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Increase in U.S. Insurers' Federal Home Loan Bank Membership and Exposure in 2022

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Executive Summary

- Approximately 12% of U.S. insurers were Federal Home Loan Bank (FHLB) members at year-end 2022, totaling about 560 in number—an increase from a total of 527 at year-end 2021—and half of those were property/casualty (P/C) companies.
- A total of $7.4 billion in par value of capital stock was held by U.S. insurers at year-end 2022, representing an increase of almost 6% from $6.6 billion at year-end 2021.
- U.S. insurers reported about $138.5 billion in book/adjusted carrying value (BACV) of FHLB advances outstanding at year-end 2022, up from $117.1 billion at year-end 2021, or an 18% increase.
- Funding agreements were about 81% of U.S. insurers' total FHLB advances, the highest percentage over at least the last five years, and an increase from 76% in 2021.
- Total collateral pledged to the FHLB system by U.S. insurers at year-end 2022 totaled about $240 billion, representing a 43% increase from $167 billion at year-end 2021, the majority of which was agency residential mortgage-backed securities (RMBS).
- Total U.S. insurers' investment in FHLB bonds was about $8.8 billion in 2022, up slightly from $8 billion at year-end 2021.

The number of U.S. insurers that were FHLB members as of year-end 2022 increased by about 6% to 560 from 527 at year-end 2021. P/C companies accounted for 49% of the total, followed by life companies at 43%. The number of U.S. insurers that were FHLB members represented 12.4% of the total number of U.S. insurers at year-end 2022, an increase from 11.5% at year-end 2021. U.S. insurers may borrow from the 11 FHLB regional banks—i.e., advances—if they purchase capital stock and become members. U.S. insurers may also invest in FHLB bonds, but they do not have to be members to do so. More discussion on the FHLB system and U.S. insurers as FHLB members may be found in the NAIC Capital Markets Bureau's Primer on FHLBs published on Feb. 8, 2021.

Increase in Exposure to Federal Home Loan Bank Capital Stock

FHLB capital stock is reported at par value in the statutory financial statements, and it is only redeemable with the FHLB at par. Under the *Statement of Statutory Accounting Principles (SSAP) No. 30R—Unaffiliated Common Stock*, U.S. insurers must disclose FHLB capital stock eligible for redemption and the anticipated redemption time frame. FHLB capital stock is not traded on the open market; therefore, it is not subject to market value risk.

Coinciding with the increase in the number of U.S. insurers as FHLB members was an increase in U.S. insurers' reported holdings of FHLB capital stock at year-end 2022. Par value of capital stock held by U.S. insurers increased to $7.4 billion at year-end 2022 from $6.6 billion in 2021 (Refer to Table 1.) Life companies accounted for most of FHLB capital stock (close to 90% of the total) in both years. They held $6.6 billion at year-end 2022, a 17.5% increase from year-end 2021. Conversely, FHLB capital stock decreased among P/C companies to about $550 million at year-end 2022 (8%) from $650 million in 2021 (10%).

Table 1: U.S. Insurers' Exposure to Capital Stock by Company Type, Year-End 2022 and 2021 ($par value in millions)

Industry Type	2022	% of 2022 Total	2021	% of 2021 Total
Life	$ 6,595.1	89%	$ 5,727.8	87%
P/C	$ 549.6	8%	$ 659.2	10%
Health	$ 229.0	3%	$ 215.9	3%
Total	**$ 7,373.7**	**100%**	**$ 6,602.9**	**100%**

The amount of activity-based stock held is a determinant of the number of advances that an FHLB member can take. Excess capital stock is any amount held greater than required under the district bank capital requirement. U.S. insurer capital stock holdings consisted of activity-based stock ($5.4 billion), Class A stock (about $144 million), Class B stock ($1.5 billion), and excess capital stock (about $349 million) at year-end 2022. The increase in FHLB capital stock reported by U.S. insurers from 2021 to 2022 also corresponds to the increase in reported advances for the same time frame.

Large life companies—i.e., greater than $10 billion in total cash and invested assets—accounted for $5.1 billion of the $5.7 billion in FHLB capital stock held by all life companies (Refer to Table 2.) Large insurers across all insurer types accounted for $5.4 billion, or 83%, of total U.S. insurer exposure to FHLB capital stock.

