



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 webpage and the NAIC archives (for reports published prior to 2016).

Significant Increase in U.S. Insurers' Bank Loan Exposure as of Year-End 2021

Analysts: Jennifer Johnson and Jean-Baptiste Carelus

Executive Summary

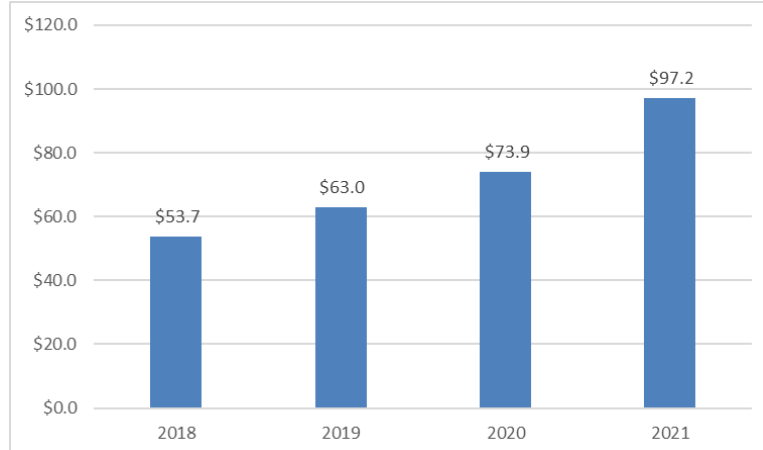
- U.S. insurers' exposure to bank loans increased by about 32% to \$97.2 billion in book/adjusted carrying value (BACV) at year-end 2021, from \$73.9 billion at year-end 2020; they make up less than 2% of the industry's total cash and invested assets.
- About 80% of U.S. insurers' bank loans were acquired in market transactions; the remainder was issued by the reporting entities.
- About 74% of bank loans were held by large life companies, or those with more than \$10 billion in assets under management; 10 life insurance companies accounted for 54% of U.S. insurers' total bank loan exposure at year-end 2021.
- There was a small improvement in credit quality of U.S. insurer bank loans, with those carrying NAIC 3 and NAIC 4 designations—i.e., BB and B credit rating categories—accounting for 53% of the total at year-end 2021, compared to 57% at year-end 2020. Bank loans carrying CCC credit ratings also decreased year-over-year (YOY) to 8% from 12%.
- New leveraged loan market issuance in 2021 reached \$615 billion, surpassing a previous record set in 2017 of \$503 billion, with collateralized loan obligations (CLOs) for the most part driving demand.

At year-end 2021, U.S. insurers' exposure to bank loans as reported in the annual statement filings to the NAIC—i.e., Schedule D, Part 1; Schedule DA; and Schedule E, Part 2—totaled \$97.2 billion in BACV, representing a 32% increase from \$73.9 billion at year-end 2020. U.S. insurers' exposure to bank loans has been on an increasing trend over at least the last four years as shown in Chart 1. While the increase in total bank loan exposure was relatively large YOY from 2020 to 2021, bank loans were 1.2% of U.S.



insurers' total cash and invested assets at year-end 2021. U.S. insurers were first required to report bank loans as a separate line item in the annual statements beginning with year-end 2018 filings.

Chart 1: U.S. Insurers' Historical Bank Loan Exposure, 2018–2021 (\$mil BACV)



U.S. insurers' bank loan investments include those that were acquired in market transactions, as well as those issued directly by the reporting entity; i.e., the insurer itself.

At year-end 2021, 79% of total bank loans held by U.S. insurers were acquired, with the remainder issued by the reporting entities. In the low interest rate environment, bank loans have represented an attractive alternative to traditional bond investments, such as corporate bonds. In addition, U.S. insurers reported that about 94% of bank loans had maturities of 10 years or less as of year-end 2021. Unaffiliated bank loans represented the majority of U.S. insurers' bank loan investments at year-end 2021 at 95% of the total (see Table 1).

Table 1: U.S Insurer Exposure to Bank Loans, Year-End 2021 (\$BACV)

Loan Type	Life	P/C	Title	Health	Total	Pct of Total
Unaffiliated	69,644,214,313	19,895,815,944	225,705,552	2,232,161,397	91,997,897,206	95%
Affiliated	4,714,664,938	500,000,000	-		5,214,664,938	5%
Total	74,358,879,251	20,395,815,944	225,705,552	2,232,161,397	97,212,562,144	100%
Pct of Total	76%	21%	0%	2%	100%	

Similar to prior years, at year-end 2021, the majority of bank loans, or 76%, was held by life companies, followed by 21% with property/casualty (P/C) companies. Almost all, or 98%, of the exposure was reported in Schedule D, Part 1.

