Insurance Companies in Fund Finance

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Insurance companies (life, property and casualty, medical and reinsurance) have long been a mainstay among many credit managers' investor bases. In recent years, we've seen a stream of announcements of more formal partnerships between insurers and credit managers. Credit managers are investing in, or even forming, insurance companies. Insurance companies are awarding credit sponsors with expansive advisory mandates that far exceed even an anchor fund commitment. As insurance companies seek alternative yield sources and capital-efficient strategies, and as credit managers seek durable new sources of capital, fund finance offers compelling opportunities. Subscription lines, net asset value (NAV) facilities and rated-note feeder structures let insurance companies deploy balance-sheet capital into private markets while managing regulatory capital, credit and liquidity risks.

I. Insurance Companies as Lenders vs. Investors

At a high level, insurance companies can participate in fund finance by extending credit to private funds or investing directly in bespoke fund vehicles. When thoughtfully structured, both formats offer insurers structural credit enhancement and favorable risk-based capital (RBC) treatment from the National Association of Insurance Commissioners (NAIC). When insurance companies invest in credit strategies through a "fund finance" structure, they can minimize recovery uncertainty and isolate collateral from sponsor insolvency through bankruptcy-remote special purpose vehicles (SPVs), over-collateralization, subordination, liquidity facilities and multi-tier waterfalls in avenues that are not available when investing in the underlying asset class directly.

A. Insurance Companies as Lenders

Insurance company portfolios have historically featured enormous allocations to liquid assets, investment grade credit and large cash balances. As these investors naturally pursue higher current yields without sacrificing balance sheet resiliency, many have turned to fund finance products. As lenders, insurers typically enter into credit facilities secured by private fund assets or uncalled limited partner (LP) commitments. Floating-rate fund finance instruments allow insurers to diversify interest-rate exposure in rising-rate environments while preserving bond classification.

Facility Type	Key Features
Subscription Lines	**Floating Rate:** Floating-rate advance against uncalled commitments, typically at 100 bps above base rate or 150–200 bps above Secured Overnight Financing Rate (SOFR) or other reference rates, offers exposure to strong attractive risk adjusted returns in a proven product.
	Short Tenor: With maturity typically occurring in 2–3 years, insurance companies can reduce duration risk and use as a tool to balance their long-term liability goals.
	Strong Credit Profile: Sublines have historically low default rates and high recovery rates.
	Simple Collateral: Security interests in limited partnership agreements (LPAs) and capital call rights provide a clean structure with minimal operational complexity.
NAV Facilities	**Attractive Yield Premium:** NAV loans typically offer at least 350-500 bps over the reference rate, delivering strong, risk-adjusted returns.
	Structurally Enhanced Credit: Facilities consist of term loans sized to net asset value and are structured to protect against downsize risk with features like over-collateralization, liquidity backstops, loan-to-value (LTV) covenants and coverage tests.
	Liquidity Support: Many NAV facilities include liquidity backstops, which further strengthens credit quality and timely repayment.
	Predictable Cash Flow: Fixed amortization schedules and cash sweep provisions align with insurance companies' need for repayment predictability.
	Exposure to Private Assets: NAV facilities offer access to private fund portfolios (e.g., private credit, private equity, real estate, infra, etc.) that may be difficult to tap through conventional investment avenues. Compared to fixed income instruments, lending against diversified private asset pools may provide attractive yield premiums.
	Reduced Volatility: Because exposure is indirect and collateralized, insurers can benefit from private asset performance while mitigating mark-to-market pressures.
	Alignment with Long-term Liability Goals: NAV loans often have short to medium-term tenors, complementing insurers' extended liability profiles.

B. Insurance Companies as Investors

Insurance companies are increasingly allocating capital to structured fund finance by investing in rated note feeders, rated note funds, private collateralized loan obligations (CLOs) and collateralized fund obligations (CFOs). Typically, a significant majority of a structured fund financing is assigned investment-grade ratings. However, even when accounting for the RBC charge for below-investment

grade and non-rated debt and equity tranches, the resulting blended RBC charge presents a compelling RBC-adjusted return for regulated insurance companies. When properly structured, these structured fund financings qualify as bonds under regulatory guidelines, enjoying filing-exempt status and avoiding additional Securities Valuation Office (SVO) review. Furthermore, innovative structural features offer further RBC charge reductions for below-investment grade tranches of structured fund financings, which improves capital efficiency and strengthens stakeholder alignment.

