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## U.S. Insurer Exposure to Foreign Investments as of Year-End 2019

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### Executive Summary

- U.S. insurer exposure to foreign investments decreased by 5% to \$566 billion in book/adjusted carrying value (BACV) at year-end 2019 from \$597.7 billion at year-end 2018 (including bonds, common stocks and preferred stocks).
- Total foreign bonds at year-end 2019 were \$529.3 billion, or 94% of total foreign investments, compared to \$562 billion at year-end 2018.
  - Corporate bonds were the largest foreign bond type, at 87% of total foreign bonds, or \$468.1 billion; corporate bonds in the financial sector accounted for about \$112 billion of this total.
  - Common stock comprised the majority (93%) of the U.S. insurance industry's total \$36.7 billion foreign stock exposure (that is, \$34.9 billion); unaffiliated common stock represented \$18.3 billion, or 53% of total common stock.
- The United Kingdom (UK) accounted for the U.S. insurance industry's largest foreign bond exposure (including corporate and sovereign debt) at 20% of the total, followed by Canada at 19% of total foreign bonds.
- Eurozone countries accounted for \$140 billion of total foreign bond investments (including corporate and sovereign debt), with the Netherlands representing the largest country exposure (\$47.9 billion).
- Approximately \$77.5 billion, or 14% of total foreign bonds, were denominated in foreign currencies, the largest of which was the British pound at approximately \$25 billion.
- The UK accounted for the largest unaffiliated foreign stock exposure at \$3.6 billion, followed by Switzerland and Canada at \$2.7 billion and \$2.5 billion, respectively.

### U.S. Insurer Exposure

For U.S. insurers, foreign investments are defined as exposure to any entity domiciled outside of the U.S. It excludes, however, to the best of our abilities, structured securities that are technically domiciled in foreign countries (such as Bermuda, Cayman Islands and Ireland) for legal and tax reasons, but where there is no obvious exposure to the economy of the respective country.

The U.S. insurance industry’s foreign exposure (including bonds, common stocks [affiliated and unaffiliated] and preferred stocks) was \$566 billion in BACV at year-end 2019; 94% of the exposure consisted of bonds. (See Table 1.) This represented a 5.2% decrease from \$597.7 billion in total foreign investments at year-end 2018. (See Table 2.) Total foreign investments represented about 8% of the U.S. insurance industry’s total cash and invested assets at year-end 2019. Consistent with year-end 2018, life companies accounted for the largest exposure to foreign investments at 80% of the total. Note that fraternal companies’ exposure is included with life companies’ exposure.

**Table 1: U.S. Insurer Foreign Investments, Year-End 2019 (\$BACV)**

Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	\$ 446,976,793,745	\$ 74,137,625,293	\$ 592,467,027	\$ 7,595,064,556	\$ 529,301,950,621	94%
Common Stock	4,415,428,850	28,755,193,895	102,691,659	973,438,975	34,246,753,379	6%
Preferred Stock	1,832,672,970	628,180,108	137,728	10,777,284	2,471,768,090	0%
<b>Total</b>	<b>\$ 453,224,895,565</b>	<b>\$ 103,520,999,296</b>	<b>\$ 695,296,414</b>	<b>\$ 8,579,280,815</b>	<b>\$ 566,020,472,090</b>	<b>100%</b>
% of Total	80%	18%	0%	2%	100%	

**Table 2: U.S. Insurer Foreign Investments, Year-End 2018 (\$BACV)**

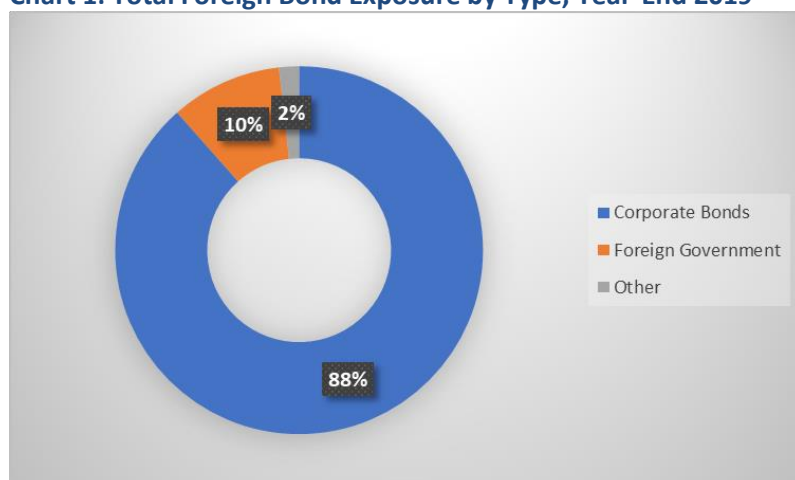
Asset Type	Life	P/C	Title	Health	Total	% of Total
Bonds	\$ 471,893,020,508	\$ 82,184,828,118	\$ 545,844,698	\$ 8,090,452,800	\$ 562,714,146,124	94%
Common Stock	\$ 4,048,815,533	\$ 27,386,135,953	\$ 102,369,197	\$ 903,689,989	\$ 32,441,010,672	6%
Preferred Stock	\$ 1,841,869,356	\$ 671,657,526	\$ 251,154	\$ 15,169,226	\$ 2,528,947,262	0%
<b>Total</b>	<b>\$ 477,783,705,397</b>	<b>\$ 110,242,621,597</b>	<b>\$ 648,465,049</b>	<b>\$ 9,009,312,015</b>	<b>\$ 597,684,104,058</b>	<b>100%</b>
% of Total	80%	18%	0%	2%	100%	