Large Life Companies Continue to Dominate

Table 2 shows that large insurers, or those with more than \$10 billion in assets under management, accounted for the majority, or 91%, of the industry's exposure to bank loans at year-end 2021.



Companies with between \$1 billion and up to \$10 billion in assets under management, for the most part, accounted for the remaining 9%.

Table 2: Bank Loan Exposure by Industry Type and Assets Under Management (\$BACV), Year-End 2021

Statement Type	Less Than \$250mm	Between \$250mm and \$500mm	Between \$500mm and \$1B	Between \$1B and \$2.5B	Between \$2.5B and \$5B	Between \$5B and \$10B	Greater than \$10B	Total
Life	2,443,330	15,314,587	44,040,122	498,860,362	677,636,117	1,142,933,489	71,977,651,244	74,358,879,251
P/C	56,378,449	129,285,994	291,886,363	1,042,490,808	976,959,059	2,544,075,440	15,354,739,831	20,395,815,944
Title			12,962,622	71,783,556	140,959,374			225,705,552
Health		57,687,790	103,942,535	716,065,369	273,500,347	293,569,655	787,395,701	2,232,161,397
Total	58,821,779	202,288,371	452,831,642	2,329,200,095	2,069,054,897	3,980,578,584	88,119,786,776	97,212,562,144
Pct of Total	0%	0%	0%	2%	2%	4%	91%	100%

The top 10 insurance companies with bank loan exposure accounted for about half, or 54%, of the total as of year-end 2021, all of which were large life companies. One large life company accounted for 24% of U.S. insurers’ total bank loan exposure at year-end 2021.

Small Improvement in Credit Quality

As shown in Chart 2, about 33% of bank loans held by U.S. insurers at year-end 2021 carried NAIC 4 designations, implying below investment grade credit quality, or the B-rating category as assigned by nationally recognized statistical ratings organizations (NRSROs). This was a small decrease from 35% at year-end 2020 (see Chart 3). Together, NAIC 3 (implied BB-ratings category) and NAIC 4 designated bank loans made up 53% of U.S. insurers’ total bank loan exposure at year-end 2021, compared to 57% at year-end 2020. Bank loans carrying NAIC 5 designations, which are comparable to CCC credit ratings, decreased to 8% of total bank loans at year-end 2021 from 12% at year-end 2020, and those carrying investment grade credit quality (NAIC 1 and NAIC 2) designations increased by eight percentage points YOY.

Chart 2: U.S. Insurer Bank Loan Credit Quality, Year-End 2021

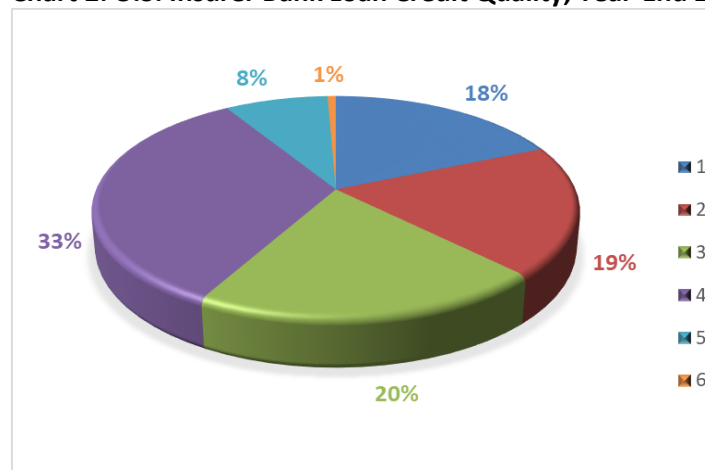
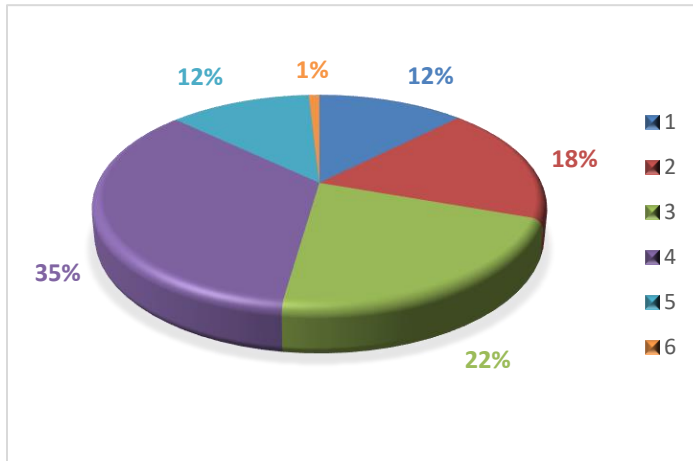