Facility Type	Key Features
Single-Fund Rated Note Feeders	**Senior Debt Yield and Equity Buffer:** Feeder issues investment-grade senior notes at spreads of 165–250 bps over benchmarks and below-investment grade subordinated notes at higher yields, delivering an attractive incremental return for insurers. A dedicated 15-20 percent non-rated, residual slice absorbs first losses, aligning downside protection with insurers' conservative risk appetites.
	Structural Credit Enhancement: Waterfalls prioritize interest and principal payments, while cash-sweep triggers accelerate debt repayment when performance thresholds are breached. These structures also include healthy reserves to provide an additional liquidity cushion against temporary cash-flow gaps.
	Bond Treatment Under SSAP 23R/43R: When structured properly, these feeders qualify as bonds on the statutory balance sheet. This secures favorable risk-based capital charges and streamlined accounting recognition.
Fund-of-Fund Rated Note Feeders	**Diversified Collateral:** SPV-held LP interests give insurance companies exposure to private equity or private credit funds while diluting single-manager and sector concentration risk.
	Tranche Structuring with Favorable RBC Treatment: Senior debt tranches benefit from the lowest RBC charges (0–4 percent), preserving capital efficiency. Mezzanine tranches carry moderate charges (10–20 percent), offering balance of yield and risk. Equity slices incur higher RBC charges (30-45 percent), but serve as the first-loss buffer.
	Equity Credit Enhancement Supporting Senior Ratings: The dedicated equity tranche absorbs initial losses, creating a subordination cushion for rated debt. Enhanced protection enables rating agencies to assign investment-grade ratings to senior notes.
	Dual-layered Return Profile: Senior note investors earn a floating-rate spread over a benchmark (e.g., SOFR), matching insurers' liability duration. Equity tranche participation grants optionality on residual fund-level gains, capturing private-market

C. Other Insurance Company Products in Fund Finance

Beyond subscription facilities, NAV loans, CFOs and structured feeders, insurance companies are increasingly active in a broader suite of fund finance products.

GP Loans
Insurance companies are well-positioned to provide loans directly to general partners (GPs), often secured by GP commitments, carried interest streams or fee income. These facilities allow GPs to finance their own commitments into funds, bridge capital calls or balance cash flows. For insurers, GP loans offer short- to medium-term exposures with attractive yields and a natural alignment of interests, since repayment depends on the GP's participation in the fund.

Management Company Lines
Working capital facilities for management companies are another area where insurance companies have stepped in. These lines support day-to-day operations, seed investments or strategic growth initiatives of asset managers. From the insurer's perspective, management company lines provide exposure to established, fee-generating platforms with recurring revenue streams, while offering sponsors flexible liquidity additional leverage beyond fund-level asset-based facilities without diluting ownership.

CRT/SRT-Linked Products
Insurance companies are also increasingly engaged in credit risk transfer (CRT) and significant risk transfer (SRT) transactions. In these structures, insurers provide loans, guarantees or insurance products that absorb a portion of the credit risk from bank loan portfolios. By doing so, insurers enable banks to achieve regulatory capital relief without sacrificing premium or spread income. For insurers, CRT or SRT transactions can be structured to deliver bond-like treatment under statutory accounting with features like tranching and collateral protections that help insurers manage capital requirements more effectively. These products open the door for insurers to participate in wide-ranging credit markets with safeguards that temper volatility and enhance protection.

II. Considerations for Insurance Companies

Whether as a lender or an investor or acting in another capacity as a financing provider, insurance companies must carefully evaluate credit, collateral, structural and regulatory factors to ensure both strong risk management and continued favorable capital treatment.

Credit & Collateral Underwriting

- **Liquidity and Underlying Credit Quality**
    - The pristine creditworthiness of subscription lines is due to the conservative advance rates against unconditional capital commitments made by (often times high-credit quality institutional) investors. The principal reason structured fund financings do not have the

same perceived credit quality as subscription lines is the reduced degree of immediate liquidity in NAV and feeder fund collateral. A potential investor will look for satisfactory due diligence result, which is supported by (base case) sufficiency of cash reserves and clear mechanics for distributions to support durable cash flows.

