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).

Growth in U.S. Insurance Industry's Cash and Invested Assets Declines to 1.3% at Year-End 2022

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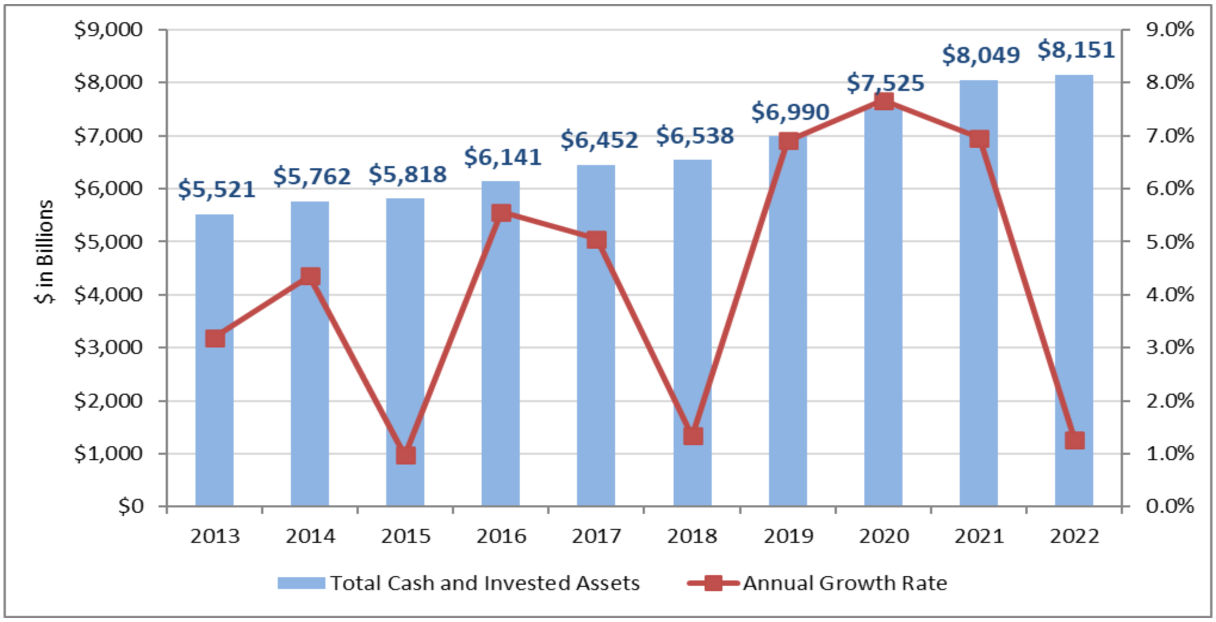
Executive Summary

- U.S. insurance companies reported $8.2 trillion in total cash and invested assets at year-end 2022, an increase of only 1.3% compared to year-end 2021.
- The U.S. insurance industry's four largest asset classes remained unchanged, with bonds, common stocks, mortgages, and Schedule BA assets the largest categories, in that order.
- In 2022, life insurers continued to invest in less liquid assets like mortgages, with exposure increasing 8.4% compared to 2020.
- The share of bonds in the U.S. insurance industry's investment portfolio increased to 62.3% at year-end 2022, while the share of common stocks declined to 13.2% following significant equity market declines in 2022.
- Asset-backed securities (ABS) and other structured securities and bank loans were again the two fastest growing bond types in 2022, with exposure increasing 12% and 21%, respectively, compared to the prior year.
- The credit quality of the bond portfolio improved slightly at year-end 2022, with bonds designated NAIC 1 and NAIC 2 increasing to 94.7% of total bond exposure from 94% at year-end 2021.

As of year-end 2022, cash and invested assets, including affiliated and unaffiliated investments, reported by U.S. insurance companies totaled $8.2 trillion. Growth in cash and invested assets slowed significantly to a 1.3% increase from 2021 to 2022, following year-over-year (YOY) growth of 7% or greater in the prior three years. Chart 1 shows the book/adjusted carrying value (BACV) of the industry's total cash and invested assets from 2013 through 2022, along with annual YOY growth rates. Cash and invested assets continued to grow steadily on an absolute dollar basis, with BACV increasing almost 50% over the 10-year period.

