The NAIC's Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the INDEX.

U.S. Insurers' Emerging Markets Investments as of Year-End 2019

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Executive Summary

- As of year-end 2019, U.S. insurers' investment in emerging markets bonds and stocks totaled $48.4 billion in book/adjusted carrying value (BACV), which was less than 1% of total cash and invested assets; bonds accounted for the majority, at $46.9 billion.
- The largest emerging markets country bond exposure for U.S. insurers was Mexico, at 28% of total emerging markets bonds; the largest emerging markets country stock exposure for U.S. insurers was China, at 34% of total emerging markets stocks.
- The largest emerging markets bond type was corporate; the largest sector within the emerging markets corporate bond exposure was energy, at 12% of total emerging markets corporate bonds.
- About 90% of U.S. insurers' exposure to emerging markets bonds was investment grade at year-end 2019, evidenced by NAIC 1 and NAIC 2 designations.
- According to the International Monetary Fund's World Economic Outlook (IMF WEO) dated October 2020, global growth—including in emerging market economies—is expected to contract in all economies in 2020 except for China, due in part to the economic impact of COVID-19.

While there is no universal definition for what constitutes emerging market countries, the IMF defines non-advanced economies as "emerging market and developing economies" (EM).[1] The countries that comprise emerging markets shift with changes in economic conditions; as such, emerging market economies can include those that might have been considered developed markets in the past. EM countries are included among five regions: Asia; Europe; Latin America and the Caribbean; Middle East and North Africa; and Sub-Saharan Africa. In this special report, the NAIC Capital Markets Bureau has analyzed the U.S. insurance industry's exposure to EM countries based on the IMF definition.

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[1] IMF, *World Economic Outlook Update,* October 2020.

U.S. Insurers' Exposure to EM Investments

At year-end 2019, U.S. insurers' EM investments totaled $48.4 billion in bonds and stocks (see Table 1), representing an approximate 5% decrease from $50.7 billion at year-end 2018 (see Table 2). Life companies accounted for the majority of U.S. insurers' EM exposure at year-end 2019, at 85% of total EM investments ($41.3 billion), followed by property/casualty (P/C) companies, at 13% of the total. Year-over-year (YOY), P/C and title companies' exposure decreased while health companies' exposure increased. The decrease in P/C exposure YOY included an approximate $360 million decline in the value of unaffiliated publicly traded common stock. Note that life company totals also include fraternal companies' exposures. For the U.S. insurance industry, EM investments have historically accounted for less than 1% of total cash and invested assets.

Table 1: U.S. Insurers' EM Investments, Year-End 2019 ($BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	$ 41,192,322,933	$ 5,112,517,310	$ 46,766,969	$ 564,066,079	$ 46,915,673,291	97%
Common and Preferred Stock	$ 236,186,132	$ 1,316,605,869	$ 3,612,305	$ 50,604,684	$ 1,607,008,990	3%
Total	**$ 41,317,322,945**	**$ 6,429,123,179**	**$ 50,379,274**	**$ 614,670,763**	**$ 48,411,496,161**	**100%**
% of Total	85%	13%	0%	1%	100%	

Table 2: U.S. Insurers' EM Investments, Year-End 2018 ($BACV)

Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	$ 42,166,467,852	$ 5,952,452,781	$ 41,607,045	$ 569,542,876	$ 48,730,070,554	96%
Common and Preferred Stock	$ 240,229,617	$ 1,683,832,181	$ 19,588,259	$ 47,790,115	$ 1,991,440,172	4%
Total	**$ 42,406,697,469**	**$ 7,636,284,962**	**$ 61,195,304**	**$ 617,332,991**	**$ 50,721,510,726**	**100%**
% of Total	84%	15%	0%	1%	100%	

U.S. Insurer Exposure to EM Bonds

U.S. insurers' exposure to EM bonds has been in the $40 billion range since at least 2013. About 58% of the industry's EM bond investments were in corporate bonds at year-end 2019 (see Table 3), which were diversified across several sectors. The top two sectors within the industry's EM corporate bond exposure were energy and utilities, at 12% and 11% of total EM corporate bonds, respectively. A potential risk for some energy bonds is oil price fluctuations. Oil prices collapsed in early 2020, dipping to their lowest level in more than 20 years, but they have since stabilized. While U.S. insurers' overall exposure to EM energy bonds is relatively low, exposure—and, in turn, credit risk—may vary among individual insurers.

