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U.S. Insurers' Cash and Invested Assets Reach Almost $7 Trillion at Year-End 2019

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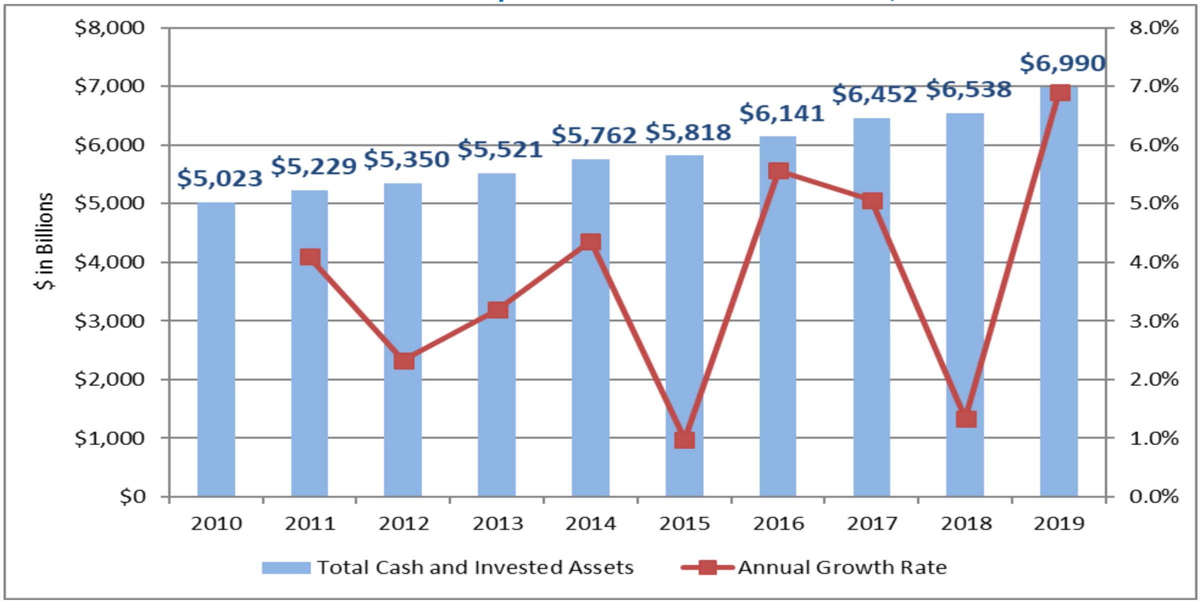
Executive Summary

- As of year-end 2019, the U.S. insurance industry reported almost $7 trillion in cash and invested assets, an increase of 6.9% compared to year-end 2018.
- Bonds continued to be the largest component of U.S. insurer assets, with common stocks the second largest. Mortgages and Schedule BA (Other Long-Term Assets) were the third and fourth largest categories, respectively.
- Exposure to less liquid assets, such as mortgages and Schedule BA assets, continued to increase as U.S. insurance companies seek yield in the lower-for-longer interest rate environment, and they accounted for more than 14% of the industry's total cash and invested assets as of year-end 2019.
- The credit quality of the U.S. insurance industry's bond portfolio as of year-end 2019 was unchanged compared to year-end 2018, and it primarily consisted of bonds designated NAIC 1 and NAIC 2, or 94.9% of exposure.
- Bond investment portfolios might experience some credit quality deterioration following record levels of negative rating actions at nationally recognized statistical rating organizations (NRSROs) in the first half of 2020.

U.S. insurance companies reported cash and invested assets, including affiliated and unaffiliated investments, of $6.99 trillion as of year-end 2019, an increase of 6.9% from $6.5 trillion at year-end 2018. Chart 1 shows the industry's total cash and invested assets on a book/adjusted carrying value (BACV) basis from 2010 through 2019, along with annual year-over-year (YOY) growth rates. While cash and invested assets have increased steadily on an absolute dollar basis since at least 2010, growth as a percentage of total assets has fluctuated. Growth in cash and invested assets at year-end 2019 was the largest increase during the time period analyzed; growth was the slowest at year-end 2015 and 2018 at less than 1.5%.

Chart 1: Historical U.S. Insurance Industry Total Cash and Invested Assets, 2010–2019



Note: Includes affiliated and unaffiliated investments.