Chart 1: Historical U.S. Insurance Industry Total Cash and Invested Assets, Year-End 2013–2022



Note: Includes affiliated and unaffiliated investments

Bonds' Share of the Investment Portfolio Rises While Common Stocks' Share Falls

The asset mix of U.S. insurance companies' investment portfolios has remained relatively consistent over the years. Bonds continue to be the largest component, representing 62.3% of total cash and invested assets at year-end 2022. Common stock investments are the second largest holding for the industry at 13.2% of total cash and invested assets, followed by mortgages at 8.9% and Schedule BA assets at 6.6%. (Refer to Table 1.) The U.S. insurance industry's four largest asset classes have remained unchanged since the NAIC Capital Markets Bureau began tracking U.S. insurers' investment trends in 2010.

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2022 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,630,254	1,248,301	189,308	6,127	5,073,991	62.3%
Common Stocks	210,618	817,493	43,830	2,847	1,074,789	13.2%
Mortgages	695,160	29,372	514	12	725,059	8.9%
Schedule BA and Other Assets	324,657	188,258	21,552	384	534,851	6.6%
Cash and Short-Term Investments	143,957	158,127	70,160	2,176	374,420	4.6%
Contract Loans	131,852	2	1	-	131,855	1.6%
Derivatives	95,430	2,350	6	-	97,787	1.2%
Real Estate	22,611	13,147	6,174	206	42,138	0.5%
Other Receivables	31,799	5,093	752	14	37,658	0.5%
Preferred Stocks	17,195	16,526	988	177	34,886	0.4%
Securities Lending (Reinvested Collateral)	14,329	6,196	2,641	-	23,165	0.3%
Total	**5,317,863**	**2,484,864**	**335,927**	**11,943**	**8,150,598**	**100%**
% of Total	65.2%	30.5%	4.1%	0.1%	100%	

Note: Numbers in the table have been rounded.

Similar to previous years, life and property/casualty (P/C) companies accounted for almost 96% of the industry's assets. Life companies held the largest share, or 65.2%, of the industry's total cash and invested assets in 2022, while P/C companies accounted for 30.5%. Health and title companies together represented approximately 4% of the industry's total cash and invested assets.

The share of bonds in the industry's investment portfolio had been gradually declining since 2010, given the low interest rate environment. However, it rebounded in 2022, as interest rates rose significantly and created bond investment opportunities with more attractive yields. Bonds—which are generally a stable source of investment income for investors, including insurers—rose to 62.3% of total cash and invested assets from 61.4% at year-end 2021. (Refer to Table 2.)

Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2021 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,544,972	1,214,816	178,765	5,914	4,944,467	61.4%
Common Stocks	223,017	895,734	49,219	3,955	1,171,924	14.6%
Mortgages	640,447	28,221	323	30	669,021	8.3%
Schedule BA and Other Assets	296,385	205,780	20,774	236	523,175	6.5%
Cash and Short-Term Investments	148,863	160,279	60,054	2,541	371,737	4.6%
Contract Loans	131,600	3	1	-	131,604	1.6%
Derivatives	96,881	997	1	-	97,879	1.2%
Real Estate	22,871	13,502	6,428	210	43,011	0.5%
Preferred Stocks	20,550	17,668	1,013	367	39,598	0.5%
Securities Lending (Reinvested Collateral)	19,528	6,633	2,693	-	28,855	0.4%
Other Receivables	21,342	5,357	1,208	3	27,910	0.3%
Total	**5,166,456**	**2,548,990**	**320,478**	**13,256**	**8,049,180**	**100%**
% of Total	64.2%	31.7%	4.0%	0.2%	100%	