## Foreign Bonds

### *Bond Types and Credit Quality*

Similar to years prior, the majority of the U.S. insurance industry’s foreign investments was in bonds at \$529.3 billion, or 94% of total foreign investments, at year-end 2019. The largest foreign bond type was corporate, at \$468.1 billion, or 88% of total foreign bonds. (See Chart 1.) Within corporate bonds, those in the financial sector accounted for the largest exposure at about \$112 billion, or 21% of total foreign corporate bonds. Foreign government bonds (which not only includes sovereign debt but other types of government bonds), represented 10%, or \$51.8 billion, of the total at year-end 2019.

**Chart 1: Total Foreign Bond Exposure by Type, Year-End 2019**

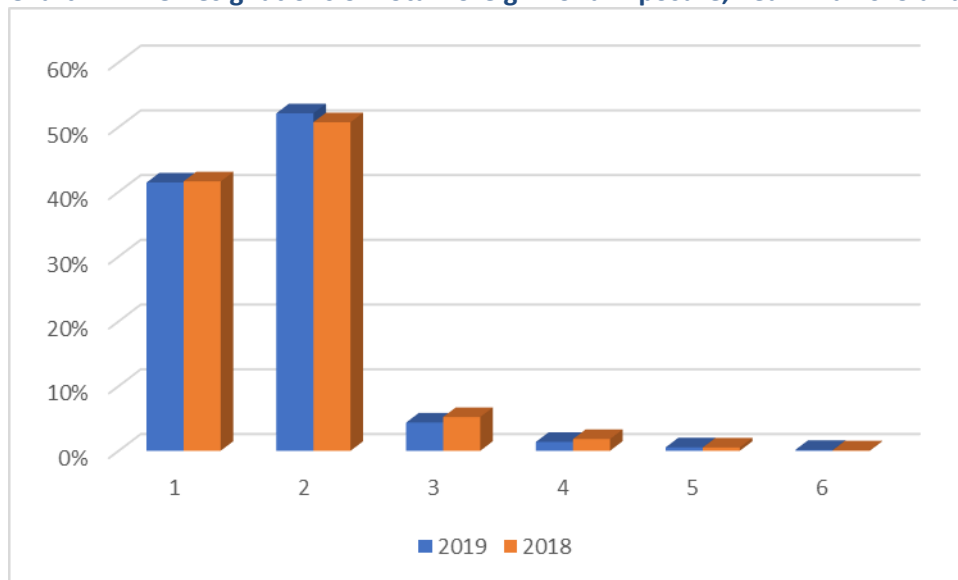


In comparison, at year-end 2018, corporate bonds and foreign government bonds also accounted for 88% (\$496.7 billion) and 10% (\$53.2 billion), respectively, of U.S. insurers’ total foreign bond exposure, which was \$562.7 billion.

S&P Global Ratings (S&P) downgraded 21 sovereign debt ratings over the last 12 months to July 2020; 19 occurred since March 1, 2020, due in part to the global reach of the COVID-19 pandemic.<sup>1</sup> In addition, about one-fifth of the sovereign ratings (24 in total) are on Negative Outlook. According to S&P, while it does not expect most sovereign debt to default, it believes losses given defaults could be high, particularly for emerging market countries. While U.S. insurers’ overall industry exposure to sovereign debt is relatively low, exposure, and in turn credit risk, may vary by individual insurer.

About 94% of U.S. insurers’ exposure to foreign bonds carried NAIC 1 and NAIC 2 designations at year-end 2019, compared to 93% of total foreign bonds at year-end 2018. (See Chart 2.)

