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U.S. Insurance Industry's Exposure to Schedule BA Assets Continues to Rise in 2020

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Executive Summary

- At year-end 2020, the U.S. insurance industry reported \$455 billion in other long-term invested assets reported on Schedule BA, an increase of over 13% compared to year-end 2019.
- The industry's Schedule BA exposure represents 6.1% of total cash and invested assets, an increase from 5.7% at year-end 2019.
- Hedge fund, private equity, and real estate investments accounted for the majority of the industry's Schedule BA exposure at 70%.
- While life insurance companies continued to account for the majority of the industry's Schedule BA exposure at approximately 52%, property/casualty (P/C) companies' share increased to 44% as of year-end 2020 from 41% at year-end 2019.
- Unaffiliated Schedule BA exposure totaled \$195.7 billion as of year-end 2020, or 43% of the total (consistent with prior years).
- Schedule BA investments have been relatively attractive investments for insurers over the last 10 years, given the low interest rate environment, resulting in a doubling of dollar exposure and a 160 percentage point increase in exposure as a percentage of cash and invested assets.

Private Equity, Hedge Fund, and Real Estate Investments Represent a Smaller, But Still a Majority, Share

U.S. insurance companies reported book/adjusted carrying value (BACV) of \$455.5 billion in other long-term invested assets on Schedule BA as of year-end 2020, an increase of 13.4% compared to year-end 2019 (see Table 1 and Table 2). 2020 marked the second year of consecutive double-digit growth in exposure, following year-over-year (YOY) growth of 10% in 2019. Total Schedule BA exposure as of year-end 2020 represented 6.1% of the industry's total cash and invested assets, an increase from 5.7% as of year-end 2019.

**Table 1: Total U.S. Insurance Industry Schedule BA Exposure, Year-End 2020 (BACV \$ in millions)**

Asset Type	Life	P/C	Health	Title	Total	% of Total
Hedge Funds	34,660	88,438	6,643	156	129,898	28.5%
Private Equity	101,362	22,136	4,909	9	128,416	28.2%
Real Estate	40,986	19,949	1,562	3	62,501	13.7%
Any Other Class of Assets	4,878	33,343	1,975	112	40,308	8.8%
Surplus Debentures	16,386	2,769	468	14	19,636	4.3%
Non-Collateral Loans	85	17,909	141	1	18,136	4.0%
Bonds/Fixed Income Instruments	10,077	4,292	391	-	14,761	3.2%
Collateral Loans	11,488	2,122	473	0	14,084	3.1%
Mortgage Loans	11,802	508	129	13	12,453	2.7%
Low Income Housing Tax Credits	4,970	3,575	151	-	8,697	1.9%
Other*	1,386	5,215	50	-	6,651	1.5%
Total	238,082	200,257	16,893	308	455,540	100%
% of Total	52.3%	44.0%	3.7%	0.1%	100%	

*The "Other" asset type includes capital notes, mineral rights, oil and gas production, other fixed income instruments (non-registered private funds), transportation equipment, and working capital finance investments (WCFIs).

Table 2: Total U.S. Insurance Industry Schedule BA Exposure, Year-End 2019 (BACV \$ in millions)

Asset Type	Life*	P/C	Health	Title	Total	% of Total
Hedge Funds	31,931	84,610	5,081	121	121,743	30.3%
Private Equity	92,553	20,297	4,204	-	117,053	29.1%
Real Estate	39,636	17,968	1,252	1	58,857	14.7%
Mortgage Loans	20,944	5,725	497	15	27,181	6.8%
Any Other Class of Assets/Other	6,387	15,701	1,413	20	23,521	5.9%
Surplus Debentures	15,034	2,637	424	8	18,103	4.5%
Non-collateral Loans	180	13,120	315	-	13,616	3.4%
Collateral Loans	9,223	1,470	375	-	11,068	2.8%
Non-Gtd Federal Low Income Housing Tax Credit	4,534	2,805.33	114.26	-	7,454	1.9%
Capital Notes	3,060	-	167	-	3,227	0.8%
Total	223,483	164,334	13,842	165	401,823	100%
% of Total	55.6%	40.9%	3.4%	0.0%	100%	

*As of year-end 2019, fraternal companies' exposures are included with life companies' exposures due to a reporting change.

Hedge fund, private equity, and real estate investments accounted for 28.5%, 28.2%, and 13.7% of the industry's total Schedule BA exposure, respectively, as of year-end 2020. Despite the share of each of these asset types declining modestly YOY, together they still represent the majority of the industry's Schedule BA exposure at 70%.