- **Durability of Waterfalls & Priority of Payments**
  - Potential investors will simulate underlying asset under-performance to understand payment-in-kind (PIK) or deferred interest scenarios, the impact on required or expected amortization, catch-up mechanisms, cash sweeps and coverage tests. They will also examine any possibility of cash leakage in the waterfall and ultimate recovery rates.

Regulatory & Rating Resiliency

- **How Do I Know It's a "Bond" to Begin With?**
  - If an insurance investor is relying on a product's treatment as a bond under NAIC guidance, the investor and/or its counsel will scrutinize the product's terms in light of SSAP 23R/43R. This principle requires a "bond" to (i) have either a fixed or formula-based payment schedule; (ii) be "supported" by a pool of underlying assets that are expected to generate meaningful cash flows (safe-harbor if equal to or greater than 50 percent cash-flowing collateral); (iii) benefit from substantive credit enhancement (including, but not limited to, effective subordination and a robust capital base supporting the bond(s), guarantees and a quantum of underlying collateral well in excess of the bond(s)' principal amount); and (iv) isolation of the collateral from unrelated liabilities or losses.
  - The final prong of that test, ring-fencing the collateral, is typically substantiated by restricting the SPV issuing the bond(s) to just that: a single or special purpose. The SPV issuer should be structured to have its own finance and reporting responsibilities (which can be carried out by the collateral manager), independent governance, segregated accounts, covenants or independent directors preventing upstream mergers or consolidation with other entities, and some documentation should include non-petition and limited recourse provisions. Some (but not all) fund financings will also include a non-consolidation opinion.

- **Who Gets to Decide?**
  - If rated by a Nationally Recognized Statistical Rating Organization (NRSRO), the bond is considered "filing-exempt." However, the SVO can review or revoke that exemption if the bond's rating differs by three or more notches from the SVO's assessment. For example, if an insurance company is classifying a bond as A- but the SVO's assessment is that the bond's credit risk is BBB-, the insurance company may have to reclassify and possibly incur a greater RBC charge. This is why periodic renewals of bond ratings and the quality of the NRSRO's ratings report are so important to insurance investors.

Why Is This So Important for Insurance Companies?

- **RBC Asset Charges & Capital Efficiency**
  - The impact that RBC charges have on insurance company balance sheets and earnings (not to mention their wherewithal to honor claims) cannot be overstated. Consider an investment that carries a 12 percent internal rate of return (IRR) over 10 years where the insurance company must keep $45 on the sidelines for every $100 invested. The illustrative impact of that same IRR structured in an RBC-optimized manner could mean the same return with a fraction ($10) on the sidelines.
  - The NAIC's Risk-Based Capital framework determines the amount of capital that insurance companies must hold against different categories of invested assets. The application of the framework varies across insurer types with specific factors that set the required capital for each asset class. Below is a chart illustrating the capital charges applied to selected categories of invested assets for the three primary insurer types: Life, Property & Casualty (P&C) and Health.

NAIC RBC Asset Charges by Insurer Type

Bond RBC Factors	NAIC Des.	Ratings	Life	P&C	Health
NAIC 1	1A	AAA	0.16%	0.20%	0.30%
	1B	AA+	0.27%	0.40%	0.50%
	1C	AA	0.42%	0.60%	0.80%
	1D	AA-	0.52%	0.80%	1.10%
	1E	A+	0.66%	1.00%	1.40%
	1F	A	0.82%	1.30%	1.60%
	1G	A-	1.02%	1.50%	1.90%
NAIC 2	2A	BBB+	1.26%	1.80%	2.20%
	2B	BBB	1.52%	2.10%	2.50%
	2C	BBB-	2.17%	2.50%	3.10%
NAIC 3	3A	BB+	3.15%	5.50%	6.90%
	3B	BB	4.54%	6.00%	7.60%
	3C	BB-	6.02%	6.60%	8.30%
NAIC 4	4A	B+	7.39%	7.10%	8.90%
	4B	B	9.54%	7.70%	9.70%
	4C	B-	12.43%	8.70%	11.00%
NAIC 5	5A	CCC+	16.94%	9.80%	12.30%
	5B	CCC	23.80%	10.90%	13.70%
	5C	CCC-	30.00%	12.00%	15.10%
NAIC 6	6	<CC	30.00%	30.00%	10.00%

Note: Factors are pre-tax, precovariance

III. Tell Me How To Make My Product Appealing to Insurance Investors!

Fund sponsors hoping to expand their investor base and raise capital from insurance investors must conform credit facility documents, fund structures and governance processes to align with these regulatory mandates and risk preferences.