**Chart 2: NAIC Designations of Total Foreign Bond Exposure, Year-End 2019 and Year-End 2018**



*Largest Foreign Country Bond Exposures*

The 10 largest countries accounted for 76% of total foreign bond holdings as of year-end 2019, which was similar to year-end 2018. (See Table 3.) The UK was the largest single country exposure at \$106.1 billion and \$112.2 billion at year-end 2019 and year-end 2018, respectively, and was about 20% of total foreign bond exposure for both years. Canada accounted for the second largest country exposure at year-end 2019 and year-end 2018, at \$102.2 billion and \$104.0 billion, respectively. Note that the top 10 countries with the largest foreign bond exposures did not change year-over-year (YOY). A table identifying the breakout of financial, government and other nonfinancial corporate bonds with respect to U.S. insurers’ largest 25 foreign bond exposures by country at year-end 2019 may be found in the Appendix.

<sup>1</sup> S&P Global Ratings, *When Sovereigns Default: Bondholders Beware,* July 2020.

**Table 3: Top 10 Foreign Bond Exposures by Country, Year-End 2019 (\$BACV)**

Country	Life	P/C	Title	Health	Total	% of Total
United Kingdom	\$ 92,921,780,211	\$ 11,690,428,366	\$ 57,671,784	\$ 1,432,748,683	\$ 106,102,629,044	20%
Canada	\$ 80,051,735,621	\$ 20,370,564,632	\$ 294,297,197	\$ 1,385,285,489	\$ 102,101,882,939	19%
Australia	\$ 49,939,213,465	\$ 4,344,912,694	\$ 16,002,384	\$ 383,082,480	\$ 54,683,211,023	10%
Netherlands	\$ 40,372,706,584	\$ 6,846,640,028	\$ 27,430,764	\$ 687,074,100	\$ 47,933,851,476	9%
France	\$ 26,660,359,854	\$ 5,060,198,010	\$ 22,466,578	\$ 593,902,785	\$ 32,336,927,227	6%
Ireland	\$ 15,399,295,360	\$ 2,671,210,958	\$ 5,797,907	\$ 317,141,142	\$ 18,393,445,367	3%
Luxembourg	\$ 11,479,726,378	\$ 1,992,576,193	\$ 11,447,305	\$ 229,623,672	\$ 13,713,373,548	3%
Mexico	\$ 11,464,946,749	\$ 1,544,016,171	\$ 12,625,542	\$ 144,707,766	\$ 13,166,296,228	2%
Cayman Islands	\$ 10,043,999,388	\$ 1,831,588,256	\$ 5,953,546	\$ 181,680,209	\$ 12,063,221,399	2%
Japan	\$ 7,521,981,047	\$ 1,855,956,315	\$ 7,165,416	\$ 396,358,840	\$ 9,781,461,618	2%
<b>Top 10 Total</b>	<b>\$ 345,855,744,657</b>	<b>\$ 58,208,091,623</b>	<b>\$ 460,858,423</b>	<b>\$ 5,751,605,166</b>	<b>\$ 410,276,299,869</b>	<b>76%</b>
Total Foreign Bonds	\$ 446,976,793,745	\$ 74,137,625,293	\$ 592,467,027	\$ 7,595,064,556	\$ 529,301,950,621	
Top 10 % of Total	77%	79%	78%	76%		

### *Oil Producing Country Bond and Stock Exposure*

The average price of oil in 2019 was \$57 per barrel as measured by the West Texas Intermediate Crude (WTI), but oil prices have been volatile since the beginning of 2020, ranging between a low of \$16.5 per barrel and \$57.5 per barrel. In March, the price of crude oil as measured by the WTI dipped to its lowest level in 18 years as a result of a Saudi Arabia-Russia disagreement that resulted in a large oversupply. Then on April 19, the price of oil fell below zero (intraday), to -\$37.63 per barrel, as the oil market was also being pressured on the demand side with the rapid spread of the coronavirus weakening the short-term global economic outlook along with oil demand. Lower economic activity due to the unprecedented lockdowns in much of the U.S. and Europe had significantly reduced oil consumption, and oil and gas companies were the most directly affected by ensuing depressed oil prices.

As of year-end 2019, U.S. insurers reported a total exposure of about \$115 billion in foreign bonds and stocks to oil-producing countries.<sup>2</sup> Table 4 identifies U.S. insurers' exposure to the top 10 global oil producers in order of largest number of barrels produced per day to smallest, in 2019, but excluding the U.S., which ranked first, according to the U.S. Energy Information Administration. The majority of U.S. insurers' exposure to oil producing countries was with Canada at \$107 billion, followed by United Arab Emirates and China, at \$2.3 billion and \$1.9 billion, respectively. U.S. insurers had no exposure to Iranian bonds or stocks at year-end 2019. The high credit quality of Canada, along with minimal exposures to the remaining oil-producing countries, mitigates concern regarding potential risks relative to volatile oil prices.

