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Declining Trend in U.S. Insurers' Foreign Investments Through Year-End 2022

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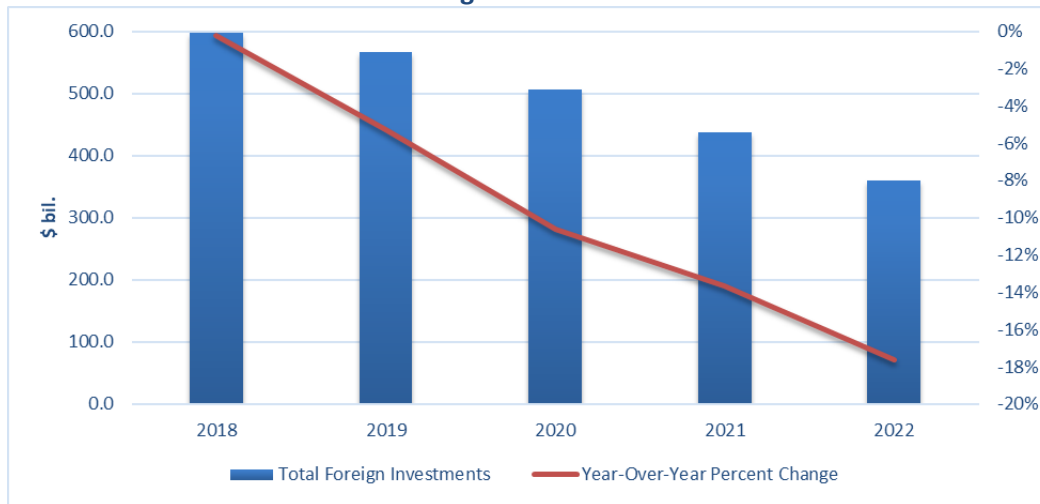
Executive Summary

- U.S. insurers' exposure to foreign investments decreased year-over-year by 17% to about \$360 billion at year-end 2022, from \$436.7 billion at year-end 2021.
- Over the past decade, U.S. insurers' exposure to foreign investments has decreased by 44% from \$650 billion in 2012.
- Similar to prior years, the majority of U.S. insurers' foreign investments were in bonds—92% of the total at year-end 2022.
- Life companies accounted for the majority of exposure at 80% of the total, followed by property/casualty (P/C) companies at 18%. Large insurers, or those with more than \$10 billion assets under management, accounted for 83% of total U.S. insurer foreign investments.
- The book/adjusted carrying value (BACV) of corporate bonds exceeded sovereign bonds and comprised 88% of total foreign bond investments for U.S. insurers. More than 90% of foreign bonds were high credit quality based on their NAIC 1 and NAIC 2 designations.
- The United Kingdom (UK), Canada, and Australia represented the largest three country exposures in both 2022 and 2021 and on an aggregate basis represented about 50% of U.S. insurers' total foreign investments.

U.S. insurers' exposure to foreign bonds and stocks has not represented a large proportion of the overall investment portfolio, and since 2018, they have been declining steadily. (Refer to Chart 1.) This may be due in part to geopolitical events, such as trade tensions between the U.S. and China and the war between Russia and Ukraine, among other factors, including those related to climate risk and the COVID-19 pandemic. In addition, macroeconomic factors may have also played a role in the declining trend, such as the lower-for-longer interest rate environment followed by increasing interest rates to combat high inflation over the past couple of years. Over the past decade ending in 2022, U.S. insurers' foreign investments have decreased by 44%, as U.S. insurers reported about \$650 billion in book/adjusted carrying value (BACV) of foreign investments at year-end 2012.



Chart 1: U.S. Insurers’ Historical Foreign Investments*



*Excludes Cayman Islands, Isle of Man, and Jersey

At year-end 2022, U.S. insurers reported having about \$359.7 billion in foreign bonds and stocks, which was 4% of total U.S. insurers’ investments. This was a 17% decrease from \$436.7 billion at year-end 2021. In particular, bonds decreased to \$331.4 billion in 2022 from \$402.7 billion in 2021. (Refer to Table 1.) Note that a proportion of foreign investments were reported as domiciled in the Cayman Islands, Isle of Man, and Jersey for tax reasons, so these three countries have been excluded from U.S. insurers’ foreign investment totals for the purpose of this special report. In addition, there is a small amount of foreign currency risk within U.S. insurers’ foreign bond exposure. Approximately 11%, or \$40 billion, was non-U.S. dollar-denominated. However, the BACV, which is expressed in U.S. dollars, contains a foreign exchange conversion factor for these bonds.

