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 Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023

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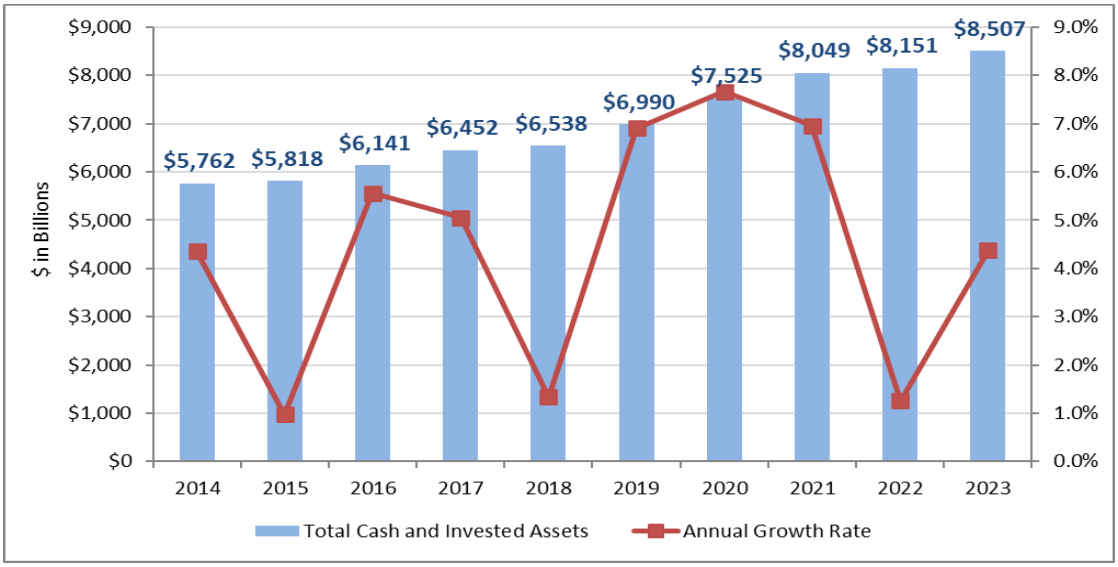
Executive Summary

- The U.S. insurance industry reported $8.5 trillion in total cash and invested assets at year-end 2023, an increase of 4.4% versus year-end 2022.
- Consistent with prior years, U.S. insurance companies' four largest asset classes were bonds, common stocks, mortgages, and other long-term invested assets reported in Schedule BA.
- Mortgage exposure grew at a faster pace than growth in total cash and invested assets, increasing 5.7% at year-end 2023 compared to the prior year.
- The share of bonds in the U.S. insurance industry's investment portfolio decreased to 60.8% at year-end 2023, while the share of common stocks increased to 13.9% following an equity market recovery in 2023.
- The fastest growing bond types in 2023 included agency-backed residential mortgage-backed securities (RMBS), private-label RMBS and asset-backed securities (ABS) and other structured securities, with exposure increasing 13%, 13%, and 10%, respectively, compared to the prior year.
- The credit quality of the bond portfolio improved to pre-pandemic levels at year-end 2023, with bonds designated NAIC 1 and NAIC 2 increasing modestly to 95% of total bond exposure from 94.7% at year-end 2022.

U.S. insurance companies reported total cash and invested assets, including affiliated and unaffiliated investments, of $8.5 trillion at year-end 2023. Cash and invested assets increased 4.4% compared to year-end 2022, with growth rebounding modestly from 1.3% in the prior period. Chart 1 shows the book/adjusted carrying value (BACV) of the industry's total cash and invested assets from 2014 through 2023, along with annual year-over-year (YOY) growth rates. Cash and invested assets have continued to increase 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 2014–2023



Note: Includes affiliated and unaffiliated investments

Common Stock Exposure Rises on Strong Equity Markets

The composition of investments in the U.S. insurance industry's asset portfolio has generally remained stable due to its significant scale. The four largest asset classes have remained unchanged since at least 2010, when the NAIC Capital Markets Bureau began tracking U.S. insurers' investment trends. Bonds are the largest asset class at 60.8% of total cash and invested assets at year-end 2023. (Refer to Table 1.) However, their share in the portfolio declined from 62.3% at year-end 2022. (Refer to Table 2.) Furthermore, insurers' allocation to bonds has declined over the long term from approximately 70% at year-end 2010, likely due to their chasing more attractive and higher yields in other asset classes during what was a prolonged low interest rate environment.