<sup>2</sup> According to the U.S. Energy Information Administration, the top 10 oil producing countries in 2019 were (in order of largest to smallest number of barrels/day): US., Saudi Arabia, Russia, Canada, China, Iraq, United Arab Emirates, Brazil, Iran and Kuwait.

**Table 4: U.S. Insurers' Exposure to the Top Oil Producing Countries, Year-End 2019**

Country	BACV
Saudi Arabia	\$ 1,659,747,388
Russia	\$ 872,645,902
Canada	\$ 107,404,242,363
China	\$ 1,937,757,776
Iraq	\$ 5,461,934
United Arab Emirates	\$ 2,338,652,003
Brazil	\$ 1,166,706,683
Iran	\$ -
Kuwait	\$ 278,434,932
<b>Total</b>	<b>\$ 115,663,648,981</b>

*European Union (EU) Bond Exposure*

Total exposure to EU bonds for U.S. insurers was approximately \$140 billion, including Eurozone countries and non-euro area members. (See Table 5.) Total EU exposure represented 26% of U.S. insurers' total foreign bonds. Government bonds (which not only includes sovereign debt but other types of government bonds) accounted for only 3% of total EU bonds, while 22% were in the financial sector (e.g., banks, financial institutions, etc.), and the majority was in other corporate sectors (i.e., consumer, industrial, etc.). The largest EU country exposure was the Netherlands at 34% of total EU bonds, followed by 23% in France.

**Table 5: U.S. Insurers' Bond Exposure to Eurozone Countries by Sector, Year-End 2019 (\$BACV)**

Country	Financial	Government	Non-Financial Corporate	Total	% of Total
Austria	\$ 30,162,413	\$ 562,638	\$ 1,888,797,348	\$ 1,919,522,399	1%
Belgium		\$ 627,901	\$ 1,803,942,715	\$ 1,804,570,616	1%
Cyprus			\$ 802,176	\$ 802,176	0%
Finland	\$ 1,963,408,985	\$ 80,184,090	\$ 663,488,176	\$ 2,707,081,251	2%
France	\$ 10,648,890,950	\$ 63,629,364	\$ 21,624,406,913	\$ 32,336,927,227	23%
Germany	\$ 1,206,256,584	\$ 18,868,070	\$ 4,733,458,799	\$ 5,958,583,453	4%
Greece	\$ -	\$ 71,453	\$ 7,422,759	\$ 7,494,212	0%
Ireland	\$ 3,650,209,607	\$ 29,486,000	\$ 14,713,749,760	\$ 18,393,445,367	13%
Italy	\$ 442,918,679	\$ 135,354,191	\$ 1,726,508,253	\$ 2,304,781,123	2%
Latvia		\$ 140,528,065	\$ -	\$ 140,528,065	0%
Lithuania		\$ 227,324,871	\$ -	\$ 227,324,871	0%
Luxembourg	\$ 470,302,765	\$ 296,917,330	\$ 12,946,153,453	\$ 13,713,373,548	10%
Malta			\$ 64,940,910	\$ 64,940,910	0%
Netherlands	\$ 8,548,050,683	\$ 59,268,286	\$ 39,326,532,507	\$ 47,933,851,476	34%
Portugal		\$ 1,709,267	\$ 224,108,077	\$ 225,817,344	0%
Slovakia		\$ 90,662,499	\$ 52,921,672	\$ 143,584,171	0%
Slovenia		\$ 88,784,113	\$ -	\$ 88,784,113	0%
Spain	\$ 1,302,847,483	\$ 97,634,654	\$ 3,533,476,921	\$ 4,933,959,058	4%
<b>Total Eurozone</b>	<b>\$ 28,263,048,149</b>	<b>\$ 1,331,612,792</b>	<b>\$ 103,310,710,439</b>	<b>\$ 132,905,371,380</b>	<b>95%</b>
Other EU members	\$ 2,582,327,303	\$ 2,586,381,321	\$ 2,306,272,450	\$ 7,474,981,074	5%
<b>Total EU</b>	<b>\$ 30,845,375,452</b>	<b>\$ 3,917,994,113</b>	<b>\$ 105,616,982,889</b>	<b>\$ 140,380,352,454</b>	<b>100%</b>
Sector Total/% of Total EU	22%	3%	75%	100%	

Note: The EU is comprised of 25 member states. The result of this analysis reflects only 23 member states as insurers did not have any exposure to Bulgaria and Estonia. The Eurozone consists of 19 member states that use the euro as their sole currency. The seven other EU members do not use the euro as their currency.