About 40% of U.S. insurers' EM bond exposure was in government bonds at year-end 2019, which includes sovereign debt. As such, credit quality of these investments is important. EM government bonds are subject to sovereign risk; that is, economic and geopolitical events within the relative EM country could impact its ability to make full and timely debt service payments. U.S. insurers' largest country exposure to EM government bonds was with Indonesia, at approximately $2.8 billion, followed by Mexico, at $2.0 billion; the sovereign debt for both countries is rated investment grade by at least two of the nationally recognized statistical rating organizations.

Table 3: U.S. Insurers' EM Bond Exposure by Sector ($BACV), Year-End 2019

Country	Corporate Bonds	Foreign Government	Other	Total
Argentina	$ 126,050,436	$ 255,589,282	$ -	$ 381,639,718
Brazil	$ 665,923,071	$ 457,706,042	$ 43,077,570	$ 1,166,706,683
Chile	$ 6,056,810,362	$ 1,307,005,459	$ 10,340,028	$ 7,374,155,849
China	$ 1,287,966,953	$ 103,305,534	$ -	$ 1,391,272,487
Colombia	$ 883,170,753	$ 1,929,963,941	$ -	$ 2,813,134,694
Czech Republic	$ 88,616,099	$ 34,589,389	$ -	$ 123,205,488
Egypt	$ 2,177,884	$ 133,875,122	$ -	$ 136,053,006
Greece	$ 7,422,759	$ 71,453	$ -	$ 7,494,212
Hungary	$ 176,484,883	$ 804,966,418	$ -	$ 981,451,301
India	$ 889,625,628	$ 572,078,782	$ 62,051,326	$ 1,523,755,736
Indonesia	$ 1,402,630,252	$ 2,825,615,787	$ 23,504,299	$ 4,251,750,338
Malaysia	$ 465,872,788	$ 279,552,757	$ -	$ 745,425,545
Mexico	$ 10,864,619,331	$ 2,079,014,918	$ 284,052,162	$ 13,227,686,411
Pakistan	$ 495,603	$ 15,495,016	$ 6,231,970	$ 22,222,589
Peru	$ 1,478,996,075	$ 1,045,700,563	$ 4,187,967	$ 2,528,884,605
Philippines	$ 19,640,522	$ 651,855,349	$ -	$ 671,495,871
Poland	$ -	$ 1,016,540,667	$ 51,642,764	$ 1,068,183,431
Qatar	$ 342,297,396	$ 966,404,066	$ 23,650,386	$ 1,332,351,848
Russia	$ 330,776	$ 858,563,970	$ -	$ 858,894,746
Saudi Arabia	$ 83,236,079	$ 1,576,511,309	$ -	$ 1,659,747,388
South Africa	$ 115,510,649	$ 698,744,782	$ -	$ 814,255,431
Thailand	$ 180,035,667	$ -	$ -	$ 180,035,667
Turkey	$ 710,300,211	$ 557,430,457	$ 28,321,263	$ 1,296,051,931
United Arab Emirates	$ 1,447,211,912	$ 891,216,621	$ 21,389,783	$ 2,359,818,316
Grand Total	**$ 27,295,426,089**	**$ 19,061,797,684**	**$ 558,449,518**	**$ 46,915,673,291**
	58%	41%	1%	100%

EM Bond Exposure by Country

In terms of the U.S. insurance industry's exposure to EM countries, consistent with year-end 2018, the largest five countries comprised almost 70% of the U.S. insurance industry's total EM bond investments as of year-end 2019. The top two countries—Mexico and Chile—accounted for $13.2 billion and $7.3 billion, respectively, which together was almost half of U.S. insurers' total EM bond exposure at year-end 2019 (see Table 4).

