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The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Bureau Special Reports are available via its web page and the NAIC archives (for reports published prior to 2016).

U.S. Insurance Industry's Exposure to Schedule BA Assets Exceeds $500 Billion in 2021

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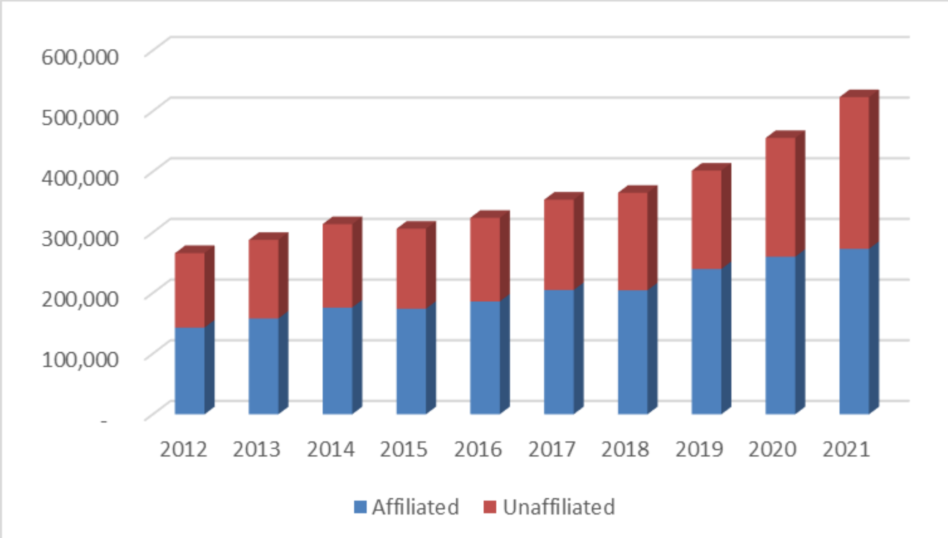
Executive Summary

- At year-end 2021, the U.S. insurance industry's exposure to other long-term invested assets reported on Schedule BA increased by almost 15% compared to the prior year to reach $522.8 billion.
- 2021 marks the third consecutive year of double-digit year-over-year (YOY) growth in exposure to Schedule BA investments.
- The industry's Schedule BA exposure represented 6.5% of total cash and invested assets, an increase from 6.1% at year-end 2020.
- Hedge fund, private equity, and real estate investments accounted for most of the industry's Schedule BA exposure at 75%, compared to 70% the prior year.
- Unaffiliated Schedule BA exposure increased by 28% to $250.1 billion as of year-end 2021 and accounted for 48% of total Schedule BA exposure.
- Private equity investments' share of total Schedule BA exposure rose to 33% from 28% at year-end 2020, surpassing hedge fund investments to become the largest component of the industry's exposure.

Schedule BA Asset Exposure Continues to Climb

In the historically low interest rate environment, U.S. insurance companies have continued to acquire investments reported on Schedule BA, which typically offer higher yields than traditional assets like corporate or municipal bonds because of their complexity and illiquidity. Chart 1 shows the steady climb of the industry's Schedule BA exposure over the last 10 years, with reported book/adjusted carrying value (BACV) increasing to $523 billion as of year-end 2021 from $266 billion as of year-end 2012.

Chart 1: Historical U.S. Insurance Industry Schedule BA Exposure, 2012–2021 (BACV $ in millions)



Schedule BA exposure has generally been split fairly evenly between affiliated and unaffiliated investments but skewed towards affiliated. At year-end 2021, unaffiliated investments totaled $250 billion and accounted for 48% of total Schedule BA exposure, the largest share since the Capital Markets Bureau began tracking data in 2010. For comparison, the smallest share for unaffiliated Schedule BA investments was 40% at year-end 2019.

Unaffiliated Private Equity Investments See Strong Growth in 2021

The U.S. insurance industry's reported BACV of $522.8 billion in other long-term invested assets on Schedule BA represented an increase of 14.8% at year-end 2021 compared to year-end 2020 (see Table 1 and Table 2). Schedule BA assets have experienced strong double-digit growth in recent years, with 2021's 15% increase in exposure following YOY growth of 13% and 10% in 2020 and 2019, respectively. Total Schedule BA exposure as of year-end 2021 represented 6.5% of the industry's total cash and invested assets, an increase from 6.1% as of year-end 2020 and 5% as of year-end 2012.

Like previous years, hedge fund, private equity, and real estate investments represented most of the industry's Schedule BA exposure. Together, they accounted for 75% of total exposure at year-end 2021 compared to 70% at year-end 2020. Exposure to private equity investments experienced significant growth, increasing by 34% YOY to $173 billion as of year-end 2021. Private equity's share of total Schedule BA exposure rose to 33% from 28% at year-end 2020, surpassing hedge fund investments to become the largest component of the industry's exposure.