## Foreign Currency Bonds

Approximately \$77 billion, or 14% of total foreign bonds, was denominated in foreign currencies. The British pound (GBP) represented the largest portion at \$24.9 billion at year-end 2019, followed by the Canadian dollar (CAD) and the euro (EUR) at \$22.9 billion and \$20.5 billion, respectively. (See Table 6.) The Australian dollar (AUD) and Japanese yen (JPY) followed, totaling about \$4.1 billion combined, such that the top five foreign currency exposures were 94% of U.S. insurers' total foreign currency bond exposure at year-end 2019. Foreign currency exposure for U.S. insurers is translated and reported in U.S. dollars as per *Statement of Statutory Accounting Principles (SSAP) No. 23—Foreign Currency Transactions and Translations*. Bonds issued in foreign currencies are not to be confused with “Yankee bonds,” which are issued by non-U.S. entities in U.S. dollar denominations.

**Table 6: U.S. Insurer Top 5 Foreign Currency Bonds, Year-End 2019**

Currency	BACV
GBP	\$ 24,908,499,721
CAD	\$ 22,915,531,177
EUR	\$ 20,495,888,901
AUD	\$ 2,679,435,673
JPY	\$ 1,576,708,215
Top 5 Currencies	\$ 72,576,063,687
Total Foreign Currency Bonds	\$ 77,566,014,353

## Foreign Common Stock and Preferred Stock Exposure

Global equity market volatility can be attributed to various worldwide events, such as Brexit, U.S.-China trade negotiations and more recently the COVID-19 pandemic. About half of U.S. insurers' foreign stock exposure, or \$19.2 billion, was derived from Europe, with the second largest component (23%) derived from the Caribbean. As reflected by the STOXX 600 Europe Index (STOXX 600, which tracks large, mid- and small-capitalization companies across 17 European countries), the one-year return as of mid-September 2020 was -5.4%; year-to-date (YTD) the return was -13.95%. In comparison, for full year 2019, the STOXX 600 returned 23.15%. The negative returns are due in part to the global impact of the COVID-19 pandemic.

At year-end 2019, U.S. insurers' exposure to foreign stocks totaled \$36.7 billion, 93% of which was in common stock, or \$34.2 billion. (See Table 7.) This represented an increase of 5% from \$34.9 billion total foreign stock at year-end 2018. The increase is likely due in part to higher valuations of stocks from 2018 to 2019. Property/casualty (P/C) companies accounted for the largest share of U.S. insurers' total foreign stock exposure at 79% of the total in both 2018 and 2019.

At year-end 2019, unaffiliated foreign common stock for the U.S. insurance industry was \$18.3 billion, or 53% of total foreign common stock exposure. As almost all preferred stock exposure at year-end 2019 was unaffiliated, total unaffiliated foreign stock exposure was about \$22.2 billion at year-end 2019.

**Table 7: U.S. Insurers' Foreign Stock Exposures by Industry, Year-End 2018 and Year-End 2019 (\$BACV)**

Year-End 2019						
Stock Type	Life	P/C	Title	Health	Total	% of Total
Common Stock	\$ 4,415,428,850	\$ 28,755,193,895	\$ 102,691,659	\$ 973,438,975	\$ 34,246,753,379	93%
Preferred Stock	\$ 1,832,672,970	\$ 628,180,108	\$ 137,728	\$ 10,777,284	\$ 2,471,768,090	7%
<b>Total</b>	<b>\$ 6,248,101,820</b>	<b>\$ 29,383,374,003</b>	<b>\$ 102,829,387</b>	<b>\$ 984,216,259</b>	<b>\$ 36,718,521,469</b>	
% of Total	17%	80%	0%	3%	100%	
Year-End 2018						
Common Stock	\$ 4,048,815,533	\$ 27,386,135,953	\$ 102,369,197	\$ 903,689,989	\$ 32,441,010,672	93%
Preferred Stock	\$ 1,841,869,356	\$ 671,657,526	\$ 251,154	\$ 15,169,226	\$ 2,528,947,262	7%
<b>Total</b>	<b>\$ 5,890,684,889</b>	<b>\$ 28,057,793,479</b>	<b>\$ 102,620,351</b>	<b>\$ 918,859,215</b>	<b>\$ 34,969,957,934</b>	
% of Total	17%	80%	0%	3%	100%	

The UK accounted for the industry's largest country exposure to unaffiliated foreign stock at about \$3.6 billion, or 17% of the total, followed by Switzerland and Canada each at 12% of the total, or \$2.7 billion and \$2.6 billion, respectively, at year-end 2019. (See Table 8.) The 10 largest countries with unaffiliated foreign stock exposure at year-end 2019 accounted for 83% of the U.S. insurance industry's total unaffiliated foreign stock exposure, at \$18.1 billion.