Chart 3: U.S. Insurer Bank Loan Credit Quality, Year-End 2020



Bank loans that were senior in terms of capital structure accounted for 91% of total bank loan exposure, with 44% senior secured and 47% senior unsecured. In comparison, at year-end 2020, 94% of bank loans were senior and evenly split at 47% of the total between senior secured and senior unsecured. The proportion of senior secured and senior unsecured bank loans held by U.S. insurers may be a reflection of the market’s bank loan inventory.

Leveraged Bank Loan Market Trends

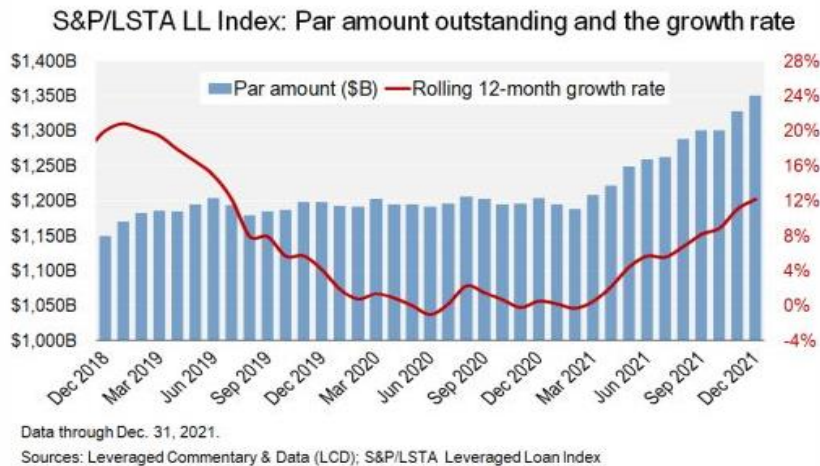
Leveraged bank loans are lent to companies with high-yield credit quality—i.e., rated below investment grade—by a group of lenders. Within a company’s capital structure, leveraged bank loans are considered senior secured credit, or the highest in terms of payment priority, within a company’s capital structure. Based on their implied credit ratings via the assigned NAIC designations, about 60% of U.S. insurers’ bank loan holdings were considered leveraged bank loans at year-end 2021.

According to Standard & Poor’s (S&P) Leveraged Commentary & Data (LCD), leveraged bank loan volume reached \$1.35 trillion in 2021, a YOY increase of 12%, or \$147 billion, due primarily to record merger and acquisition (M&A) activity (see Chart 4). Not only did M&A transaction sizes increase, but there was also a record number of M&A borrowers in 2021, or 436 in total, according to S&P Global.¹ Lower for longer interest rates make bank loans, which are floating rate instruments, an attractive funding source. In addition, because of a relatively benign credit environment, default rates for bank loans have been near record lows, resulting in increased investor demand for lower-rated and higher-yielding bank loans in 2021.

¹ S&P Global, *2021 Wrap: Leveraged Loans Post Solid Returns in Year of Blowout Issuance*, January 2022.



Chart 4:



New leveraged loan issuance in 2021 was \$615 billion, surpassing the previous record of \$503 billion in 2017. Year-to-date (YTD) leveraged loan issuance through April 2022 was \$253.9 billion. CLOs have been the driver for demand for new leveraged loan issuance. New CLO issuance reached almost \$190 billion in 2021, exceeding the previous calendar year record of \$128.9 billion in 2019.² New CLOs issued through April 2022 have totaled about \$44 billion according to S&P Global. Since the Federal Reserve has begun to increase the federal funds rate—twice so far since the beginning of 2022—and it is planning for additional rate hikes this year, financing via bank loans may become less attractive than other alternatives.