Asset Allocations Remain Stable, But Illiquid Investments Continue to Rise

The U.S. insurance industry's asset allocations have not changed significantly since at least 2010. Bonds continue to be the largest component, representing 63.7% of total cash and invested assets at year-end 2019. Common stock investments were the second largest holding for the industry at 13.2% of total cash and invested assets, followed by mortgages at 8.6% and Schedule BA assets at 5.8%. (See Table 1).

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2019 (BACV$ in millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,213,563	1,095,558	141,323	5,299	4,455,744	63.7%
Common Stock	179,092	702,843	41,339	2,735	926,009	13.2%
Mortgages	578,642	23,143	183	43	602,011	8.6%
Schedule BA (Other Long-Term Assets)	214,996	171,682	15,479	172	402,329	5.8%
Cash & Short-Term Investments	123,443	119,770	43,558	1,750	288,520	4.1%
Contract Loans	134,059	2	1	-	134,062	1.9%
Derivatives	79,672	340	-	-	80,012	1.1%
Real Estate	23,361	13,838	5,763	228	43,191	0.6%
Perferred Stock	13,701	14,386	605	412	29,103	0.4%
Securities Lending (Reinvested Collateral)	16,157	4,680	952	-	21,789	0.3%
Other Receivables	5,094	1,604	236	1	6,936	0.1%
Total	**4,581,779**	**2,147,849**	**249,438**	**10,640**	**6,989,706**	**100%**
% of Total	65.6%	30.7%	3.6%	0.2%	100%	

Life companies continue to hold the largest share, or 65.6%, of the industry's total cash and invested assets in 2019, while property/casualty (P/C) companies accounted for 30.7% of total cash and invested assets. Note that the annual and quarterly reporting for life and fraternal insurance companies has been combined into one blank beginning with year-end 2019; the data in Table 1 and Table 2 reflects the new reporting standard.

Despite the relative stability of the mix of assets, the share of bonds in the industry's portfolio at year-end 2019 declined marginally to 63.7% from 65.7% at year-end 2018, while the share of common stocks increased to 13.2% from 12%. The common stock share increase can be attributed, in part, to the strong performance of the equity markets whereby the S&P 500 Index (S&P 500) experienced an annual increase of approximately 30% in 2019. On a BACV basis, the industry's exposure to common stock increased by 18% at year-end 2019 compared to year-end 2018, with P/C companies' BACV exposure increasing by more than 21% YOY.

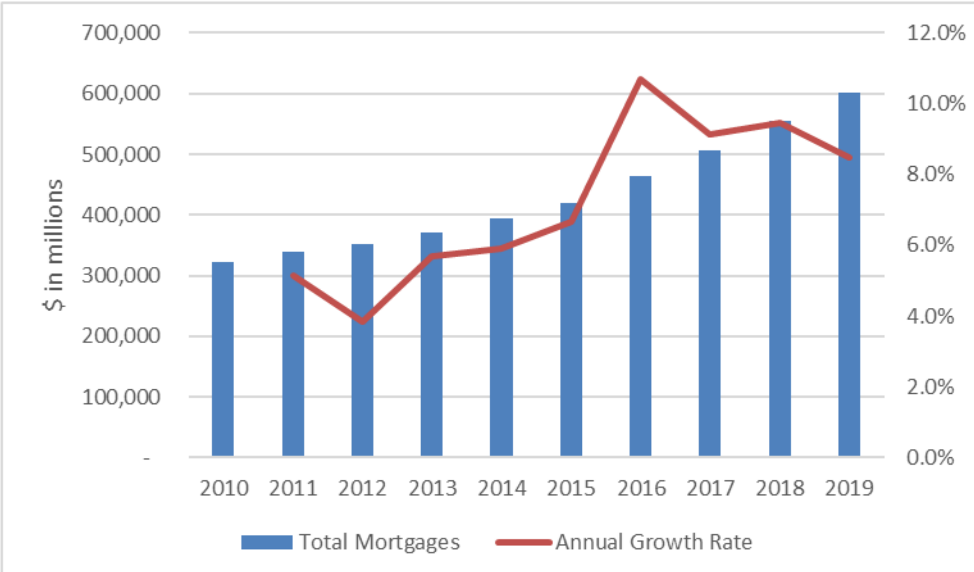
Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2018 (BACV$ in millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,107,868	1,054,242	128,601	5,150	4,295,861	65.7%
Common Stock	162,510	582,735	36,781	2,214	784,240	12.0%
Mortgages	533,972	20,799	145	54	554,970	8.5%
Schedule BA (Other Long-Term Assets)	195,526	156,355	13,377	171	365,429	5.6%
Cash & Short-Term Investments	107,474	103,741	40,615	1,426	253,257	3.9%
Contract Loans	132,238	3	0	-	132,241	2.0%
Derivatives	56,453	424	6	-	56,883	0.9%
Real Estate	20,764	13,768	5,728	229	40,489	0.6%
Preferred Stock	12,997	5,567	598	383	19,546	0.3%
Securities Lending (Reinvested Collateral)	13,170	4,996	998	-	19,164	0.3%
Other Receivables	9,111	6,665	470	10	16,256	0.2%
Total	**4,352,083**	**1,949,294**	**227,319**	**9,638**	**6,538,335**	**100%**
% of Total	66.6%	29.8%	3.5%	0.1%	100%	