Table 4: U.S. Insurers' EM Bond Exposure ($BACV), Year-End 2019

Country	Life	P/C	Title	Health	Total	% of Total
Mexico	$ 11,526,336,932	$ 1,544,016,171	$ 12,625,542	$ 144,707,766	$ 13,227,686,411	28%
Chile	$ 6,808,672,593	$ 531,326,317	$ 3,883,640	$ 30,273,299	$ 7,374,155,849	16%
Indonesia	$ 3,690,824,426	$ 496,964,763	$ 11,938,556	$ 52,022,593	$ 4,251,750,338	9%
Colombia	$ 2,423,959,054	$ 336,639,040	$ 6,522,764	$ 46,013,836	$ 2,813,134,694	6%
Peru	$ 2,257,374,790	$ 242,509,896	$ 2,270,236	$ 26,729,683	$ 2,528,884,605	5%
United Arab Emirates	$ 1,959,250,207	$ 361,615,744		$ 38,952,365	$ 2,359,818,316	5%
Saudi Arabia	$ 1,543,769,350	$ 95,598,356		$ 20,379,682	$ 1,659,747,388	4%
India	$ 1,145,696,363	$ 363,266,947	$ 1,010,384	$ 13,782,042	$ 1,523,755,736	3%
China	$ 1,076,028,804	$ 257,272,430	$ 2,648,916	$ 55,322,337	$ 1,391,272,487	3%
Qatar	$ 1,257,783,185	$ 59,652,057	$ 1,994,393	$ 12,922,213	$ 1,332,351,848	3%
Turkey	$ 1,219,168,292	$ 57,014,705		$ 19,868,934	$ 1,296,051,931	3%
Brazil	$ 1,081,090,476	$ 71,116,512	$ 495,993	$ 14,003,702	$ 1,166,706,683	2%
Poland	$ 992,198,608	$ 70,974,602	$ 208,557	$ 4,801,664	$ 1,068,183,431	2%
Hungary	$ 831,095,375	$ 136,312,809	$ 2,147,625	$ 11,895,492	$ 981,451,301	2%
Russia	$ 733,629,426	$ 105,907,453		$ 19,357,867	$ 858,894,746	2%
South Africa	$ 728,638,859	$ 68,600,723	$ 1,020,363	$ 15,995,486	$ 814,255,431	2%
Malaysia	$ 670,929,970	$ 71,792,307		$ 2,703,268	$ 745,425,545	2%
Philippines	$ 568,870,020	$ 90,443,994		$ 12,181,857	$ 671,495,871	1%
Argentina	$ 295,239,873	$ 74,224,133		$ 12,175,712	$ 381,639,718	1%
Thailand	$ 166,376,166	$ 12,312,701		$ 1,346,800	$ 180,035,667	0%
Egypt	$ 96,263,651	$ 31,159,874		$ 8,629,481	$ 136,053,006	0%
Czech Republic	$ 100,610,083	$ 22,595,405			$ 123,205,488	0%
Pakistan	$ 18,516,430	$ 3,706,159			$ 22,222,589	0%
Greece	$ -	$ 7,494,212			$ 7,494,212	0%
Grand Total	**$ 41,192,322,933**	**$ 5,112,517,310**	**$ 46,766,969**	**$ 564,066,079**	**$ 46,915,673,291**	**100%**
% of Total	88%	11%	0%	1%	100%	

For the five EM countries with the largest bond exposures, as of mid-October, the IMF forecasted an average -7.7% real gross domestic product (GDP) growth rate in 2020 (see Table 5), with Peru having the largest contraction, at 13.9%.

Table 5: Profile of Top Five U.S. Insurers' EM Bond Exposures, as of October 2020

Country	Long-Term Sovereign Debt Ratings (S&P/Moody's/Fitch)	2019 GDP	Projected 2020 GDP
Mexico	BBB/Baa1/BBB-	-0.1%	-9.0%
Chile	A+/A1/A	1.1%	-6.0%
Indonesia	BBB/Baa2/BBB	5.0%	-1.5%
Colombia	BBB/Baa2/BBB-	3.3%	-8.2%
Peru	BBB+/A3/BBB+	2.2%	-13.9%

Sources: S&P/Moody's/Fitch, World Bank, IMF (as of Oct. 14, 2020).

Mexico

Mexico has historically accounted for the U.S. insurance industry's largest EM country exposure, dating back to at least 2016. Mexico's economy has been negatively impacted by the COVID-19 pandemic, as well as lower global oil prices. Mexico's economy fared worse than expected in the second quarter of

2020 due, in part, to limited government stimulus, according to an S&P Global (S&P) report.[2] Also, according to S&P, Mexico has experienced not only a decrease in domestic demand, but also reduced demand for Mexican exports by the U.S., which accounts for 80% of Mexico's merchandise exports. In addition, a change in energy policy, as directed by Mexico's President Andrés Manuel López Obrador, has also resulted in increased reliance on government-owned Petróleos Mexicanos (Pemex) for oil production.[3] The IMF projects Mexico's growth to contract -9% in 2020 compared to -0.1% in 2019. Mexico has a diverse economy with a high linkage to U.S. economic activity.