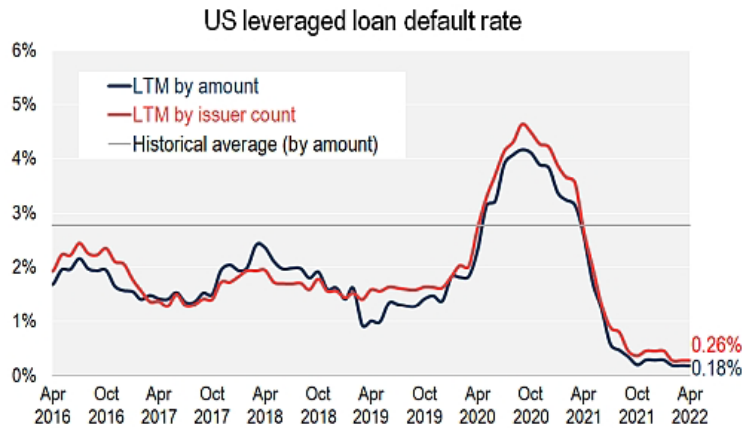
Record Low Default Rates

As of the end of April 2022, the default rate by the number of issuers was a record low of 0.26% for U.S. leveraged bank loans according to S&P Global’s LCD research and the S&P/Loan Syndications and Trading Association Leveraged Loan Index (S&P/LSTA LL Index) (see Chart 5). This ties a record low default rate that was set in December 2007. The default volume was \$2.2 billion as of the end of April 2022 (on a 12-month rolling basis) according to LCD and S&P/LSTA LL Index data, compared to a \$49 billion high in September 2020 (4.17% default rate) that was due to pandemic-induced factors.

² S&P Global, *Slower December Issuance Winds Down Record-Setting 2021 CLO Market*, January 2022.



Chart 5:



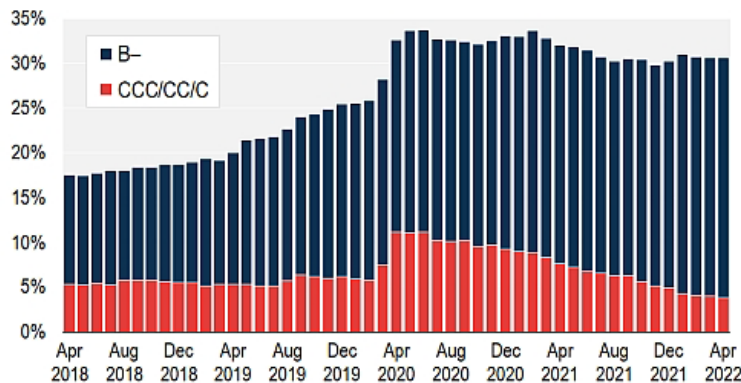
Data through April 30, 2022. Sources: Leveraged Commentary & Data (LCD); S&P/LSTA Leveraged Loan Index

Increase In B- Rated Leveraged Loans

According to the LCD, as of April 2022, about 27% of the S&P/LSTA LL Index included leveraged loans that were rated B-, in line with U.S. insurers' exposure to B- rated bank loans at year-end 2021, up from 9% in 2017 and 25.3% at year-end 2021. Chart 6 shows the share of B- and CCC/CC/C-rated bank loans that made up the S&P/LSTA LL Index since April 2018, with the proportion of B- on an increasing trend. Altogether, leveraged loans rated B- and below made up about 30% of the total included in the S&P/LSTA LL Index. Leveraged loans rated CCC/CC/C accounted for about 4% of the S&P/LSTA LL Index as of April 2022, compared to 4.9% at year-end 2021 and 11.2% in April 2020, which was a pandemic-era high. Note that while U.S. insurers' exposure to CCC-rated bank loans is declining, it is still higher than the overall leveraged loan market's proportion.

Chart 6:

B-, CCC/CC/C US loan market share, by S&P Global issuer rating



Data through April 30, 2022. Sources: Leveraged Commentary & Data (LCD); S&P/LSTA Leveraged Loan Index



A background on leveraged bank loans can be found in the NAIC Capital Market Bureau's primer on [Leveraged Bank Loans](#) published in November 2018.

The NAIC Capital Markets Bureau will continue to monitor trends with U.S. insurers' bank loan exposure and report as deemed appropriate.

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

The views expressed in this publication do not necessarily represent the views of the NAIC, its officers or members. NO WARRANTY IS MADE, EXPRESSED OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

© 1990 – 2022 National Association of Insurance Commissioners. All rights reserved.