Table 1: U.S. Insurers Foreign Investments 2018-2022 (BACV \$ in Billions)

	2018	2019	2020	2021	2022
Foreign Bonds	562.7	529.3	470.8	402.7	331.4
Foreign Stocks (Common and Preferred)	35.0	36.7	35.0	34.0	28.3
Total Foreign Investments	597.7	566.0	505.8	436.7	359.7

By industry type, life companies accounted for U.S. insurers’ largest foreign investments exposure at year-end 2022, at 82% of the total. (Refer to Table 2.) Note that while life companies also accounted for the largest foreign bond exposure, property and casualty (P/C) companies accounted for U.S. insurers’ largest foreign stock exposure. One large P/C company in particular accounted for 20% of U.S. insurers’ total foreign stock exposure. In comparison, at year-end 2021, life companies accounted for 80% of U.S. insurers’ total foreign bonds. (Refer to Table 3.) And like year-end 2022, P/C companies accounted for the majority of total foreign stocks at year-end 2021.

**Table 2: U.S. Insurers' Foreign Investments by Industry Types, Year-End 2022 (BACV \$ in Billions)**

Foreign Investment	Life	P/C	Title and Health	Total
Bonds	289.9	37.0	4.5	331.4
Stocks	3.5	23.8	1.0	28.3
Total	293.4	60.8	5.4	359.7
% of Total	82%	17%	1%	100%

Table 3: U.S. Insurers' Foreign Investments by Industry Types, Year-End 2021 (BACV \$ in Billions)

Foreign Investment	Life	P/C	Title and Health	Total
Bonds	347.2	49.5	6.0	402.7
Stocks	4.3	28.4	1.3	34.0
Total	351.5	77.9	7.3	436.7
% of Total	80%	18%	2%	100%

Large insurers accounted for the largest proportion of U.S. insurers' total foreign investments, at 83% of the total. (Refer to Table 4.) Another 6% was held by companies with between \$5 billion and \$10 billion assets under management.

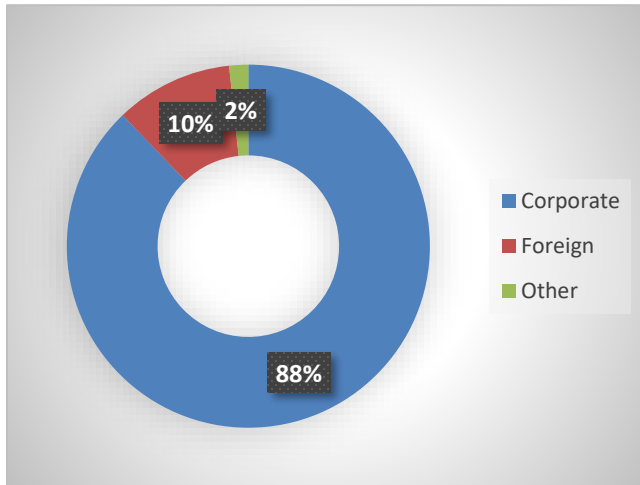
Table 4: U.S. Insurers' Foreign Investments by Asset Under Management, Year-End 2022 (BACV \$ in Billions)

Assets Under Management	Life	P/C	Title and Health	Total	% of Total
Less Than \$250M	0.9	1.5	0.4	2.8	1%
Between \$250M and \$500M	0.7	1.2	0.4	2.3	1%
Between \$500M and \$1.0B	1.8	2.5	0.8	5.1	1%
Between \$1.0B and \$2.5B	5.3	6.4	1.3	13.1	4%
Between \$2.5B and \$5.0B	9.8	5.9	1.2	16.9	5%
Between \$5.0B and \$10.0B	15.6	6.5	0.6	22.7	6%
Greater Than \$10B	259.3	36.8	0.8	296.9	83%
Total	293.4	60.8	5.4	359.7	100%

Similar to prior years, the majority of U.S. insurers' foreign bonds were corporate bonds, totaling \$290.9 billion, or 88% of total foreign bonds. (Refer to Chart 2.) The second largest was government bonds at \$34.7 billion. Other types of bonds that totaled only 2% of total foreign bonds included mostly Asset-Backed Securities (ABS) and Other Structured Securities, bank loans, and municipal bonds. In comparison, at year-end 2021, corporate bonds and foreign government bonds were 87% and 11% of total foreign bonds, respectively.