Table 1: Total U.S. Insurance Industry Schedule BA Exposure, Year-End 2021 (BACV $ in millions)

Asset Type	Life	P/C	Health	Title	Total	% of Total
Private Equity	134,116	32,371	6,061	20	172,568	33.0%
Hedge Funds	42,531	97,367	7,937	183	148,018	28.3%
Real Estate	45,896	23,209	1,901	2	71,008	13.6%
Any Other Class of Assets	6,260	20,577	2,401	9	29,248	5.6%
Surplus Debentures	19,720	2,816	634	6	23,177	4.4%
Bonds/Fixed Income Instruments	11,777	5,469	456	-	17,703	3.4%
Collateral Loans	14,990	1,567	605	6	17,168	3.3%
Non-Collateral Loans	60	15,692	332	1	16,085	3.1%
Mortgage Loans	15,028	408	129	8	15,572	3.0%
Low Income Housing Tax Credits	4,517	4,140	192	-	8,848	1.7%
Other*	1,392	1,979	67	-	3,438	0.7%
Total	**296,288**	**205,593**	**20,715**	**236**	**522,832**	**100%**
% of Total	**56.7%**	**39.3%**	**4.0%**	**0.0%**	**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 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 WCFIs.

Approximately 43% of the investments that are deemed to have the underlying characteristics of bonds and fixed income instruments have been assigned an NAIC designation by the Securities Valuation Office (SVO), and 56% are unaffiliated. Consistent with prior years, approximately 64% of the $15.6 billion in Schedule BA mortgage obligations as of year-end 2021 were in joint venture structures, while the remaining was in non-registered private funds. In addition, the majority, or 87%, of the low-income housing tax credits are part of the federal program and non-guaranteed.

Life insurance companies continued to account for most of the industry's Schedule BA exposure at almost 57%, while property/casualty (P/C) companies represented 39% of year-end 2021. Life companies' share increased by 4.4 percentage points from 52.3% at year-end 2020, whereas P/C companies fell by 4.7 percentage points for the same period. Health and title companies accounted for less than 5% of industry exposure.

Unaffiliated investments were a driver of growth in total Schedule BA exposure in 2021, increasing by 28% compared to the prior year to $250.1 billion. Like overall exposure, hedge fund, private equity, and real estate investments accounted for most of the industry's unaffiliated exposure at $186 billion or 75%. Unaffiliated private equity investments represented a much larger share of total unaffiliated exposure at 51% compared to 33% of overall Schedule BA exposure.

Consistent with prior years, large insurers—i.e., those with total cash and invested assets greater than $10 billion—accounted for the majority, or 78%, of exposure to unaffiliated Schedule BA exposure as of year-end 2021 (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	297	435	722	2,720	3,664	7,024	112,350	127,212
Hedge Funds	154	459	1,057	3,430	3,765	4,306	20,927	34,099
Real Estate	79	173	318	1,742	1,198	3,673	17,928	25,112
Other	769	754	951	4,184	4,766	7,769	44,502	63,694
Total	**1,300**	**1,821**	**3,048**	**12,077**	**13,393**	**22,772**	**195,707**	**250,118**
% of Total	**0.5%**	**0.7%**	**1.2%**	**4.8%**	**5.4%**	**9.1%**	**78.2%**	**100.0%**

The investment strategy of unaffiliated hedge fund, private equity, and real estate investments reported on Schedule BA is a required disclosure by insurers. Unfortunately, a strategy was not disclosed, or one was not applicable, for 44% of these investments. At year-end 2021, approximately 32%, 16%, and 3% of these investments were reported as leveraged buyout, venture capital, and mezzanine financing strategies, respectively, accounting for the three most common investment strategies.

Despite the significant growth in the U.S. insurance industry's exposure to investments reported on Schedule BA in recent years, it will not likely represent a material risk in a stressed environment because of the relatively small, albeit growing, concentration, of 6.5% of total cash and invested assets at year-end 2021. In addition, exposure represented 24% of the industry's total capital and surplus, a small improvement compared to 28% the prior year. The industry continues to be well-capitalized despite recent challenges, including a prolonged low interest rate environment and the effects of the COVID-19 pandemic on the global economy and the financial markets. 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 relatively high illiquidity of these investments. While there was a small increase in the number of U.S. insurance companies with exposure to Schedule BA assets exceeding 100% of their total capital and surplus in 2021, they represented less than 1% of all U.S. insurance companies.

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

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