Chile

According to the IMF, Chile's GDP is expected to contract -6% in 2020, after achieving 1.1% growth in 2019. Like other countries, Chile's economy has been hurt by the COVID-19 pandemic and drop in commodity prices. Chile is a large exporter to China, particularly with metals (Chile is one of the largest copper exporters). Lack of demand for exports by China—along with ongoing political change domestically and large, public protests in 2019—are expected to negatively impact Chile's public finances, according to S&P research; it has, however, benefitted from a "sizable fiscal stimulus" suggesting that Chile's economy is "among the better placed in Latin American economies to start recovering in the second half of this year."

U.S. Insurer EM Bond Investments by Region

In terms of EM regions, Latin America has historically accounted for the largest proportion of U.S. insurer EM bond investments (see Chart 1) since at least 2014, followed by investments in Asia. Latin America includes investments in EM countries domiciled in North America, South America and Central America and accounted for 59% of U.S. insurers' EM bond investments at year-end 2019. Asian EM bonds accounted for 35%. In June 2020, S&P described Latin America as "the global epicenter of the COVID-19 pandemic, with the number of new daily reported infections increasing, or remaining close to recent peaks, in most major countries."[4]

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[2] S&P Global, *Emerging Markets: A Tenuous and Varied Recovery Path*, October 2020.
[3] S&P Global, *Mexico Foreign Currency Rating Lowered to 'BBB and Local Currency to 'BBB+' on Hit to Trend Growth; Outlook Negative*, March 2020.
[4] S&P Global, *Economic Research: Latin American Economies Are Last in and Last Out of the Pandemic*, June 2020.

Chart 1: U.S. Insurers' Historical EM Bond Investments by Region, 2014–2019 ($bil BACV)
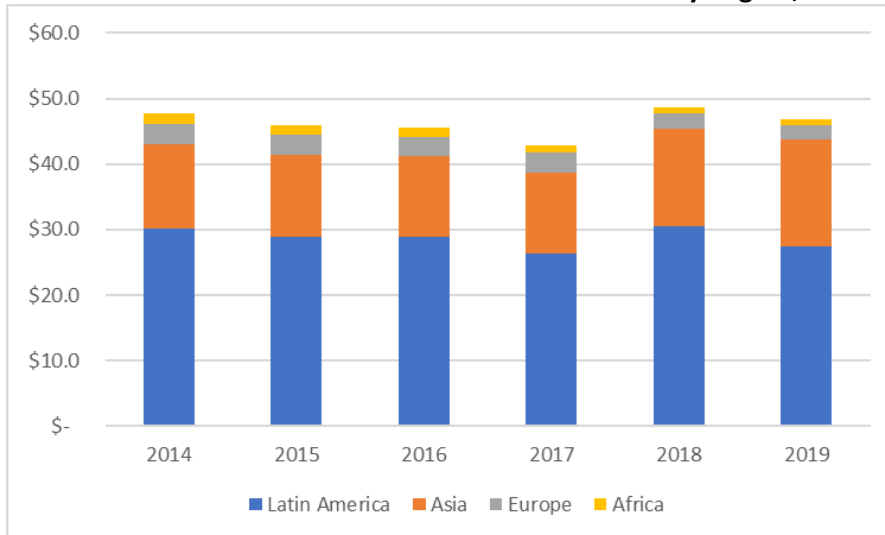
EM Bond Credit Quality

About 90% of the U.S. insurance industry's EM bond exposure carried NAIC 1 and NAIC 2 designations at year-end 2019, implying investment grade credit quality, as shown in Chart 2. There were no EM bonds carrying NAIC 6 designations.