U.S. insurers, particularly life insurers, have increasingly turned to other asset classes, including mortgages and Schedule BA assets, for a higher-yielding alternative to traditional bonds. As of year-end 2023, mortgages and Schedule BA assets represented 9% and 6.3%, respectively, of total cash and invested assets, increasing from 6.4% and 4.5%, respectively, at year-end 2010. While mortgages and Schedule BA assets are the third and fourth largest asset holding for the overall U.S. insurance industry, they are the second and third largest for the life insurance industry. Life companies are the most active mortgage and Schedule BA asset investors within the U.S. insurance industry, reporting 96% and 65%, respectively, of the respective exposures.

Common stock investments are the U.S. insurance industry's second-largest holding at 13.9% of total cash and invested assets, rising from 13.2% at year-end 2022. The share of common stocks in U.S. insurer portfolios increased YOY due, in part, to significant equity market strength despite rising interest rates. The share of common stocks has, for the most part, been increasing over the years, from 10.3% of the industry's total cash and invested assets as of year-end 2010. Property/casualty (P/C) companies are the most active equity investors within the U.S. insurance industry, accounting for 76% of the overall common stock exposure.

Based on a mark-to-market analysis of year-end 2022 investments, U.S. insurers' unaffiliated publicly traded common stock holdings experienced a weighted average 20% increase in value in 2023 compared to 24% for the Standard & Poor's 500 index (S&P 500) in the same period.

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2023 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,658,290	1,305,183	200,217	6,012	5,169,703	60.8%
Common Stocks	220,000	914,299	47,778	2,711	1,184,787	13.9%
Mortgages	733,801	33,476	749	7	768,033	9.0%
Schedule BA and Other Assets	344,958	164,942	23,019	577	533,496	6.3%
Cash and Short-Term Investments	190,594	201,096	77,350	1,647	470,687	5.5%
Contract Loans	138,926	2	1	-	138,928	1.6%
Derivatives	102,006	2,463	27	-	104,496	1.2%
Real Estate	22,767	12,830	6,573	202	42,372	0.5%
Preferred Stocks	17,660	15,279	997	150	34,086	0.4%
Aggregate Write-Ins	22,107	2,849	343	1	25,300	0.3%
Securities Lending (Reinvested Collateral)	15,380	5,658	2,771	-	23,809	0.3%
Receivables for Securities	8,829	2,478	399	6	11,712	0.1%
Total	**5,475,318**	**2,660,556**	**360,222**	**11,313**	**8,507,410**	**100%**
% of Total	64.4%	31.3%	4.2%	0.1%	100%	

Note: Numbers in the table have been rounded.

Table 2: 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%	

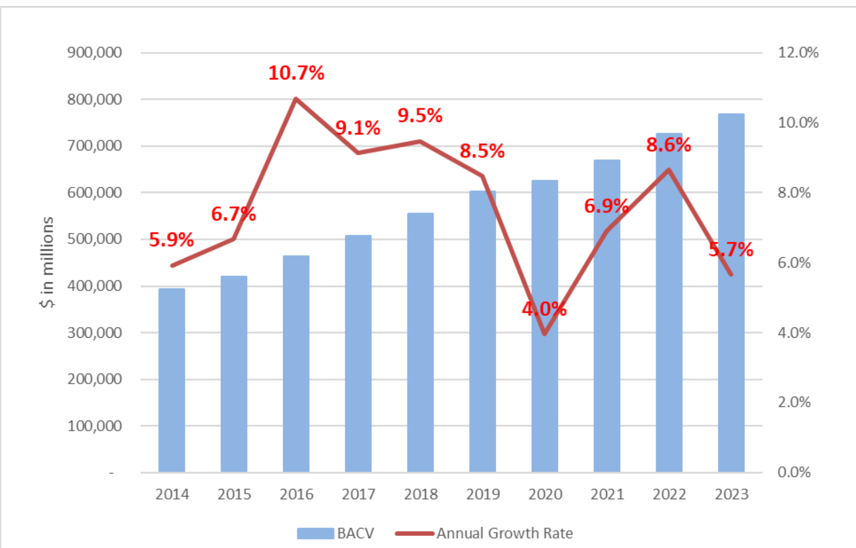
Note: Numbers in the table have been rounded.

At year-end 2023, life and P/C companies accounted for the bulk of the industry's assets, or 95.7%. Life companies held the largest share, or 64.4%, of the industry's total cash and invested assets, while P/C companies accounted for 31.3%. Health and title companies together represented approximately 4% of the industry's total cash and invested assets.

P/C and health companies were the primary drivers of the overall industry's growth in cash and invested assets in 2023. Cash and invested assets at P/C and health companies increased 7.1% and 7.2%, respectively, in 2023 compared to the prior year. Meanwhile, asset growth at life companies was only 1.9%, and cash and invested assets declined 5.3% at title companies.