Table 2: U.S. Insurers' Year-End 2022 Exposure to FHLB Capital Stock by Total Cash and Invested Assets ($BACV in millions)

Statemet 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	$ 9.5	$ 6.2	$ 29.8	$ 57.6	$ 202.1	$ 344.5	$ 5,945.4	$ 6,595.1
P/C	$ 13.1	$ 13.7	$ 48.1	$ 89.4	$ 102.7	$ 63.5	$ 219.2	$ 549.6
Health	$ 0.6	$ 1.5	$ 21.9	$ 71.4	$ 42.7	$ 59.4	$ 31.5	$ 229.0
Total	**$ 23.2**	**$ 21.3**	**$ 99.8**	**$ 218.5**	**$ 347.4**	**$ 467.4**	**$ 6,196.1**	**$ 7,373.8**
Pct of Total	0%	0%	1%	3%	5%	6%	84%	

U.S. Insurers' Federal Home Loan Bank Advances and Pledged Collateral

Advances

For any U.S. insurer to borrow funds from an FHLB regional bank, also known as advances, they must be a member of the specific FHLB regional bank. To become a member of an FHLB regional bank, U.S. insurers must first acquire FHLB capital stock. Then, prior to applying for an advance, insurers must acquire activity-based FHLB stock in an amount equal to a specified percentage of the outstanding principal balance of the extended advance.[1] FHLB capital stock held by insurers is reported as common stock, regardless of whether capital stock reflects membership, activity, or excess stock and regardless of the form of the advance; i.e., debt or funding agreement. The disclosure requirements for FHLB borrowings are included in SSAP No. 30R; U.S. insurers must disclose the aggregate amount of their FHLB borrowings from the FHLB, including identifying whether the advances are categorized as debt, funding agreements, or "other."

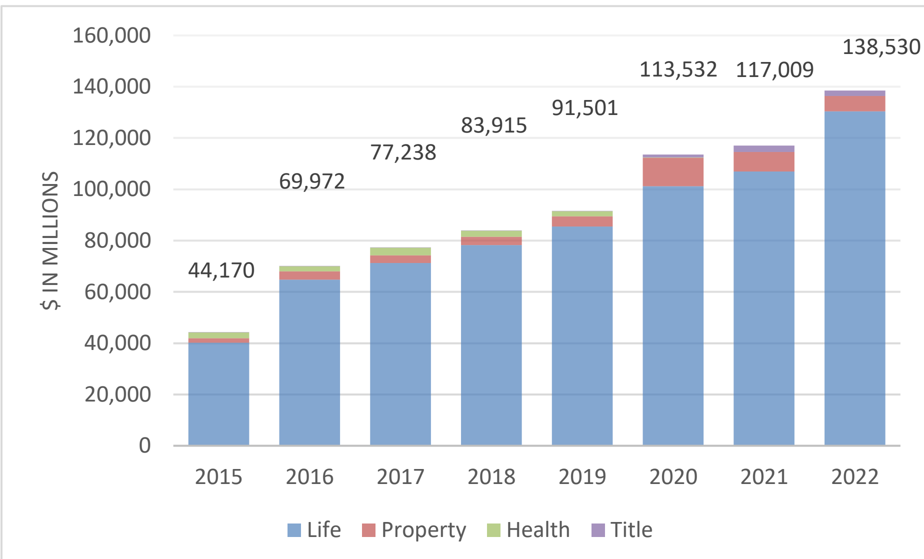
FHLB advances may be used for various purposes, and they represent a stable source of low-cost funding, with maturities that can vary from short-term to up to 30 years based on the needs of the U.S. insurer. Advances can be structured in different forms and are generally reflected as debt or funding agreements; i.e., for life companies licensed to issue deposit-type contracts. There has been increased usage of FHLB advances by U.S. insurers over the years, particularly in the form of funding agreements. According to *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 52—Deposit-Type Contracts*, U.S. insurer advances from an FHLB are accounted for in accordance with the individual agreements. For arrangements that are, in substance, funding agreements, they would be accounted for under SSAP No. 52 with established policy reserves for all contractual obligations arising from the contract provisions.

The statutory financial statements for year-end 2022 show that about 268 U.S. insurers reported having FHLB advances throughout the year, up from 256 at year-end 2021. This is about half of the total number of U.S. insurers that were FHLB members based on capital stock owned for both year-end 2022 and year-end 2021. More than half, or about 56%, of U.S. insurers reporting FHLB advances in 2022 were life companies, followed by 35% P/C companies, and the remaining 9% health companies.

