



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).

Another Year of Double-Digit Growth in U.S. Insurers' Bank Loan Exposure in 2022

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Executive Summary

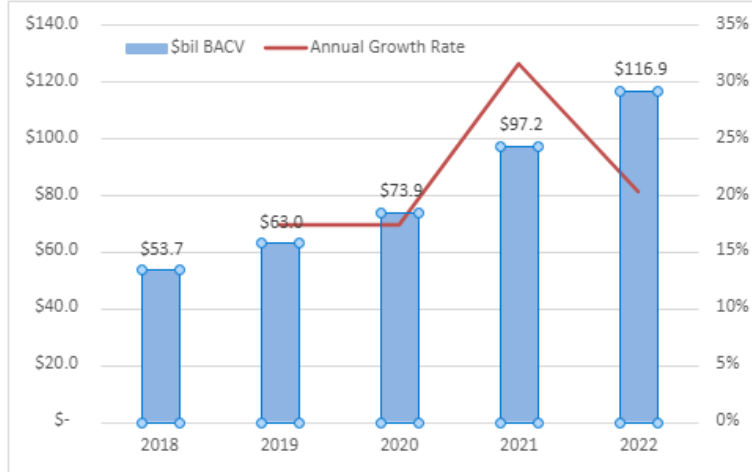
- Bank loans were one of the fastest-growing asset types in 2022 for U.S. insurers, increasing by 21% to \$117 billion in book/adjusted carrying value (BACV) from \$97.2 billion in 2021.
- Despite the double-digit growth, bank loans were under 2% of U.S. insurers' total cash and invested assets at year-end 2022, and about 75% were acquired in market transactions; the remaining 25% were issued by the reporting entities.
- Large life companies, or those with more than \$10 billion in assets under management, accounted for almost 80% of U.S. insurers' bank loan exposure, up from 74% in 2021; the top 10 insurance companies accounted for 60% of U.S. insurers' total bank loan exposure at year-end 2022, up from 54% in 2021.
- There was continued improvement in credit quality for U.S. insurer bank loans, evidenced in part by a decrease in those carrying NAIC 4 Designations—i.e., implying a B credit rating—to 26% of total bank loans in 2022 from 33% in 2021, and countered by an increase in bank loans carrying NAIC 1 Designations to 24% in 2022 from 18% in 2021.
- Total U.S. leveraged bank loan volume was about \$1.7 trillion in 2022, representing a 2% increase from 2021.

Bank loans, as reported in Schedule D, Part 1; Schedule DA; and Schedule E, Part 2, were one of the fastest-growing bond types in 2022 for U.S. insurers. U.S. insurers' investments in bank loans totaled about \$117 billion at year-end 2022, a 21% increase from \$97.2 billion at year-end 2021 (Refer to Chart 1). Despite the double-digit growth, bank loans were 1.4% of U.S. insurers' total cash and invested assets at year-end 2022, which was a small increase from 1.2% of total cash and invested assets in 2021. Note



that bank loan exposure increased by 32% from 2020 to 2021, and they had been steadily increasing since they were first reported as a separate line item in the NAIC annual statements in 2018.

Chart 1: U.S. Insurers’ Historical Bank Loan Exposure, 2018–2022 (\$bil. BACV)



From March 2022 through May 2023, the Federal Reserve increased the federal funds rate by five percentage points (to a 16-year high) to combat the 40-year inflation rate high. As a result, bank loans, which are floating-rate investments, became an even more attractive alternative to traditional bond investments, such as corporate bonds. Unaffiliated bank loans accounted for 93% of U.S. insurers’ bank loan investments at year-end 2022, and about 75% of U.S. insurers’ bank loan investments were acquired, with the remaining 25% having been issued by the reporting entities; i.e., the insurers themselves.

Almost All Bank Loans Mature in Less than 10 Years, Mostly with Life Companies

U.S. insurers reported about 93% of bank loans having maturities of 10 years or less as of year-end 2022 (Refer to Table 1), which was relatively consistent with that of 2021. Approximately 60% are scheduled to mature in four years or less.

Table 1: U.S Insurer Bank Loan Maturities, Year-End 2022 (\$mil. BACV)

Statement Type	Less Than 1-Yr	Between 1-Yr and 4-Yrs	Between 5-Yrs and 10-Yrs	Between 11-Yrs and 20-Yrs	Greater Than 20-Yrs	Total	Pct of Total
Life	4,799.0	54,270.6	30,083.4	5,084.5	2,151.6	96,389.1	82%
P/C	1,209.0	11,463.3	5,399.8	48.0	33.8	18,153.9	16%
Title	5.7	124.9	62.5	-	-	193.1	0%
Health	111.7	1,282.8	775.1	4.9	4.2	2,178.6	2%
Total	6,125.4	67,141.6	36,320.8	5,137.4	2,189.6	116,914.7	100%
Pct of Total	5%	57%	31%	4%	2%	100%	0.0



Just over 80% of U.S. insurers' bank loan exposure was held by life companies, representing an increase from 76% in 2021. The increase among life companies was countered by a decrease in bank loans held by property/casualty (P/C) companies to 16% in 2022 from 21% in 2021. Almost all of U.S. insurers' bank loan exposure was reported in Schedule D, Part 1.