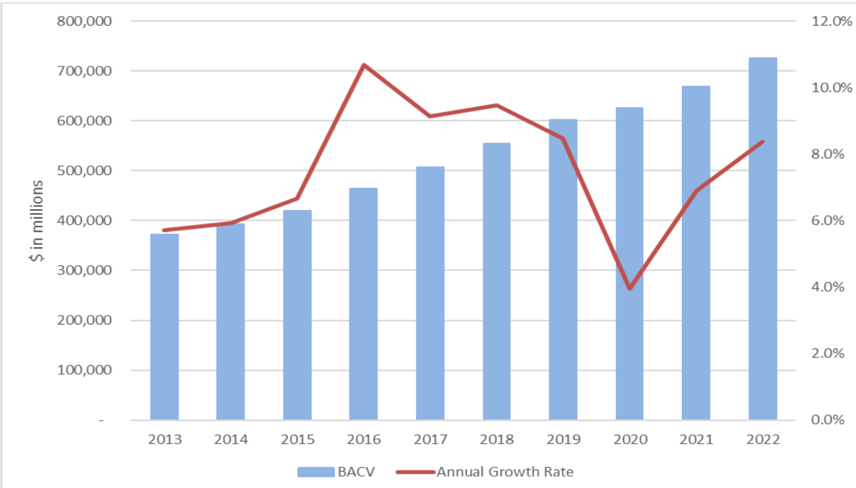
Note: Numbers in the table have been rounded.

In comparison, the share of common stocks in U.S. insurer portfolios decreased YOY due, in part, to significant equity market weakness and lower market valuations as interest rates climbed. The Standard & Poor's 500 index (S&P 500), for example, declined approximately 20% in 2022. As of year-end 2022, common stocks accounted for 13.2% of cash and invested assets, decreasing from 14.6% at year-end 2021. The almost 1.5 percentage point decrease was the first decline in over a decade. Before 2022, the share of common stocks had been gradually increasing over the years, from 10.3% of the industry's total cash and invested assets as of year-end 2010.

Based on a mark-to-market analysis of year-end 2021 investments, U.S. insurers' unaffiliated publicly traded common stock holdings experienced a weighted average 18% decrease in value in 2022 compared to 20% for the S&P 500 in the same period. P/C companies are the primary equity investors within the industry, holding 76% of the overall common stock exposure.

U.S. insurance companies—life companies, in particular—are continuing to increase exposure to mortgages, which typically offer more attractive and higher yields but are relatively illiquid. Illiquid investments generally have less credit and pricing transparency and are, therefore, subject to greater price volatility. Exposure to mortgages has consistently increased over the last 10 years, almost doubling to reach $725 billion at year-end 2022. Mortgages represented 8.9% of total cash and invested assets as of year-end 2022 compared to 6.7% as of year-end 2013. Following a slowdown in the pace of growth in 2020, mortgage exposure grew 6.9% and 8.4% in 2021 and 2022, respectively. (Refer to Chart 2.)

Chart 2: Historical U.S. Insurance Industry Mortgage Exposure, 2013–2022



ABS and Other Structured Securities Rise to Second Largest Bond Type

Bonds are a core investment for U.S. insurance companies and represent a significant percentage of their invested assets. Following a 2.6% YOY increase, the U.S. insurance industry's exposure to bonds surpassed $5 trillion at year-end 2022 for the first time. (Refer to Table 3.) Corporate bonds, ABS and other structured securities, and municipal bonds remained the three largest bond types in U.S. insurer investment portfolios, representing 56.1%, 11.2%, and 9.9%, respectively, of total bond exposure. ABS and other structured securities experienced the largest YOY growth among U.S. insurer bond investments, with exposure increasing approximately 12% YOY to $570 billion, and as a share of total bond exposure, increasing to 11.2% from 10.3% at year-end 2021. (Refer to Table 4.) Given the significant increase in YOY exposure, ABS and other structured securities rose to the second largest bond type for the industry at year-end 2022 (from the third largest), while municipal bonds fell to the third largest (from the second largest).

U.S. government bonds, agency-backed residential mortgage-backed securities (RMBS), and private-label commercial mortgage-backed securities (CMBS) accounted for the next three largest bond types. These bond types had little to no change in their share of total bond exposure YOY.