Mortgages have been a core investment for many life insurance companies and are the second largest asset class for the life insurance industry. They typically offer more attractive and higher yields relative to traditional fixed-income securities and match well with the generally long-term liabilities of life companies. The U.S. insurance industry's overall exposure to mortgages continues to increase, almost doubling in the last 10 years to $768 billion at year-end 2023. Mortgages represented 9% of total cash and invested assets as of year-end 2023 compared to 6.8% as of year-end 2014. While the pace of growth slowed in 2023 to 5.7%, it follows two consecutive years of high single-digit growth and exceeded the overall cash and invested assets growth rate of 4.4%. (Refer to Chart 2.)

Chart 2: Historical U.S. Insurance Industry Mortgage Exposure, 2014–2023



Asset-Backed Securities and Other Structured Securities Among the Fastest Growing Bond Types Once Again

Bonds are fundamental to U.S. insurer investment portfolios as they typically provide a stable stream of cash flows and are generally less volatile than common stocks. They also help insurers manage risk and meet obligations to policyholders by matching liabilities with reliable cash flow streams. The U.S. insurance industry's exposure to bonds totaled almost $5.2 trillion as of year-end 2023, an increase of 1.8% compared to the prior year. (Refer to Table 3 and Table 4.)

The three largest bond types in U.S. insurer investment portfolios are corporate bonds, asset-backed securities (ABS) and other structured securities, and municipal bonds, representing 55.3%, 12.1%, and

9.0%, respectively, of year-end 2023's total bond exposure. The share of ABS and other structured securities in insurer bond portfolios continues to rise from 11.2% at year-end 2022 and 10.3% at year-end 2021, at the expense of corporate and municipal bonds.

U.S. government bonds, agency-backed residential mortgage-backed securities (RMBS), and private-label commercial mortgage-backed securities (CMBS) account for the next three largest bond types. The share of U.S. government bonds and agency RMBS in U.S. insurers' bond portfolios increased YOY to 6.7% and 5.2%, respectively, while the share of private-label CMBS decreased slightly to 4.1%.

Table 3: Bond Breakdown by Insurer Type, Year-End 2023 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,254,228	521,320	80,884	3,020	2,859,452.0	55.3%
ABS and Other Structured Securities	493,738	112,051	19,330	62	625,180.3	12.1%
Municipal Bonds	207,852	236,088	22,688	912	467,540.1	9.0%
U.S. Government	143,409	175,160	27,456	599	346,622.8	6.7%
Agency-Backed RMBS	119,592	118,641	29,870	694	268,796.3	5.2%
Private-Label CMBS	154,142	45,718	9,550	9	209,418.8	4.1%
Bank Loans	103,300	16,123	2,011	204	121,637.7	2.4%
Private-Label RMBS	88,061	25,553	3,716	2	117,332.1	2.3%
Agency-Backed CMBS	41,935	29,530	2,159	117	73,741.3	1.4%
Foreign Government	45,935	19,759	1,091	371	67,155.8	1.3%
Exchange-Traded Funds (ETFs)	5,845	4,935	1,293	12	12,083.9	0.2%
Other	254	307	173	11	744.7	0.0%
Total	**3,658,290**	**1,305,184**	**200,218**	**6,012**	**5,169,706**	**100%**
% of Total	70.8%	25.2%	3.9%	0.1%	100.0%	

Note: Numbers in the table have been rounded.

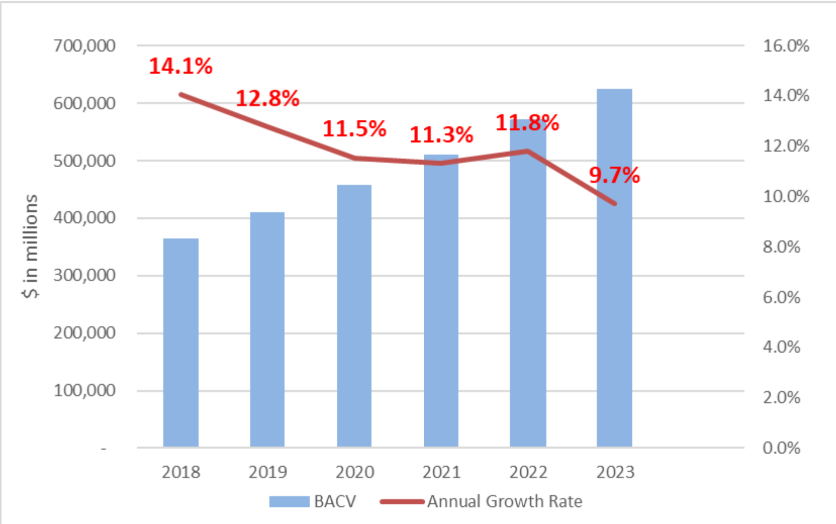
Table 4: Bond Breakdown by Insurer Type, Year-End 2022 (BACV$ in Millions)

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.