Although the share of mortgages and Schedule BA assets in the industry's portfolio at year-end 2019 is relatively unchanged from the prior year, U.S. insurers' exposure as measured in terms of BACV to these two asset classes continues to increase. However, the share of mortgages and Schedule BA assets has increased to more than 14% of cash and invested assets as of year-end 2019 from under 11% at year-end 2010. With interest rates at very low levels for a number of years running, U.S. insurance companies have been seeking more attractive and higher yields in relatively illiquid investments, such as mortgage loans, private equity and hedge funds (the latter two are assets reported on Schedule BA). Although these asset classes generally offer higher yields than public corporate bonds, they are typically less liquid, have less credit and pricing transparency, and as such, are subject to greater price volatility.

The U.S. insurance industry's total exposure to mortgages was $602 billion at year-end 2019, an increase of 8.5% compared to year-end 2018. The pace of annual increases in mortgage exposure has slowed to below 9%, as compared to 9.5% in 2018, 9.1% in 2017, and 10.7% in 2016. However, the annual growth in mortgage loan exposure has exceeded the annual growth of cash and invested assets since 2011. Furthermore, over the last 10 years, the industry's exposure to mortgages has almost doubled, increasing by approximately 90% from 2010 to 2019. (See Chart 2).

Chart 2: Historical U.S. Insurance Industry Total Mortgages, 2010–2019

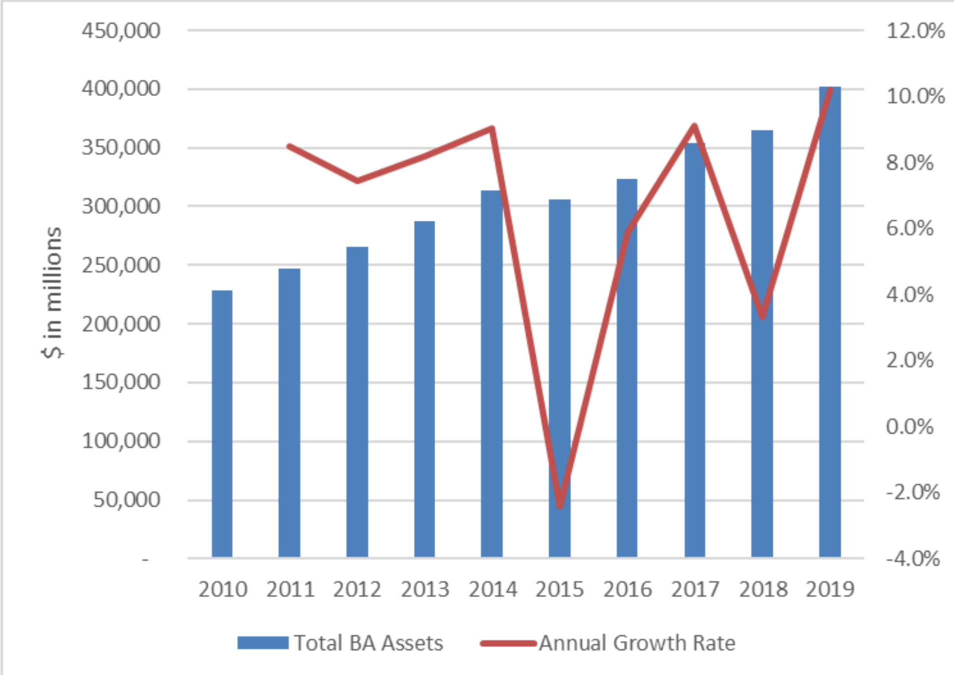


Life insurance companies hold approximately 96% of the industry's mortgages, as they match well with the long-term nature of their liabilities. In addition, commercial mortgage loans represent almost 90% of the industry's total mortgage exposure. For more details on mortgages, please refer to the NAIC Capital Markets Special Report titled "[U.S. Insurers' Exposure to Mortgage Loans Continues to Steadily Increase Through Year-End 2019.]"