**Table 8: U.S. Insurers' Top 10 Unaffiliated Foreign Stock Exposures by Country, Year-End 2019 (\$BACV)**

Country	Life	P/C	Title	Health	Grand Total	% of Total
United Kingdom	\$ 509,731,464	\$ 3,026,757,429	\$ 13,610,563	\$ 133,671,684	\$ 3,683,771,140	17%
Switzerland	\$ 229,722,844	\$ 2,396,928,158	\$ 521,010	\$ 99,884,865	\$ 2,727,056,877	12%
Canada	\$ 364,054,274	\$ 2,157,869,395	\$ 4,587,220	\$ 54,324,399	\$ 2,580,835,288	12%
Ireland	\$ 203,364,501	\$ 1,771,028,195	\$ 4,487,094	\$ 126,910,717	\$ 2,105,790,507	9%
Netherlands	\$ 148,634,422	\$ 1,578,374,166	\$ 12,408	\$ 41,962,891	\$ 1,768,983,887	8%
Cayman Islands	\$ 1,274,423,207	\$ 239,318,588	\$ 47,723	\$ 11,684,360	\$ 1,525,473,878	7%
Bermuda	\$ 237,008,937	\$ 1,005,081,651	\$ 453,608	\$ 24,486,361	\$ 1,267,030,557	6%
Japan	\$ 108,130,816	\$ 906,679,438		\$ 98,885,263	\$ 1,113,695,517	5%
Germany	\$ 87,771,584	\$ 688,442,424		\$ 49,847,280	\$ 826,061,288	4%
France	\$ 97,314,126	\$ 416,715,044	\$ 50,200	\$ 70,585,586	\$ 584,664,956	3%
<b>Top 10 Total</b>	<b>\$ 3,260,156,175</b>	<b>\$ 14,187,194,488</b>	<b>\$ 23,769,826</b>	<b>\$ 712,243,406</b>	<b>\$ 18,183,363,895</b>	<b>83%</b>
<b>Total Unaffiliated Foreign Stocks</b>	<b>\$ 3,821,066,104</b>	<b>\$ 17,426,036,129</b>	<b>\$ 26,473,926</b>	<b>\$ 923,971,982</b>	<b>\$ 22,197,548,141</b>	
<b>Top 10 as % of Total Unaffiliated</b>	<b>85%</b>	<b>81%</b>	<b>90%</b>	<b>77%</b>	<b>82%</b>	

Overall, total foreign stock exposure was about 4% of U.S. insurers' total stock exposure, and less than 1% of total cash and invested assets at year-end 2019. That said, the potential risk of large losses from falling stock prices is varied, depending on the size of an individual insurer's exposure to foreign stocks.

## Global Economies and Impact on U.S. Insurer Foreign Investments

### Geopolitical Events

The UK finally exited the EU at the end of January 2020 and is currently in a transition period for the remainder of the year. During this time, the UK and EU are negotiating a trade agreement, which has thus far been a struggle between the two parties. The UK was the largest country exposure for U. S. insurers at year-end 2019, totaling \$110.3 billion (\$106.7 billion in bonds and \$3.6 billion in unaffiliated foreign stock), which was about 17% of the industry's total foreign investments at year-end 2019, and about 1.5% of total cash and invested assets.



Trade tensions between the U.S. and China seem to have lessened since the onset of the COVID-19 pandemic. According to the IMF Global Financial Stability Report, China was the first to experience the COVID-19 outbreak; however, “financial conditions in China have been broadly stable, in contrast with other countries 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.”<sup>3</sup> China’s economic recovery has accelerated since pandemic disruptions. China’s economy is the world’s second largest, and second quarter gross domestic product (GDP) was up 3.2% from a year prior, following a historic 6.8% decline in the first quarter of 2020. U.S. insurer exposure to Chinese bonds and stocks, however, is minimal, with Chinese bonds accounting for less than 1% of U.S. insurers’ total foreign bond exposure, and stocks at almost 2% of total unaffiliated foreign stocks at year-end 2019.

