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U.S. Insurer Exposure to Russia, Ukraine, and Oil/Gas Companies Declines from 2020 to 2021

Analysts: Jennifer Johnson, Michele Wong, Jean-Baptiste Carelus

Executive Summary

- U.S. insurers' year-end 2021 exposure to Russia (bonds and stocks) totaled $787 million in book/adjusted carrying value (BACV) compared to $855 million at year-end 2020; the relatively small exposure mitigates concerns over current geopolitical risks.
- Most of the Russian bond exposure was in sovereign debt, totaling $757.6 million, and was rated in the single C category by the three major credit rating agencies, reflecting a significant probability of default, prior to their ratings withdrawal.
- Exposure to Ukraine bonds and stocks was less than $100 million in both 2020 and 2021.
- U.S. insurers' exposure to oil and gas companies decreased by 8% to $102.2 billion at year-end 2021, from $111 billion at year-end 2020.
- Ongoing turmoil resulting from Russia's invasion of Ukraine has resulted in a negative impact on global economic growth, and it has increased inflationary pressures as world economies attempt to recover from the impacts of the COVID-19 pandemic.

Geopolitical risks have been elevated in 2022 following the Russian invasion of Ukraine in late February and subsequent sanctions placed on Russia by the U.S. and other allied countries. The conflict has resulted in a spike in energy and commodity prices, as Russia is a major producer and exporter of oil, gas, wheat, and metals. The heightened geopolitical risks have further contributed to volatility and uncertainty in a market that was already challenged with record levels of inflation, lingering supply disruptions, renewed pandemic-related challenges, and the prospect of rising interest rates.

Exposure to Russia and Ukraine

U.S. insurers' annual statement filings show that exposure to Russia and Ukraine is manageable, at less than $1 billion in total bonds and stocks as of year-end 2021 (see Table 1), despite the potential for payment default on Russia's sovereign debt. Exposure to Russia, including bonds and stocks, totaled

$787.3 million, with the remaining $54.8 million in Ukraine bonds and stocks. At year-end 2021, Russia and Ukraine exposure declined 7.9% from $855 million and 19.4% from $68 million, respectively, at year-end 2020. Life companies accounted for most of the overall exposure at 81% of the total.

Table 1: U.S. Insurers' Total Exposure to Russia and Ukraine by Industry Type, Year-End 2021 ($BACV)

Country	Life	P/C	Health	Total	Pct of Total
Russia	671,552,756	109,643,043	6,157,604	787,353,403	93%
Ukraine	13,136,616	29,682,167	11,986,749	54,805,532	7%
Total	**684,689,372**	**139,325,210**	**18,144,353**	**842,158,935**	100%
Pct of Total	81%	17%	2%	100%	

Majority Exposure in Bonds; Remainder in Stocks

Total Russian and Ukraine sovereign and corporate debt was $813.3 million at year-end 2021, representing 97% of total exposure; the remainder comprised $28.8 million in stocks (see Table 2). While life companies accounted for the majority of the bond exposure at $683.9 million (or 84% of total Russia and Ukraine bonds), property/casualty (P/C) companies accounted for almost all the Russia and Ukraine stock exposure at $28 million. About 90% of U.S. insurers' exposure to Russia and Ukraine bonds and stocks was held by large companies, or those with more than $10 billion assets under management.

Table 2: Russia and Ukraine Bonds versus Stock Exposure by Industry Type, Year-End 2021 ($BACV)

Asset Type	Life	P/C	Health	Total	Pct of Total
Sovereign and Corporate Bonds	683,975,252	111,260,750	18,101,436	813,337,438	97%
Stocks	714,120	28,064,460	42,917	28,821,497	3%
Total	**684,689,372**	**139,325,210**	**18,144,353**	**842,158,935**	**100%**
% of Total	81%	17%	2%	100%	

Exposure to Russian Bonds

The vast majority of U.S. insurers' exposure to Russia at year-end 2021 was in sovereign bonds at $757.6 million. Within the total Russian and Ukrainian bond exposure, $14 million were denominated in Rubles with the remainder denominated in U.S. dollars. Also within the bond exposure, Russian corporate debt totaled only $1.5 million, almost all of which was senior unsecured debt.

Fifty-six U.S. insurance entities accounted for the industry's exposure to Russian bonds. One large life company accounted for 33% of total Russian bond exposure; the top 10 U.S. insurance entities accounted for 81% of total Russian bond exposure.

Prior to Russia's invasion of Ukraine, S&P Global (S&P), Moody's Investors Service (Moody's), and FitchRatings (Fitch) assigned BBB-, Baa3, and BBB ratings, respectively, to Russia sovereign debt (see Table 3). Upon Russia's invasion of Ukraine, Moody's placed its rating on watch for downgrade, and S&P lowered its rating to junk status. All three major rating agencies ultimately lowered their credit ratings on Russia's sovereign debt throughout the first quarter to the C-ratings category, indicating expected default, as the turmoil increased. As of early April, S&P, Moody's, and Fitch have withdrawn their credit ratings on Russia's long-term sovereign debt in accordance with a ban imposed by the European Union (EU) on credit ratings to "legal persons, entities, or bodies established in Russia" by no later than April 15.

Table 3: Russia Sovereign Debt Ratings Prior to Withdrawal by Rating Agencies

Rating Agency	Sovereign Debt Rating	Date of Rating Change
S&P Global	SD	4/8/2022
	CC	3/17/2022
	CCC-	3/3/2022
	BB+	2/25/2022
	BBB-	
Moody's Investors Service	Ca	3/6/2022
	B3	3/3/2022
	Baa3	
FitchRatings	C	3/8/2022
	B	3/2/2022
	BBB	

Russian dollar-denominated sovereign bonds were quoted at approximately 8 cents on the dollar in mid-March, according to Advantage Data Inc., a provider of high-yield and distressed credit pricing. However, actual trades are rare, if any, given the sanctions imposed on many financial transactions. Russian sovereign bonds traded below 40 cents on the dollar immediately following the invasion in late February.