Although life insurers' commercial loan portfolios have performed well historically and experienced minimal losses through previous economic and credit cycles, commercial mortgage loans with exposure to the retail and lodging sectors are susceptible to price volatility and lower valuations, given the immediate and long-term impacts of stay-at-home and social distancing measures to contain the COVID-19 pandemic and the resulting record unemployment levels. Retail and lodging commercial properties represented 18% and 4%, respectively, of the U.S. insurance industry's year-end 2019 mortgage loan holdings. For more details on retail commercial mortgage loans, please see the NAIC Capital Markets Special Report titled "[U.S. Insurers' Exposure to Retail Commercial Mortgage Loans at Year-End 2019.]"

Schedule BA assets, including affiliated and unaffiliated, held by U.S. insurance companies increased by more than 10% from year-end 2018 to $402 billion as of year-end 2019. (See Chart 3). The annual growth in Schedule BA exposure has generally exceeded the annual growth of cash and invested assets since 2011; the only exception during the time period analyzed was in 2015. Life companies accounted for 53% of the industry's total Schedule BA assets, P/C companies represented 43%, and health and title companies accounted for the remaining balance. In the last 10 years, the industry's exposure to Schedule BA assets has increased by more than 75%. The largest asset classes reported on Schedule BA include private equity, hedge funds and real estate.

Chart 3: Historical U.S. Insurance Industry Schedule BA Assets, 2010–2019



Although exposure to Schedule BA assets on an industry-wide basis is not significant, exposure concentrations as a percent of total cash and invested assets or total capital and surplus at individual insurers could be a concern.

Bond Credit Quality Remains Stable in 2019, But It May Experience Some Deterioration in 2020

The U.S. insurance industry reported $4.5 trillion in bonds at year-end 2019, an increase of 3.7% compared to year-end 2018. Corporate bonds and municipal bonds have remained the two largest bond types for U.S. insurers, representing 55.2% and 11.2%, respectively, of total bond exposure. Asset-backed securities (ABS) and other structured securities, agency-backed residential mortgage-backed securities (RMBS), and U.S. government bonds accounted for 9.2%, 6.6% and 6.4% of total bond exposure, respectively.

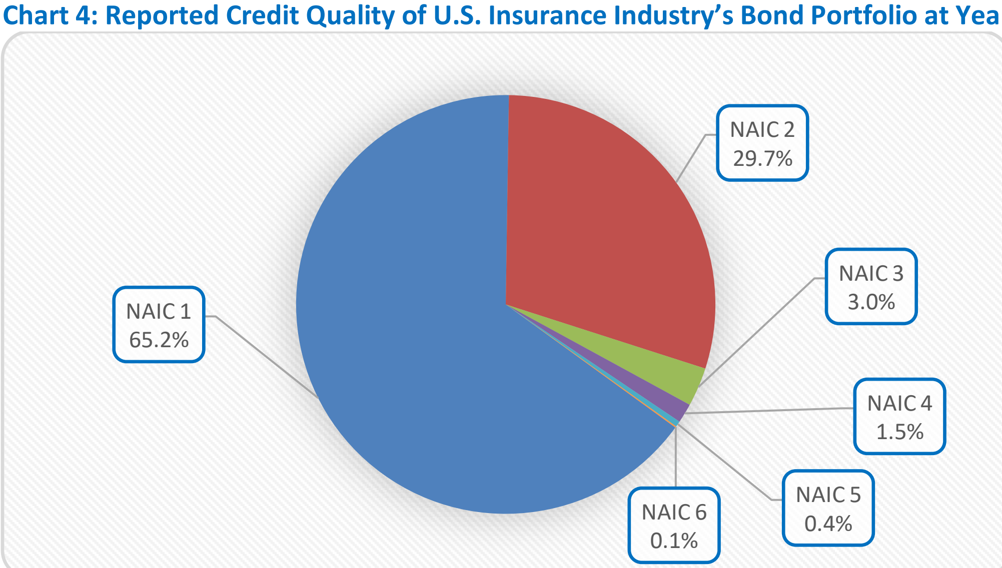
Exposure to ABS and other structured securities, private-label commercial mortgage-backed securities (CMBS), and agency-backed CMBS increased by 13%, 7% and 15%, respectively, at year-end 2019 compared to year-end 2018. Although exposure to bank loans, exchange-traded funds (ETFs), and bond mutual funds are minimal as a percent of total bonds, exposure in terms of BACV increased significantly, by 17%, 17% and 88%, respectively, in 2019 compared to 2018.