Almost 50% of the investments that are deemed to have the underlying characteristics of fixed income instruments have been assigned an NAIC designation by the Securities Valuation Office (SVO), and less than 20% are unaffiliated. Approximately 60% of the Schedule BA mortgage obligations as of year-end 2020 are in joint ventures, while 40% are in non-registered private funds. The majority, or 87%, of the low-income housing tax credits are federal and non-guaranteed.



Investments that do not fit into one of the categories specified in the NAIC Annual Statement Instructions are reported in the “Any Other Class of Assets” category. The industry’s exposure to these types of investments increased to 8.8% total Schedule BA exposure at year-end 2020, an increase from 5.4% of year-end 2019 exposure.

While life insurance companies continued to account for the majority of the industry’s Schedule BA exposure at over 50%, P/C companies’ share increased to 44% as of year-end 2020 from 41% at year-end 2019. The share increase is due to an almost 22% increase in BACV exposure at P/C companies, much higher than the total industry’s exposure increase of 13%. Health and title companies’ share of industry exposure remained relatively stable YOY.

Unaffiliated Schedule BA exposure totaled \$195.7 billion as of year-end 2020, or 43% of the total (consistent with prior years). Hedge fund, private equity, and real estate investments accounted for the majority of the industry’s unaffiliated exposure at \$142 billion or 73%. Unaffiliated hedge fund investments represented a much larger share of total unaffiliated exposure at 48% compared to 28% of overall Schedule BA exposure. In addition, the majority of hedge fund investments were unaffiliated, representing 73% of total Schedule BA exposure, while unaffiliated private equity and real estate investments represented 23% and 32% of total Schedule BA exposure, respectively.

Consistent with prior years, large insurers (those with total cash and invested assets greater than \$10 billion) accounted for the majority, or 76%, of exposure to unaffiliated Schedule BA exposure as of year-end 2020 (see Table 3).

Table 3: U.S. Insurance Industry Exposure to Unaffiliated Schedule BA Assets by Total Cash and Invested Assets as of Year-End 2020 (BACV \$ in millions)

Asset Type	Less Than \$250MM	Between \$250MM and \$500MM	Between \$500MM and \$1.0B	Between \$1.0B and \$2.5B	Between \$2.5B and \$5.0B	Between \$5.0B and \$10.0B	Greater than \$10B	Total
Private Equity	270	397	539	2,660	2,378	7,165	79,780	93,189
Hedge Funds	129	319	956	3,351	3,294	3,094	18,233	29,375
Real Estate	79	65	323	1,518	865	2,830	14,035	19,716
Other	653	641	760	4,086	3,481	6,998	36,874	53,493
Total	1,130	1,422	2,578	11,614	10,019	20,087	148,922	195,773
% of Total	0.6%	0.7%	1.3%	5.9%	5.1%	10.3%	76.1%	100%

U.S. insurance companies disclose the strategy for investments reported on Schedule BA, particularly hedge fund, private equity, and real estate investments. At year-end 2020, approximately 32%, 14%, and 4% of these investments were reported as leveraged buyout, venture capital, and mezzanine financing strategies, respectively. A strategy was not disclosed, or one was not applicable, for 44% of the investments.

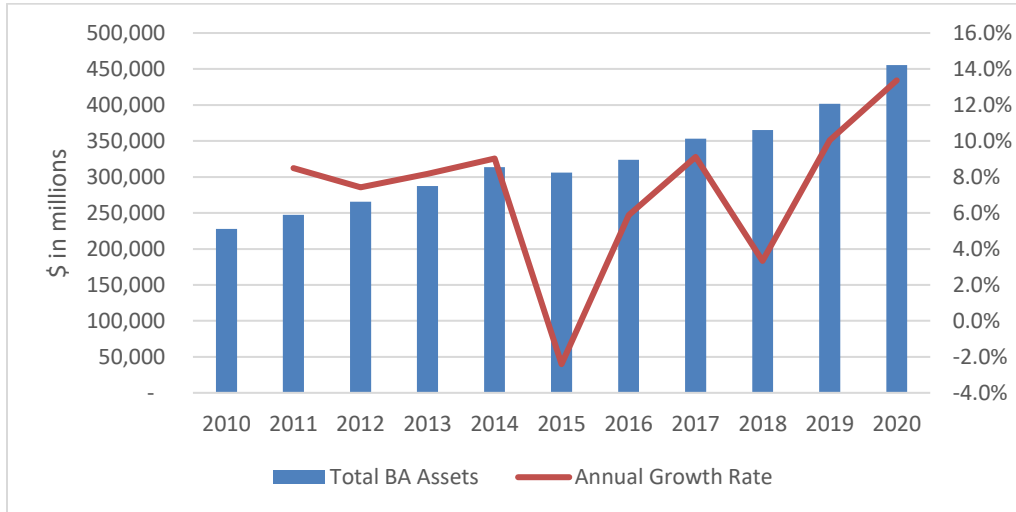
Schedule BA Asset Exposure Doubles in the Last Decade