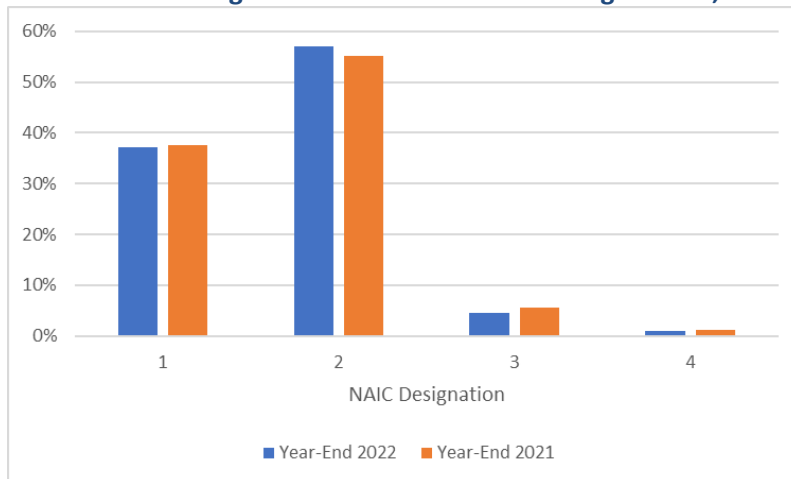


Chart 2: Foreign Bond Exposure by Type, Year-End 2022



In terms of credit quality, more than 90% of total foreign bond exposure was implied to be high credit quality based on the reported NAIC 1 and NAIC 2 designations in both 2022 and 2021. As shown in Chart 3, there was a slight improvement in credit quality from year-end 2021 to year-end 2022. Together, foreign bonds carrying NAIC 1 and NAIC 2 designations increased to 94% of total foreign bonds in 2022 from 93% in 2021, while foreign bonds carrying NAIC 3 designations decreased to 4% from 6%. Foreign bonds carrying NAIC 4 designations remained the same at 1% of the total.

Chart 3: NAIC Designations of U.S. Insurers' Foreign Bonds, 2021 and 2022



The top 10 country exposures were about 78% of U.S. insurers' foreign investments at year-end 2022, which was the same for year-end 2021 (refer to Table 5), despite the overall 17% decrease in BACV year over year. In addition, in both years, the top three country exposures—United Kingdom (UK), Canada, and Australia—accounted for half of U.S. insurers' total foreign investments.



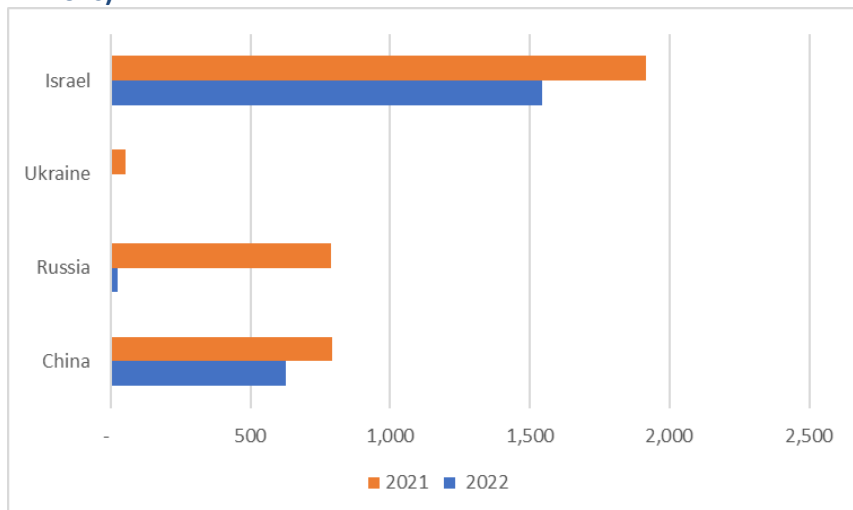
Table 5: Top 10 Country Exposures for U.S. Insurers’ Foreign Investments, 2021 and 2022

Country	Year-End 2022		Year-End 2021	
	\$ bil. BACV	% of Total	\$bil. BACV	% of Total
United Kingdom	75.0	20.8%	91.1	20.9%
Canada	71.2	19.8%	83.5	19.1%
Australia	38.1	10.6%	44.4	10.2%
Netherlands	33.8	9.4%	40.1	9.2%
France	20.8	5.8%	26.3	6.0%
Ireland	10.4	2.9%	14.4	3.3%
Mexico	10.0	2.8%	11.0	2.5%
Luxembourg	8.3	2.3%	10.2	2.3%
Bermuda	7.9	2.2%	10.0	2.3%
Switzerland	6.4	1.8%	8.4	1.9%
Top 10 Countries:	281.9	78.4%	339.5	77.7%

By continents, Europe accounted for the largest foreign investment exposure for U.S. insurers at 51% of the total at year-end 2022 (\$182.3 billion), followed by 23% in North America (i.e., primarily Mexico and Canada) and 12% in Oceania (i.e., New Zealand and Australia).

While geopolitical turmoil exists in certain countries, including Russia, Ukraine, China, and Israel, their total bond and stock exposure was minimal. It ranged between \$6 million and \$1.5 billion between the four countries in 2022 and between \$55 million and \$1.9 billion in 2021 (refer to Chart 4), demonstrating a year-over-year decrease. The relatively small and declining exposures also mitigate concern about U.S. insurers’ exposure to countries with ongoing political volatility and uncertainty regarding future resolutions. Note there was a significant reduction in exposure to Russia and Ukraine from 2021 to 2022, which may be due to sales, maturing bonds, and/or a change in equity valuations.

Chart 4: U.S. Insurers’ Investments in Russia, Ukraine, China, and Israel, 2021 and 2022 (BACV \$ in Millions)





The NAIC Capital Markets Bureau will continue to monitor trends with foreign 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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