Exposure to Oil and Gas

At year-end 2021, U.S. insurers' exposure to oil and gas companies, which have benefited from the recent increase in oil prices, totaled $102.2 billion in BACV in bonds and stocks (see Table 4), representing approximately 1.3% of total cash and invested assets. Bonds made up the majority, or $88.8 billion, of the total exposure. Most of the exposure was with life companies at 76% of the total.

Oil and gas accounted for $111 billion in bonds and stocks at year-end 2020, or 1.5% of total cash and invested assets; life companies accounted for 82% of the total. To that end, year-over-year, U.S. insurers' exposure to oil and gas decreased by about 8%.

Table 4: U.S. Insurers' Oil and Gas Exposure (Bonds and Stocks), Year-End 2021 ($BACV)

Asset Type	Life	P/C	Title	Health	Total	Pct of Total
Bonds	76,884,808,111	10,755,182,609	87,281,652	1,120,474,541	88,847,746,913	87%
Stocks	1,224,526,285	11,551,756,943	139,657,996	431,868,016	13,347,809,240	13%
Total	**78,109,334,396**	**22,306,939,552**	**226,939,648**	**1,552,342,557**	**102,195,556,153**	100%
Pct of Total	76%	22%	0%	2%	100%	

While significant demand destruction resulting from the COVID-19 pandemic weakened the financial performance and credit quality of the energy sector, oil and gas companies are now benefiting from higher oil prices. In early March, oil prices reached $139 per barrel based on Brent crude, the highest level since 2008. This is a significant increase from when Brent crude briefly dipped below $10 per barrel in 2020 and had remained at depressed levels due in part to lower demand resulting from the impact of the COVID-19 pandemic. Having started the year at about $78 per barrel, oil prices exceeded and have remained above $100 per barrel since the end of February 2022 per Brent crude prices.

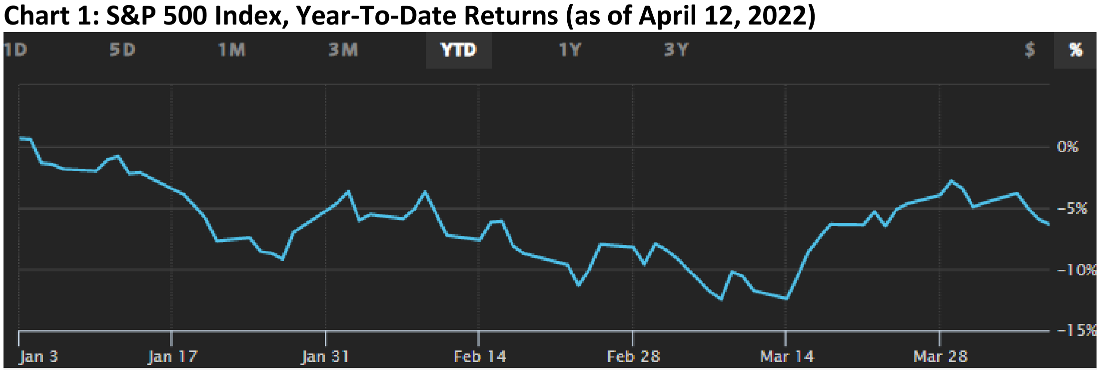
Geopolitical Turmoil Impact on Credit and Equity Markets

In addition to increasing inflation, current geopolitical turmoil and uncertainty regarding its path or duration, has caused market instability worldwide. Furthermore, continued supply chain disruptions combined with higher material and input costs are pressuring margins and profitability.

Credit spreads have widened as investors have become more risk averse following heightened geopolitical and inflations risks. The spread widening has been more severe in countries and regions outside the U.S. In terms of sovereign credits, according to S&P, the proximity of certain Eastern European countries to the conflict, such as Poland, Hungry, and Romania, exacerbates their sovereign credit risk, due in part to trade shocks to import/export relationships.[1] This may be offset, however, by international community aid and support. Note that, U.S. insurers' total sovereign debt exposure to these three countries was $2 billion in aggregate at year-end 2021.

Global equity markets have also been volatile, reacting to events seemingly on a daily basis. Year-to-date through early April 2022, the Standard & Poor's 500 index (S&P 500 Index) has yet to achieve a positive return (see Chart 1), having started the year just below 1%.

Chart 1: S&P 500 Index, Year-To-Date Returns (as of April 12, 2022)



Corporate sectors most positively affected include oil and gas, as well as producers of metals, minerals, fertilizer, and agricultural products. While prices have increased dramatically for these commodities, based on the S&P 500 Index, these sectors have experienced negative returns thus far in 2022. Sanctions placed on Russia, and the geopolitical turmoil in general, has resulted in a disruption of trade flows between Russia and Ukraine and other countries, particularly in Europe, who have had to find

[1] S&P Global, *Credit FAQ: How the Russia Ukraine Conflict Is Affecting Ratings and The Global Economy*, March 23, 2022.

alternative trading partners. In addition, the continued conflict is causing concern for many other sectors due to ongoing inflationary pressures and central banks' monetary policy shifts that will likely have a negative impact on global economic growth.

The NAIC Capital Markets Bureau continues to follow trends relative to the Russia and Ukraine conflict and its geopolitical risks and will report as deemed appropriate.

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