In the prolonged low interest rate environment, U.S. insurance companies have been increasingly acquiring investments reported on Schedule BA, which offer higher yields than traditional assets like corporate or municipal bonds because of their complexity and illiquidity. Chart 1 shows the industry’s



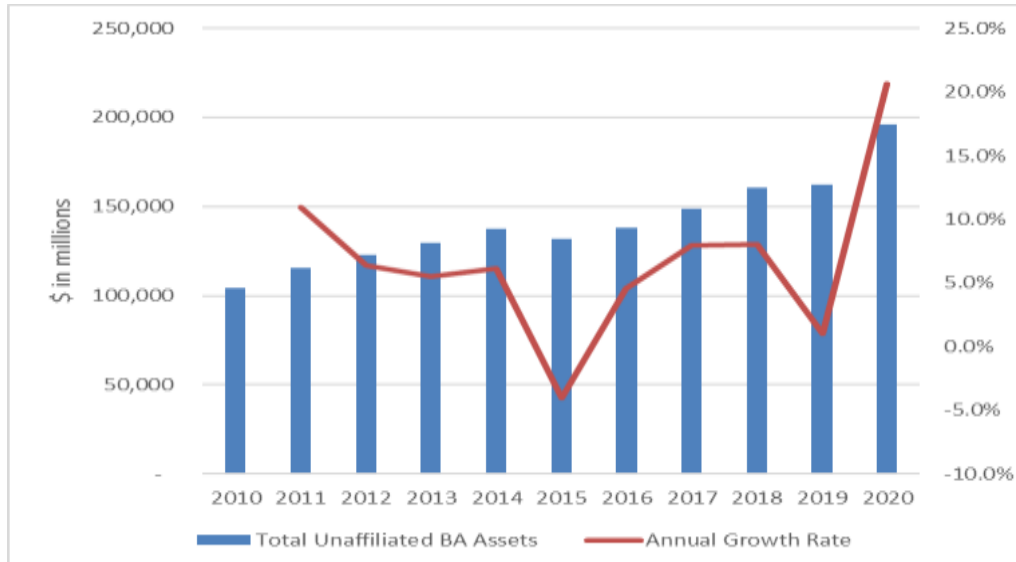
Schedule BA exposure has doubled in the last decade (as measured in BACV terms), with BACV increasing to over \$450 billion as of year-end 2020 from \$228 billion as of year-end 2010. Exposure as a percentage of total cash and invested assets also increased over the same period to 6.1% from 4.5%.

Chart 1: Historical U.S. Insurance Industry Schedule BA Total Exposure, 2010 – 2020 (BACV \$ in millions)



The industry’s unaffiliated Schedule BA exposure has followed a similar trend to total Schedule BA exposure, increasing to \$195.8 billion at year-end 2020 from \$104 billion at year-end 2010. While unaffiliated exposure was shy of doubling over the last 10 years, Chart 2 shows YOY growth for 2020 was fairly significant at 20.6%; i.e., the largest growth rate over the period analyzed.

Chart 2: Historical U.S. Insurance Industry Schedule BA Unaffiliated Exposure, 2010 – 2020 (BACV \$ in millions)





While the U.S. insurance industry's exposure to long-term investments reported on Schedule BA has increased significantly over the last decade, it should not represent a material risk in a stressed environment because of the relatively small concentration at 6.1% of total cash and invested assets. In addition, exposure represented 28% of total capital and surplus. However, U.S. insurers with significant exposure to Schedule BA assets as a percentage of total and capital surplus should be monitored closely, given the high illiquidity of these investments. At year-end 2020, less than 1% of U.S. insurance companies had exposure to Schedule BA assets exceeding 100% of their total capital and surplus.

The NAIC Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's high-yield bond investments and report as deemed appropriate.

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

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