[1] FHLB New York, FHLB System Debt and Capital Stock Overview.

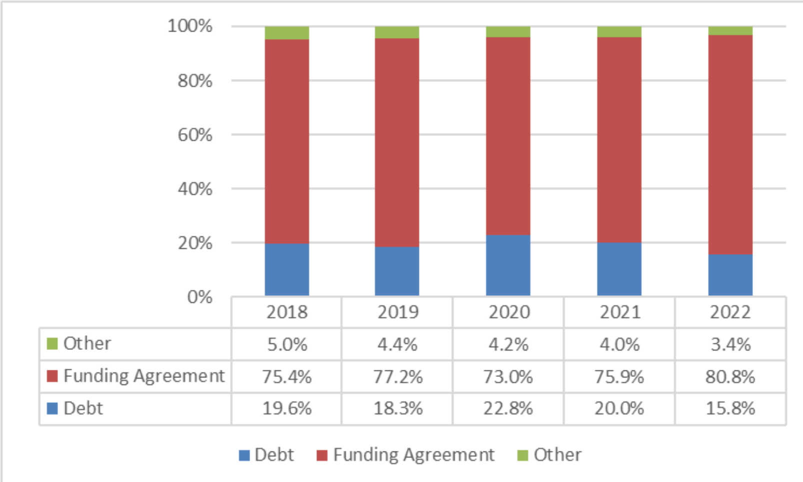
Total advances *outstanding* at year-end 2022 increased by 18% to $138.5 billion in BACV, from $117 billion in 2021. As shown in Chart 1, U.S. insurers' FHLB advances over the last eight years have been steadily increasing. FHLB advances have represented an inexpensive source of funding, and U.S. insurers have been increasingly using them for financial leverage—i.e., a spread investment—whereby they borrow funds at a relatively low rate from an FHLB and invest in higher-yielding assets, thus generating income from the spread differential. This less expensive source of funding became particularly beneficial in the rising rate environment. Also, note that the increase in FHLB advances from 2015 to 2022 was just over 200%.

Chart 1: U.S. Insurers' Historical FHLB Advances, 2015–2022 ($BACV in millions)



U.S. insurers' FHLB advances consist of funding agreements—i.e., deposit-type contracts that pay a guaranteed rate of return over a specified time period—debt, and other types of borrowings, and they are reported in the annual statement filings to the NAIC. Funding agreements typically make up the largest proportion, with debt accounting for most of the remainder, as shown in Chart 2. For the five years ending 2022, funding agreements ranged between 73% and, most recently, almost 81% of U.S. insurers' total FHLB advances. Debt accounted for most of the remainder, with other types of borrowings at 5% or less of total advances in each of the three years.

Chart 2: U.S. Insurers' FHLB Advances by Debt Type, 2018–2022 ($BACV in millions)



U.S. insurers reported *maximum* advances totaling about $154.7 billion for 2022, representing a 9.2% increase from $141.4 billion at year-end 2021 (Refer to Table 3 and Table 4). Maximum advances are the total amount borrowed by U.S. insurers at any point of time during a given calendar year. Consistent with year-end 2021, large U.S. insurers, or those with total cash and invested assets greater than $10 billion, accounted for 87% (or $135 billion) of FHLB aggregate maximum advances in 2022, with companies having more than $5 billion in assets under management, accounting for 93% of the total. Overall, life companies accounted for 90% and 89% of U.S. insurers' total FHLB maximum advances at year-end 2022 and year-end 2021, respectively.

Table 3: U.S. Insurers' Year-End 2022 FHLB Maximum Advances by Total Cash and Invested Assets ($BACV in millions)

Statement Type	Less Than $250M	Between $250M and $500M	Between $500M and $1B	Between $1B and $2.5B	Between $2.5B and $5B	Between $5B and $10B	Greater than $10B	Total	Pct of Total
Life	$ 158.8	$ 45.0	$ 316.5	$ 1,073.7	$ 3,324.7	$ 6,776.5	$ 128,105.7	$139,801.0	90%
P/C	$ 114.6	$ 223.6	$ 634.7	$ 1,076.3	$ 1,160.2	$ 851.5	$ 5,466.8	$ 9,527.6	6%
Health	$ -	$ 15.0	$ 294.1	$ 1,395.0	$ 1,113.3	$ 1,086.8	$ 1,500.0	$ 5,404.3	3%
Total	**$ 273.5**	**$ 283.6**	**$ 1,245.3**	**$ 3,545.0**	**$ 5,598.1**	**$ 8,714.9**	**$ 135,072.5**	**$154,732.9**	**100%**
Pct of Total	0%	0%	1%	2%	4%	6%	87%	100%	