Large Life Companies Continue to Dominate

Similar to prior years, large insurers accounted for the majority, or 92%, of the industry's exposure to bank loans at year-end 2022 (Refer to Table 2). Companies with between \$1 billion and up to \$10 billion in assets under management, for the most part, accounted for the remaining 8%.

Table 2: Bank Loan Exposure by Assets Under Management, Year-End 2022 (\$ mil. BACV)

Statement Type	Less Than \$250M	Between \$250M and \$500M	Between \$500M and \$1B	Between \$1B and \$2.5B	\$2.5B and \$5B	\$5B and \$10B	Greater than \$10B	Total
Life	22.1	24.9	67.8	862.5	665.0	1,546.3	93,200.4	96,389.1
P/C	45.5	195.3	219.9	1,296.4	925.4	1,323.4	14,147.9	18,153.9
Title	-	-	12.6	66.7	113.9	-	-	193.1
Health	-	20.8	185.5	657.8	261.7	301.8	751.0	2,178.6
Total	67.6	241.1	485.7	2,883.4	1,966.0	3,171.5	108,099.4	116,914.7
Pct of Total	0%	0%	0%	2%	2%	3%	92%	100%

At year-end 2022, the top 10 insurance companies with bank loan exposure accounted for about 60% of the total, up from about half at year-end 2021. All of the top 10 insurers were large life companies, and one company accounted for 27% of U.S. insurers' total bank loan exposure. The year-over-year (YOY) increase in percentage allocation, both among the top 10 and the largest life insurer, implies a more concentrated bank loan exposure among these companies.

Continued Improvement in Credit Quality

About 26% of bank loans held by U.S. insurers at year-end 2022 carried NAIC 4 Designations (Refer to Chart 2), implying below investment grade credit quality, or the B-rating category as assigned by nationally recognized statistical rating organizations (NRSROs). This was a decrease from 33% in 2021 (Refer to Chart 3). Together, NAIC 3 (implied BB-ratings category) and NAIC 4 Designated bank loans made up 46% of U.S. insurers' total bank loan exposure at year-end 2022, compared to 53% at year-end 2021. Bank loans carrying NAIC 5 Designations, which are comparable to CCC credit ratings, remained constant at 8% of total bank loans in 2022 and 2021, but they were down from 12% at year-end 2020. Countering the decrease in speculative grade credit quality, bank loans with investment grade credit quality—NAIC 1 and NAIC 2 Designations—increased by eight percentage points YOY to 45% in 2022 from 37% in 2021.



Chart 2: U.S. Insurer Bank Loan Credit Quality, Year-End 2022

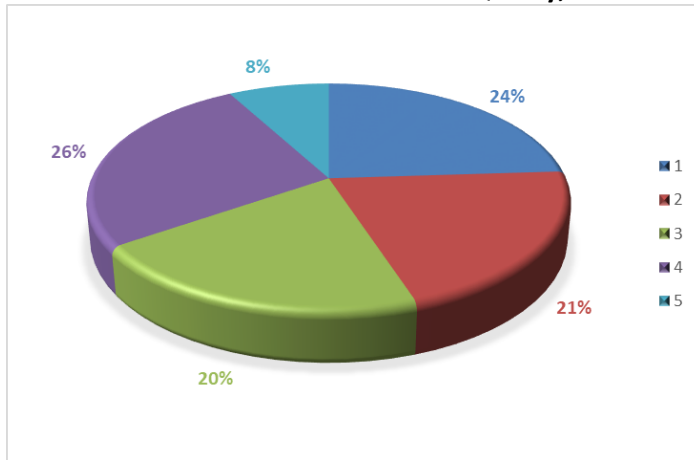
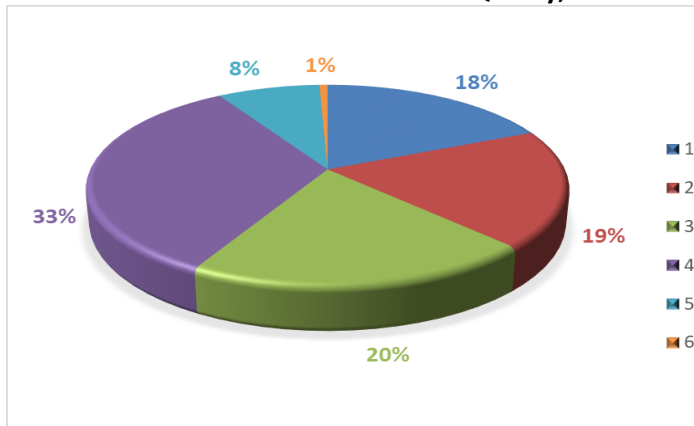


Chart 3: U.S. Insurer Bank Loan Credit Quality, Year-End 2021



Bank loans that were senior secured (40%) and senior unsecured (52%) in terms of capital structure accounted for 92% of total bank loan exposure. In comparison, in 2021, senior secured bank loans made up 44%, and senior unsecured made up 47% of total bank loan exposure; i.e., 91% of total bank loan exposure. 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