ABS and other structured securities again experienced one of the largest YOY growth rates among U.S. insurer bond investments, with exposure increasing almost 10% to $625 billion. This has been a high-growth bond category with annual growth rates in exposure of more than 11% in the previous five years and total exposure almost doubling since year-end 2017, when exposure totaled $319 billion. (Refer to Chart 3.) 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.

Chart 3: Historical U.S. Insurance Industry ABS and Other Structured Securities Exposure, 2018–2023

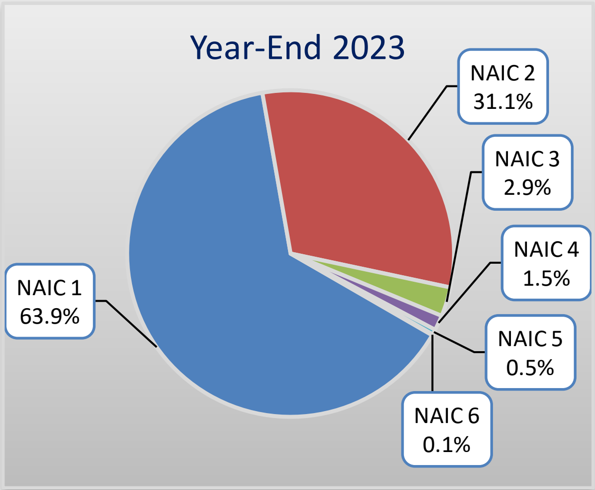


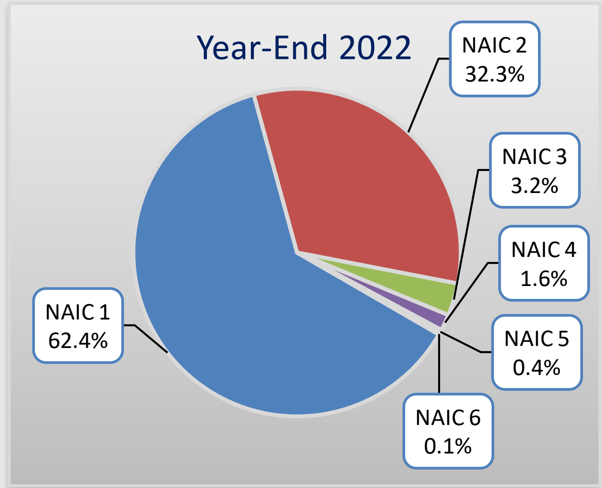
The U.S. insurance industry’s year-end 2023 exposure to agency-backed RMBS and private-label RMBS increased 13.4% and 12.9%, respectively, compared to the prior year. They represented the two fastest-growing bond types in 2023. This is in contrast to private-label U.S. RMBS issuance volume declines of approximately 50% amid rising interest rates and mortgage rates peaking at 8.1% in late 2023, the highest level since June 2000.

High-Yield Bond Exposure Falls Below Pre-Pandemic Levels

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 95% of total bonds, representing an increase, albeit modest, from 94.7% at year-end 2022 (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 further to 5% of total bond exposure at year-end 2023 after reaching 6.1% in 2020. At this level, high-yield bond exposure is just below 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 2023 and Year-End 2022





While U.S. insurance companies have limited exposure to below-investment-grade bonds, this exposure should still be monitored closely, particularly amid higher interest rates. 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 will be hit hardest by the elevated cost of debt and tighter financing availability, given their weaker cash flows and limited financial flexibility. Escalating geopolitical tensions across the globe and persistent inflation in the U.S. and other regions pose additional challenges and uncertainty.

According to S&P Global Ratings (S&P), the U.S. trailing 12-month speculative-grade corporate default rate increased to 4.5% at year-end 2023 from 1.7% at year-end 2022, and the European default rate rose to 3.5% at year-end 2023 from 2.2% at year-end 2022. Default rates increased in 2023 as higher interest rates and borrowing costs proved to be a challenge for many companies, particularly those at the lower end of the credit rating spectrum. S&P expects default rates to continue rising, although at a slower pace, with the U.S. reaching 4.75% and Europe rising to 3.75% by the end of 2024.

The NAIC Capital Markets Bureau will continue to monitor exposure and 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.