Table 3: Bond Breakdown by Insurer Type, Year-End 2022 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,279,314	490,470	77,022	3,117	2,849,923	56.1%
ABS and Other Structured Securities	448,581	103,038	18,163	45	569,826	11.2%
Municipal Bonds	217,627	263,328	22,859	976	504,790	9.9%
U.S. Government	140,633	157,584	24,076	515	322,808	6.4%
Agency-Backed RMBS	114,481	96,062	25,656	810	237,008	4.7%
Private-Label CMBS	162,383	46,791	9,957	13	219,144	4.3%
Bank Loans	95,324	17,784	2,178	193	115,479	2.3%
Private-Label RMBS	78,575	21,958	3,364	1	103,898	2.0%
Agency-Backed CMBS	41,174	27,329	1,813	79	70,394	1.4%
Foreign Government	48,383	18,941	1,202	348	68,873	1.4%
Exchange-Traded Funds (ETFs)	4,250	4,747	2,853	25	11,876	0.2%
Other	1,800	270	164	7	2,240	0.0%
Total	**3,632,524**	**1,248,302**	**189,308**	**6,127**	**5,076,261**	**100%**
% of Total	71.6%	24.6%	3.7%	0.1%	100.0%	

Note: Numbers in the table have been rounded.

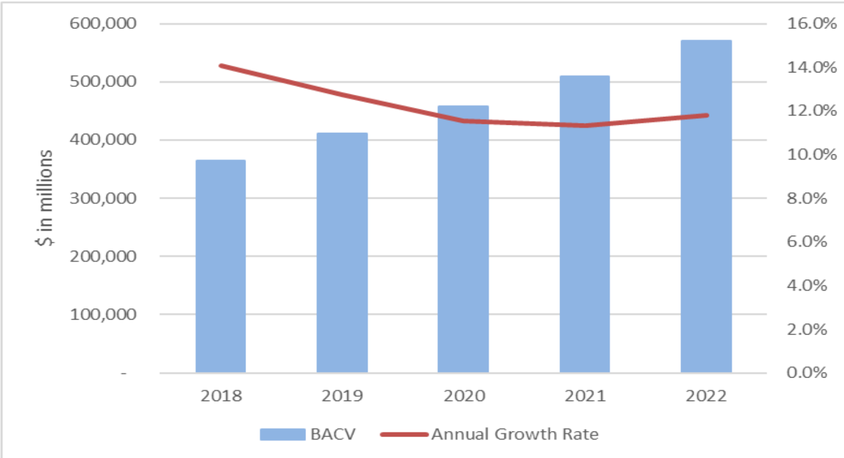
Table 4: Bond Breakdown by Insurer Type, Year-End 2021 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,245,647	465,844	72,320	3,023	2,786,835	56.4%
Municipal Bonds	212,282	276,875	22,659	1,016	512,832	10.4%
ABS and Other Structured Securities	392,735	100,613	16,295	25	509,667	10.3%
U.S. Government	153,701	138,180	23,918	533	316,332	6.4%
Agency-Backed RMBS	132,226	88,442	21,658	641	242,967	4.9%
Private-Label CMBS	158,199	49,083	9,215	14	216,511	4.4%
Bank Loans	73,097	20,152	2,231	226	95,706	1.9%
Private-Label RMBS	73,029	19,420	2,975	7	95,431	1.9%
Agency-Backed CMBS	46,463	28,543	1,909	83	76,998	1.6%
Foreign Government	53,162	21,034	1,313	325	75,834	1.5%
Exchange-Traded Funds (ETFs)	3,240	6,586	4,272	22	14,120	0.3%
Hybrid Securities	1,664	44	-	-	1,708	0.0%
Total	**3,545,446**	**1,214,816**	**178,765**	**5,914**	**4,944,941**	**100%**
% of Total	71.7%	24.6%	3.6%	0.1%	100%	

Note: Numbers in the table have been rounded.

U.S. insurance companies continued to turn to ABS and other structured securities for higher yields in 2022 despite rising interest rates and more attractive yields in less risky securities. In addition to consumer ABS, the “ABS and Other Structured Securities” category includes collateralized loan obligations (CLOs), commercial ABS, and lease-backed securities, among other types of structured finance investments. This has been a high-growth bond category with exposure to ABS and other structured securities, increasing more than 11% in each of the last five years and increasing almost 80% since year-end 2017, when exposure totaled $319 billion. (Refer to Chart 3.)