Chart 2: NAIC Designations for U.S. EM Bond Investments, Year-End 2019
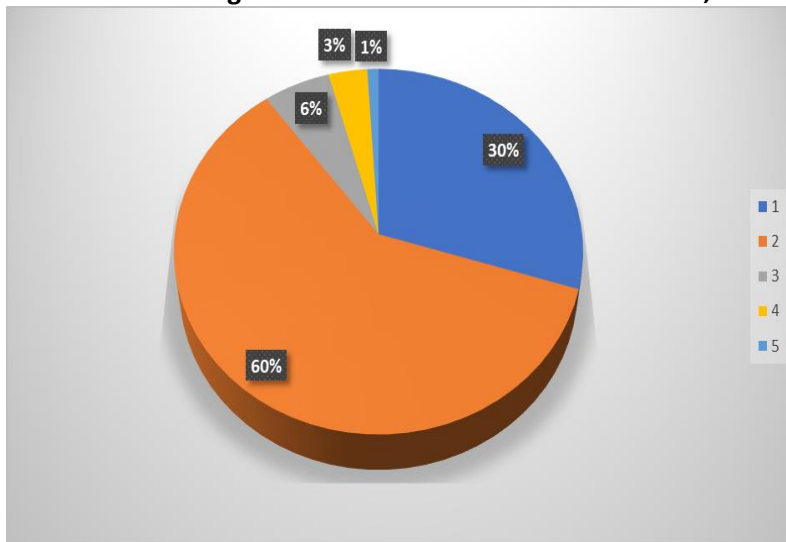
U.S. Insurers' EM Stock Exposure

As of year-end 2019, U.S. insurer common and preferred unaffiliated stock investments totaled $1.6 billion (see Table 6), which was a decrease from almost $2.0 billion at year-end 2018. EM stocks were less than 1% of the U.S. insurance industry's exposure to EM investments at both year-end 2019 and year-end 2018. The largest EM country stock exposure was with China, at $546 million, or 34% of

total EM stock exposure at year-end 2019. The top three investments in EM stocks accounted for almost 75% of the U.S. insurance industry's total EM stock exposure at year-end 2019. P/C companies accounted for the majority of U.S. insurers' EM stock exposure at year-end 2019, at 82% of total EM stocks.

Table 6: U.S. Insurers' EM Common and Preferred Unaffiliated Stocks ($BACV), Year-End 2019

Country	Life	P/C	Title	Health	Total	% of Total
China	$ 159,155,099	$ 378,131,807		$ 9,198,383	$ 546,485,289	34%
Greece	$ 4,666,759	$ 455,914,889		$ 306,260	$ 460,887,908	29%
Egypt		$ 181,168,745			$ 181,168,745	11%
Mexico	$ 1,372,909	$ 99,666,947	$ 3,612,305	$ 20,058,449	$ 124,710,610	8%
India	$ 46,085,953	$ 41,581,884		$ 1,832,390	$ 89,500,227	6%
Taiwan	$ 9,053,098	$ 54,984,475		$ 9,885,969	$ 73,923,542	5%
Brazil	$ 9,012,852	$ 41,983,079		$ 3,860,702	$ 54,856,633	3%
Colombia	$ 110,392	$ 20,597,493		$ 21,753	$ 20,729,638	1%
South Africa	$ 2,130,266	$ 12,459,724		$ 2,831	$ 14,592,821	1%
Russia	$ 1,652,599	$ 12,089,519		$ 9,038	$ 13,751,156	1%
Others	$ 2,946,205	$ 18,027,307	$ -	$ 5,428,909	$ 26,402,421	1%
Grand Total	**$ 236,186,132**	**$ 1,316,605,869**	**$ 3,612,305**	**$ 50,604,684**	**$ 1,607,008,990**	**100%**
	15%	82%	0%	3%	100%	

China

China is the world's second-largest economy, and real GDP growth is expected to be 1.9% in 2020, down from 6.1% in 2019, according to the IMF. China is the only EM country expected to experience GDP growth in 2020. Even though China was the first to experience the COVID-19 outbreak, the IMF stated that "financial conditions…have been broadly stable, in contrast with other countries. This may have reflected, among other things, still limited external financial linkages, a strong role of government-owned financial institutions and firms, and early proactive efforts by the authorities that helped stabilize market conditions and sentiment."[5] As of mid-October 2020, China's GDP had expanded by 4.9% in the third quarter, putting its economy back on track to where it was prior to the pandemic.

