life Insurers.

The Treasury Department said recently that it was planning a series of conversations about “emerging risks” and “risk management practices” in private credit with state insurance commissioners.

The insurance industry’s big wake-up call on risky assets wasn’t in 2008. Note It came in the late 1980s and early 1990s, when crumbling junk-bond portfolios led to losses. California regulators seized two major life-insurance companies two months in a row. Insurance portfolios now contain less risk than they did in the lead-up to that crisis, said Martin Weiss, founder of Weiss Ratings. But he said they are shakier than in 2008.

It wasn’t all smooth sailing in that crisis either. Plummeting bond and real-estate investments hit the portfolios of insurers hard just as they had to make payments on stocklinked annuity products that promised payouts when markets fell. Note Six insurance companies qualified for federal bailouts.

(That doesn’t include the \$85 billion loan the federal government gave the insurer **American International Group** so it wouldn’t be bankrupted by its ill-fated decision to sell swaps linked to subprime mortgages.)

In the aftermath, state regulators took crisis-proofing measures, establishing a financial-stability task force and subjecting life insurers to new stress-testing. The National Association of Insurance Commissioners developed a credit-analysis process for mortgage-backed securities so the group wouldn’t have to rely on credit-ratings companies.

In the decade of ultralow interest rates that followed the 2008-09 crisis, Note shifting portfolios presented new challenges for regulators. Higher-yielding private debt surged to nearly \$1 trillion of insurers’ \$6 trillion in invested assets, by A.M. Best’s count. More than \$400 billion of those credit instruments carry secret ratings available only to the issuer and investors.

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