### *Global Economic Growth*

The economic impact of COVID-19 has been worse than anticipated, according to the International Monetary Fund’s (IMF) World Economic Outlook (WEO) update dated June 2020.<sup>4</sup> Global growth is projected to be -4.9% in 2020, down 1.9 percentage points from the April 2020 WEO forecast, as there was “more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast.” (See Table 10.) A high level of uncertainty regarding the economy continues; however, as lockdowns have been lifted and economies are gradually reopening, each region, industry, asset type, etc., is affected differently.

The global growth forecast will continue to depend on several factors, per the IMF’s June 2020 WEO update, including the length of the pandemic, voluntary social distancing (which affects spending), ability of displaced workers to find employment, and global supply chain configurations and their resilience to disruptions, among other factors. On a positive note, the IMF’s June 2020 WEO update forecasts 2021 growth to be 5.4%, due in part to an expected strengthening in consumption and investment. In addition, the WEO June 2020 update stated that more than 66% of governments worldwide had implemented fiscal support since April 2020 “to mitigate the economic fallout from the pandemic and the stringent lockdowns”; the WEO estimates that about \$11 trillion in fiscal measures have been contributed globally.

Growth for advanced economies (i.e., the U.S., Euro area, Japan, UK and Canada) is expected to be negative in 2020, with differences across each economy due in part to the pandemic’s evolution within each region, as well as containment strategies and economic structure—i.e., dependence on tourism, oil, etc. (See Table 9.) GDP growth in 2020 for the UK, Japan and the Euro area are expected to be -10.2%, -5.8% and -10.2%, respectively, for 2020 (as of June). Advanced economies as a group are expected to experience -8% growth, which is lower than previously forecasted due to a larger than anticipated negative impact on activity in the first half of 2020. In comparison, in 2019, GDP growth for the UK, Japan and the Euro area was 1.4%, 0.7% and 1.3%, respectively. Recall that the UK and Canada were the two largest country exposures for U.S. insurers’ total foreign investments at year-end 2019.

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<sup>3</sup> IMF, *GLOBAL FINANCIAL STABILITY REPORT: Markets in the Time of COVID-19*, April 2020.

<sup>4</sup> IMF, *World Economic Outlook Update*, June 2020.



**Table 9:**

**Overview of the World Economic Outlook Projections**

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2018	2019	Projections		Difference from April 2020 WEO Projections 1/		2019	Projections	
			2020	2021	2020	2021		2020	2021
<b>World Output</b>	3.6	2.9	-4.9	5.4	-1.9	-0.4	2.8	-3.5	4.6
<b>Advanced Economies</b>	2.2	1.7	-8.0	4.8	-1.9	0.3	1.5	-7.2	5.1
United States	2.9	2.3	-8.0	4.5	-2.1	-0.2	2.3	-8.2	5.4
Euro Area	1.9	1.3	-10.2	6.0	-2.7	1.3	1.0	-8.6	5.8
Germany	1.5	0.6	-7.8	5.4	-0.8	0.2	0.4	-6.7	5.5
France	1.8	1.5	-12.5	7.3	-5.3	2.8	0.9	-8.9	4.2
Italy	0.8	0.3	-12.8	6.3	-3.7	1.5	0.1	-10.9	5.5
Spain	2.4	2.0	-12.8	6.3	-4.8	2.0	1.8	-11.4	6.3
Japan	0.3	0.7	-5.8	2.4	-0.6	-0.6	-0.7	-1.8	0.0
United Kingdom	1.3	1.4	-10.2	6.3	-3.7	2.3	1.1	-9.0	6.9
Canada	2.0	1.7	-8.4	4.9	-2.2	0.7	1.5	-7.5	4.6
Other Advanced Economies 3/	2.7	1.7	-4.8	4.2	-0.2	-0.3	1.9	-5.1	5.5

Source: IMF WEO Update June 2020

## Summary

As of year-end 2019, U.S. insurers’ total foreign exposure decreased by almost \$32 billion to \$556 billion in BACV, representing about 8% of total cash and invested assets. Bonds comprised the majority of U.S. insurers’ foreign investments, at \$529.3 billion, with the remainder in common (mostly) and preferred stocks. Corporate bonds accounted for the largest foreign bond exposure, with financials representing the largest sector. The UK was the largest country in terms of overall foreign exposure, and the British pound accounted for the largest currency.