Chart 3: Historical U.S. Insurance Industry ABS and Other Structured Securities Exposure, 2018–2022

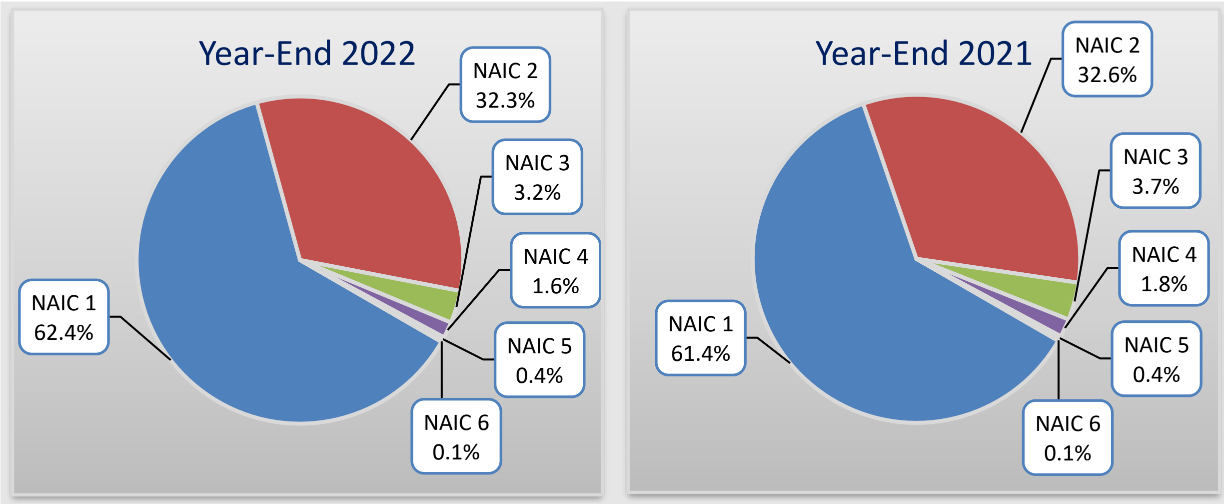


While bank loans represent a small percentage of total bonds, they have also been a fast-growing bond type in U.S. insurer portfolios. Exposure in terms of BACV increased 21% YOY to $115 billion as of year-end 2022, following YOY growth rates of 30% and 13% in 2021 and 2020, respectively. The significant growth has resulted in the industry's exposure to bank loans exceeding the 2% mark for the first time, at 2.3% of total bonds. Bank loans represented the seventh largest bond type in insurers' investment portfolios at year-end 2022, ahead of both private-label RMBS and agency-backed CMBS.

Portfolio Credit Quality Improves, but Credit Challenges Abound

The credit quality of U.S. insurance companies' bond investment portfolios has continued to improve following the broad-based deterioration in credit quality in 2020 due to the effects of the COVID-19 pandemic. Investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 94.7% of total bonds, representing an increase from 94% at year-end 2021 (Refer to Chart 4 and Chart 5) and reflecting a marginal improvement in credit quality. Below-investment-grade bonds, or those with reported NAIC 3 designations and below, decreased to 5.3% of total bond exposure at year-end 2022 after reaching 6.1% in 2020. High-yield bond exposure, therefore, remains slightly above the pre-pandemic level of 5.1% at year-end 2019.

Chart 4 and Chart 5: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2022 (Left) and Year-End 2021 (Right)



Despite recovering from the broad-based effects of the COVID-19 pandemic, credit conditions in the U.S. remain challenging, given several factors. Higher interest rates have not only exacerbated both bond and equity market volatility but are also leading to less attractive and more expensive financing conditions. Highly leveraged companies with less financial flexibility will be hit hardest by the higher cost of and tighter financing. While inflationary pressures are easing in 2023, they continue to weigh heavily on companies' margins and profitability as input and raw material costs remain elevated. Inflation is also hurting consumers, who are pulling back on their discretionary spending. In addition, the potential for a recession in the near term poses new challenges to overall revenue growth and credit in general in 2023 and into 2024. These challenging operating and financing conditions will likely pressure credit quality and could result in a rise in credit downgrades and perhaps even defaults in the coming months.

U.S. insurers primarily invest in securities with high credit quality, which generally should be able to withstand the aforementioned credit pressures (as long as they are not severe or prolonged). However, particular consideration should be given to concentrations in areas currently experiencing particular stress, such as consumer-reliant sectors (like retail, consumer products, and media and entertainment), as well as small and regional banks.

The NAIC Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's various invested asset types and report 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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