Optimize Your RBC-Optimized Fund's Subscription Line Availability

- **Subscription Facility Enabling Provisions**
  - In addition to utilizing bankruptcy-remote SPVs, fund sponsors can mitigate the negative impacts to both themselves and their insurance investors by including bankruptcy or rating-breach triggers that trigger investors to only utilize equity commitments and to no longer use their unfunded debt or note purchase commitments. This can give subscription facility lenders the reassurance they need to provide financing against both the equity and debt commitments made to the fund, all while preserving the necessary "bond" classification.
  - Include carveouts for insurance companies from restrictions on competitors.
  - Ensure there are no restrictions that would prevent insurance company investors from purchasing and selling participations to enhance secondary market liquidity. Proactive Investor Relations and Governance

- **Advance Notice & Reporting**
  - Insurance investors are subject to unique operational and regulatory nuances. Some expect longer-than-typical capital call lead-times, more frequent (and robust) NAV and portfolio updates, and (tedious) compliance certificates that other investors don't need. In addition, expect to treat the rating agency almost like another investor with regular presentations and periodic reporting of particular Key Performance Indicators.

- **Early Diligence & Structuring Collaboration**
  - Be proactive with potential insurance investors in the product design phase. That will expedite their due diligence, side-letter negotiations and legal comments, allowing the first closing to be on time and on budget.

- **Continuous Monitoring & Compliance**
  - Maintain quarterly reporting on covenant compliance, liquidity-facility usage, cash-sweep executions and rating-agency developments. Address SVO queries and fund-finance documentation amendments promptly.

IV. Considerations for Bank Lenders

The entry of insurance companies into the fund finance marketplace is fundamentally reshaping the risk, regulatory, operational and competitive landscape for traditional bank lenders. For bank lenders, the entry of insurance companies has expanded the ability to sell down or syndicate fund finance risk — but they're not "stuff-ees!" Innovative rated note fund or feeder structures have grown (many of which include both bank debt and insurance-purchased bonds) and insurance participations are expanding, but the structural differences involved introduce new diligence and risk management imperatives.

- **Potential for Origination Volatility:** Non-bank lender participation in syndicated loans (including by insurance companies) can lead to increased origination volatility compared to traditional bank lenders, especially in market stress, as demonstrated during the recent COVID and financial crises.

- **Secondary Liquidity Risks:** Although insurer-driven capital may lower volatility in normal markets, it could exacerbate illiquidity in downturns as insurance entities have shown to retrench more sharply than banks in crisis periods — a phenomenon termed the "flight home effect". Banks should stress-test secondary pricing assumptions and negotiate assignment provisions that preserve transfer rights even when non-bank liquidity dries up.

- **Operational Flexibility and Limitations:** Evolving "competitor" definitions may classify insurers (or their affiliates) as restricted parties, hampering syndication or trading efforts. Thoroughly review facility language on non-consolidation, competitor carve-outs and transfer baskets.

- **Pricing Pressure and Margin Compression:** Insurance companies often accept thinner spreads than traditional bank lenders. Banks must balance the desire for syndication against the risk of margin erosion.

- **Rigorous Rating-Agency Validation:** Leading NRSROs perform thorough underwriting of the underlying investment strategy and investment management team before assigning credit ratings, giving insurers confidence in the feeder's credit profile.

- **In-Kind Contributions & Borrowing-Base Clauses:** Define acceptable collateral (cash, high-grade LP commitments or rated fund interests). Exclude illiquid or co-investment rights from advance rates.

The emergence of insurance companies as fund finance providers is not limited to subscription facilities, NAV loans and structured fund finance. Insurance investors are increasingly providing liquidity to general partners and management companies through CRT/SRTs, guarantees, CFOs and other structured finance and securitization products. Each of these presents unique opportunities for fund sponsors, as well as distinct regulatory and commercial considerations – all areas where experienced and specialized advice can add value and reduce friction.

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