Leading up to the COVID-19 pandemic, there had been positive worldwide economic growth but not without some geopolitically triggered volatility. Since the pandemic, there has been worldwide lockdowns and quarantines, and growth estimates for the remainder of 2020 have been revised downward by the IMF. The IMF projects global growth to be -8% for 2020, and for the first time, all regions are projected to experience negative growth. That said, the severity of the impact on each region will vary, depending on the evolution of the pandemic in a particular area, the effectiveness of containment, precrisis growth trends and variations in economic structures, among other factors. In addition, the oil “war” between Russia and Saudi Arabia earlier in 2020 resulted in extreme price volatility that has since recovered. U.S. insurer exposure to sovereign debt is small relative to total foreign exposure, mitigating concern about country risk. Ongoing geopolitical turmoil that exists in different parts of the world, along with the fallout of the COVID-19 pandemic could, though, cause U.S. insurers to reduce foreign exposure in particular countries.

The Capital Markets Bureau will continue to monitor trends in U.S. insurers’ foreign investments and report on any developments as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org](mailto:CapitalMarkets@naic.org).

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## Appendix

### U.S. Insurers' Top 25 Foreign Bond Exposures by Country, Year-End 2019

Country	Financial	Government	Non-Financial Corporate	Total	% of Total
United Kingdom	\$ 25,413,319,858	\$ 84,616,171	\$ 80,604,693,015	\$ 106,102,629,044	20%
Canada	\$ 17,148,130,068	\$ 14,091,501,674	\$ 70,862,251,197	\$ 102,101,882,939	19%
Australia	\$ 8,942,353,040	\$ 235,470,661	\$ 45,505,387,322	\$ 54,683,211,023	10%
Netherlands	\$ 8,548,050,683	\$ 59,268,286	\$ 39,326,532,507	\$ 47,933,851,476	9%
France	\$ 10,648,890,950	\$ 63,629,364	\$ 21,624,406,913	\$ 32,336,927,227	6%
Ireland	\$ 3,650,209,607	\$ 29,486,000	\$ 14,713,749,760	\$ 18,393,445,367	3%
Luxembourg	\$ 470,302,765	\$ 296,917,330	\$ 12,946,153,453	\$ 13,713,373,548	3%
Mexico	\$ 712,383,735	\$ 1,408,244,356	\$ 11,045,668,137	\$ 13,166,296,228	2%
Cayman Islands	\$ 2,441,017,656	\$ 75,965,013	\$ 9,546,238,730	\$ 12,063,221,399	2%
Japan	\$ 7,958,657,960	\$ 583,679,957	\$ 1,239,123,701	\$ 9,781,461,618	2%
Bermuda	\$ 2,205,957,226	\$ 406,983,015	\$ 5,022,150,740	\$ 7,635,090,981	1%
Chile	\$ 370,151,409	\$ 610,060,647	\$ 6,392,231,159	\$ 7,372,443,215	1%
Norway	\$ 430,676,486	\$ 140,723,454	\$ 5,994,595,475	\$ 6,565,995,415	1%
Germany	\$ 1,206,256,584	\$ 18,868,070	\$ 4,733,458,799	\$ 5,958,583,453	1%
Switzerland	\$ 4,925,799,779		\$ 514,889,535	\$ 5,440,689,314	1%
New Zealand	\$ 836,388,615	\$ 28,263,072	\$ 4,463,790,153	\$ 5,328,441,840	1%
Spain	\$ 1,302,847,483	\$ 97,634,654	\$ 3,533,476,921	\$ 4,933,959,058	1%
Jersey	\$ 2,042,199,984		\$ 2,839,279,717	\$ 4,881,479,701	1%
Sweden	\$ 2,568,546,364	\$ 131,991,543	\$ 1,856,526,047	\$ 4,557,063,954	1%
Indonesia	\$ 1,472,732	\$ 2,306,549,490	\$ 1,943,728,116	\$ 4,251,750,338	1%
Denmark	\$ 838,972,656		\$ 2,227,167,804	\$ 3,066,140,460	1%
Panama	\$ 222,508,799	\$ 1,468,148,078	\$ 1,136,819,692	\$ 2,827,476,569	1%
Colombia	\$ 322,429,155	\$ 1,669,807,375	\$ 820,898,164	\$ 2,813,134,694	1%
South Korea	\$ 824,528,804	\$ 448,800,293	\$ 1,443,561,915	\$ 2,716,891,012	1%
Finland	\$ 1,963,408,985	\$ 80,184,090	\$ 663,488,176	\$ 2,707,081,251	1%
Top 25 Country Exposures	\$ 105,995,461,383	\$ 24,336,792,593	\$ 351,000,267,148	\$ 481,332,521,124	91%
Total Foreign Bonds	\$ 111,944,332,680	\$ 42,880,950,020	\$ 374,476,667,921	\$ 529,301,950,621	