Table 3: Bond Breakdown by Insurer Type, Year-End 2019 (BACV$ in millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,003,171	399,994	54,939	2,504	2,460,609	55.2%
Municipal Bonds	202,995	273,273	19,760	1,090	497,118	11.2%
ABS and Other Structured Securities	316,535	82,146	11,829	21	410,530	9.2%
Agency-Backed RMBS	172,018	100,438	22,243	749	295,448	6.6%
U.S. Government	147,211	117,641	17,747	368	282,966	6.4%
Private-Label CMBS	143,217	41,575	6,033	21	190,846	4.3%
Private-Label RMBS	74,951	18,261	1,581	1	94,794	2.1%
Agency-Backed CMBS	53,773	28,323	2,060	91	84,246	1.9%
Foreign Government	46,185	17,736	840	306	65,067	1.5%
Bank Loans	47,767	13,256	1,590	145	62,759	1.4%
Hybrid Securities	2,507	100	0	-	2,607	0.1%
ETF-SVO Identified Funds	3,187	2,493	2,174	3	7,858	0.2%
Bond Mutual Funds-SVO Identified Funds	47	322	524	-	893	0.0%
Total	**3,213,563**	**1,095,558**	**141,321**	**5,299**	**4,455,742**	**100%**
% of Total	72.1%	24.6%	3.2%	0.1%	100%	

The credit quality of the U.S. insurance industry’s bond holdings has maintained its position compared to 2018. Investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 94.9% of total bonds, which is unchanged from 2018. Below-investment grade bonds, or those with reported NAIC 3 designations and below, represented 5.1% of bond exposure.

Chart 4: Reported Credit Quality of U.S. Insurance Industry’s Bond Portfolio at Year-End 2019



The COVID-19 pandemic and a sharp decline in oil prices in the first quarter of 2020 has resulted in significant pressure on credit quality. With most of the U.S. and many other countries practicing containment and mitigation measures, many companies have experienced an unprecedented level of business disruption. With this credit backdrop and general expectations for a slow economic recovery, the rating agencies have taken a record number of negative rating actions in the first half of 2020.

As of June 22, S&P Global Ratings (S&P) had taken almost 1,900 public rating actions on corporate and sovereign bonds where the COVID-19 pandemic, the oil price shock, or both were cited as a factor.

While approximately 30% of the rating actions affected investment grade issuers, the majority affected high-yield issuers, which tend to have weaker liquidity and refinancing profiles. Almost half of S&P's rating actions resulted in downgrades and affected about 20% of their rated corporate issuer universe. The U.S. insurance industry's corporate bond investment portfolio should be relatively insulated from the record level of negative rating actions, as it predominantly consists of higher credit quality companies who have greater financial flexibility to withstand the negative credit effects of macroeconomic shocks. However, it may nonetheless be subject to some credit quality deterioration as the credit impact resulting from the COVID-19 pandemic and the oil price shock was fairly broad-based.

Furthermore, almost 1,500 structured finance tranches rated by S&P experienced at least one rating action through June 19. More than 85% of the affected tranches were in North America. Collateralized loan obligations (CLOs), RMBS, and CMBS were the most affected structures. While the majority of the rating actions have been negative CreditWatch placements, 115 RMBS tranches and four CLO tranches have been downgraded. For more details on U.S. insurers' exposure to CLOs, please refer to the NAIC Capital Markets Special Reports titled "The Rise in the U.S. Insurance Industry's Exposure to Collateralized Loan Obligations as of Year-end 2019" and "Collateralized Loan Obligations – Stress Testing U.S. Insurers' Year-End 2019 Exposure."

The Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's various invested asset types and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at
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