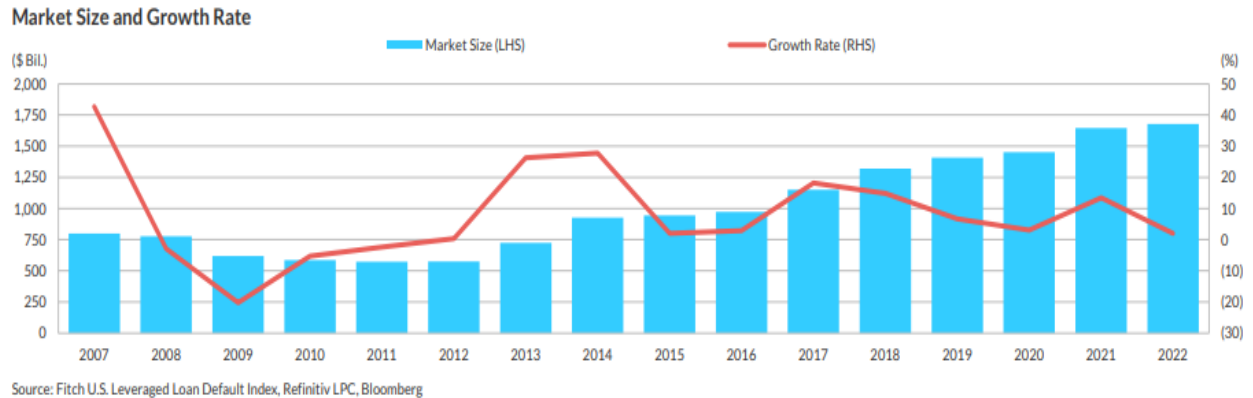
About 55% of U.S. insurers’ bank loans were considered leveraged bank loans at year-end 2022 based on the assigned NAIC designations. Leveraged bank loans are loans to companies with high-yield, or speculative-grade credit quality by a group of lenders. Leveraged bank loans are considered senior secured credit, or the highest in terms of payment priority. Institutional investors of leveraged bank loans not only include insurers but also finance companies, pension funds, and collateralized loan obligations (CLOs).



According to FitchRatings, leveraged bank loan volume was about \$1.68 trillion in 2022, a 2% increase from \$1.65 trillion in 2021 (Refer to Chart 4).¹

Chart 4:

Institutional Leveraged Loan Market Profile: Market Grows 2% Yoy



Institutional bank loan new gross issuance in 2022—i.e., new issuance, refinancings, and leveraged buyouts—totaled about \$250 billion, with about 44% in the ‘BB’ ratings category. In comparison, gross new issuance in 2021 was \$850 billion. The decrease in new issuance is due in part to high inflation and rising interest rates throughout the year that resulted in higher borrowing costs and, therefore, less attractive lending opportunities. Also, because of the rate increases, refinancings significantly dropped, which were a large portion of 2021 gross new issuance.

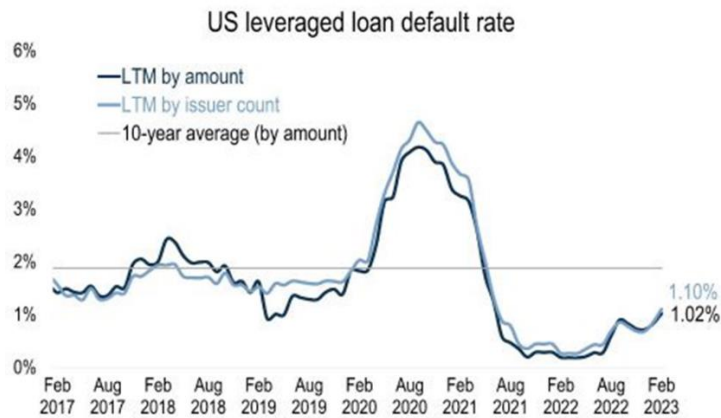
Default Rates Expected to Increase

The trailing 12-month leveraged loan default rate began 2023 at 0.85% in January according to the Morningstar LSTA U.S. Leveraged Loan Index (Morningstar LSTA Index) as reported by S&P Global. It then increased to 1.1% (by issuer count) one month later (Refer to Chart 5), which was the first time the bank loan default rate exceeded 1% since June 2021. The default rate is expected to increase to around 2.5% by year-end 2023.

¹ FitchRatings, U.S. Leveraged Finance Chart Book: Fourth-Quarter 2022, February 2023.



Chart 5:



Data through Feb. 28, 2023. Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

As published by S&P Global,² most leveraged bank loans that made up the Morningstar LSTA Index as of April 2023 were rated B, and represented 69.7% of the total, which was a large increase from 27% in April 2022. In addition, loans rated B- and lower accounted for 40% of the Morningstar LSTA Index in April 2023, compared to 30% a year earlier. Loans rated CCC/C were 3.5% in April 2023 compared to 4% in April 2022.

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.

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² S&P Global, *Default, Transition, and Recovery: The U.S. Leveraged Loan Default Rate Could Hit 2.5% By March 2024 Given Persistent Inflation And Higher Interest Rates*, May 2023.