EM Economic Trends

Global Economic Growth

Because of better-than-expected second-quarter 2020 growth, the IMF WEO dated October 2020 projects global growth to be -4.4% in 2020, an upward revision from its June 2020 forecast of -4.9%. The IMF's revised forecast is based on "…second quarter GDP [gross domestic product] outturns in large advanced economies, which were not as negative as we had projected; China's return to growth, which was stronger than expected; and signs of a more rapid recovery in the third quarter."[6] In addition, the IMF projects that recovery will likely be "long, uneven, and uncertain," and it will likely strengthen

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[5] IMF, *Global Financial Stability Report*, April 2020.
[6] IMF, *World Economic Outlook*, October 2020, p. xiii.

into 2021. A high level of uncertainty regarding the economy continues; however, as lockdowns have been lifted and economies are gradually reopening, each region, industry and asset type, for example, are affected differently. That said, in certain parts of the world, there have been recent spikes in reported COVID-19 cases, or "hot spots," that add to the uncertainty.

For EM countries, aggregate economic growth was 3.6% in 2019, according to the IMF WEO dated October 2020 (see Table 7). EM countries in Asia demonstrated stronger growth than other EM areas, at 5.7%. China's growth in 2019 exceeded both the U.S. and overall global growth. Its economy has benefitted, in part, from the country's role as a vital global supply chain source.

As of October 2020, the IMF has forecasted growth in 2020 for all EM countries to be -3.3%. Excluding China, growth in EM countries is projected to be -5.7% in 2020. Growth in emerging Europe is expected to be -4.6% in 2020, compared to 2.1% in 2019, and Latin America/Caribbean is expected to achieve -8.1% growth, compared to no growth in 2019. According to the IMF WEO dated October 2020, EM economies continue to be negatively affected by a combination of the continued spread of COVID-19, an overwhelmed healthcare system, a significant negative impact on tourism (an important sector) and dependence on external finance.

Table 7:

Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	2019	Projections 2020	Projections 2021	Difference from June 2020 WEO *Update*[1] 2020	Difference from June 2020 WEO *Update*[1] 2021
World Output	2.8	−4.4	5.2	0.8	−0.2
Advanced Economies	1.7	−5.8	3.9	2.3	−0.9
United States	2.2	−4.3	3.1	3.7	−1.4
Euro Area	1.3	−8.3	5.2	1.9	−0.8
Germany	0.6	−6.0	4.2	1.8	−1.2
France	1.5	−9.8	6.0	2.7	−1.3
Italy	0.3	−10.6	5.2	2.2	−1.1
Spain	2.0	−12.8	7.2	0.0	0.9
Japan	0.7	−5.3	2.3	0.5	−0.1
United Kingdom	1.5	−9.8	5.9	0.4	−0.4
Canada	1.7	−7.1	5.2	1.3	0.3
Other Advanced Economies[2]	1.7	−3.8	3.6	1.1	−0.6
Emerging Market and Developing Economies	3.7	−3.3	6.0	−0.2	0.2
Emerging and Developing Asia	5.5	−1.7	8.0	−0.9	0.6
China	6.1	1.9	8.2	0.9	0.0
India[3]	4.2	−10.3	8.8	−5.8	2.8
ASEAN-5[4]	4.9	−3.4	6.2	−1.4	0.0
Emerging and Developing Europe	2.1	−4.6	3.9	1.2	−0.3
Russia	1.3	−4.1	2.8	2.5	−1.3
Latin America and the Caribbean	0.0	−8.1	3.6	1.3	−0.1
Brazil	1.1	−5.8	2.8	3.3	−0.8
Mexico	−0.3	−9.0	3.5	1.5	0.2
Middle East and Central Asia	1.4	−4.1	3.0	0.4	−0.5
Saudi Arabia	0.3	−5.4	3.1	1.4	0.0
Sub-Saharan Africa	3.2	−3.0	3.1	0.2	−0.3
Nigeria	2.2	−4.3	1.7	1.1	−0.9
South Africa	0.2	−8.0	3.0	0.0	−0.5

Source: IMF *World Economic Outlook*, October 2020.

According to the IMF's *Financial Stability Report* published in October 2020, global financial stability risks have been met with unprecedented and timely policy response such that a "bridge to recovery" has been maintained.[7] These risks are, in part, the result of the economic impact of the COVID-19 pandemic. According to the report, some EM economies may face financing challenges that could result in debt distress or financial instability; accommodative policies will be essential to sustained recovery as economies reopen.

The NAIC Capital Markets Bureau will continue to monitor the U.S. insurance industry's EM exposure, as well as economic and geopolitical developments that could affect these exposures; we will provide updates as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

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[7] IMF, *Bridge to Recovery: Financial Stability Report*, October 2020.