Table 4: U.S. Insurers' Year-End 2021 FHLB Maximum Advances by Total Cash and Invested Assets ($BACV in millions)

Statement Type	Less Than $250M	$250M and $500M	Between $500M and $1B	Between $1B and $2.5B	Between $2.5B and $5B	Between $5B and $10B	Greater than $10B	Total	Pct of Total
Life	$167.8	$126.2	$382.8	$753.6	$3,094.2	$6,040.7	$114,716.3	$125,281.7	89%
P/C	$112.0	$139.2	$358.4	$1,035.6	$2,098.9	$830.9	$7,830.5	$12,405.4	9%
Title	$17.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$17.9	0%
Health	$0.3	$10.0	$209.6	$1,251.2	$775.4	$739.1	$700.0	$3,685.6	3%
Total	**$297.9**	**$275.4**	**$950.8**	**$3,040.4**	**$5,968.4**	**$7,610.7**	**$123,246.9**	**$141,390.5**	**100%**
Pct of Total	0%	0%	1%	2%	4%	5%	87%	100%	

At year-end 2022, 24 private equity (PE)-owned U.S. insurers were FHLB members, of which, 16 had outstanding FHLB advances of $13 billion. Throughout 2022, the maximum amount of FHLB advances for these 16 insurers totaled approximately $14.6 billion.

Collateral

To obtain an FHLB advance, U.S. insurers must purchase activity-based stock in an amount equal to a certain percentage of the requested advance, as well as pledge high-credit quality eligible collateral to the FHLB. Eligible collateral includes mortgages, government securities, or other real estate-related loan types, such as commercial real estate. The amount of collateral required depends on the type of collateral pledged, which must be identified as a restricted asset in the statutory financial statements. That is, *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* requires U.S. insurers to disclose amounts reported in the financial statements but "restricted" because they are pledged as collateral or under the exclusive control of the insurer.

The fair value of pledged collateral must exceed the amount of the FHLB advance. In addition, the value allowed in calculating how much pledged collateral is required also varies depending on the quality and liquidity of the asset. As reported in the Notes to the Financial Statements (Note 11 – Debt), U.S. insurers pledged $239.6 billion in assets as collateral to the FHLB system at year-end 2022, up 33% from $180.1 billion at year-end 2021 (Refer to Table 5). The maximum collateral pledged by U.S. insurers in 2022 was $260.8 billion, compared to $208.2 billion in 2021.

Table 5: U.S. Insurers' Pledged Collateral, Year-End 2021 and 2022 ($BACV in millions)

Statement Type	2022 Maximum Collateral	2022 Collateral Pledged	Pct of 2022 Total Collateral	2021 Maximum Collateral	2021 Collateral Pledged	Pct of 2021 Total Collateral
Life	$ 232,487.3	$ 219,178.5	91%	$ 180,274.7	$ 143,989.2	86%
P/C	$ 19,957.9	$ 15,896.4	7%	$ 21,428.0	$ 19,184.3	11%
Health	$ 8,353.8	$ 4,578.1	2%	$ 6,507.5	$ 4,196.0	3%
Title	$ -	$ -	0%	$ 31.5	$ 32.6	0%
Total	**$ 260,799.0**	**$ 239,653.0**	**100%**	**$ 208,241.7**	**$ 167,402.1**	**100%**

The excess of collateral over advances, or overcollateralization, provides the FHLB with additional cushion in the event of a member default. FHLB members may also pledge collateral in anticipation of FHLB advances to minimize any delay in accessing the liquidity. As such, the $72.2 billion increase in pledged collateral from 2021 to 2022 was for existing advances, as well as for the intention of maintaining an open but undrawn liquidity source, which includes any potential overall overcollateralization.

Consistent with year-end 2021, the most-named collateral type posted to the FHLB by U.S. insurers at year-end 2022 consisted of agency RMBS. The collateral type is coded by insurers, as pledged to the FHLB in the Notes to the Financial Statements.

U.S. Insurers' Exposure to Federal Home Loan Bank Bonds

U.S. insurers report their investment in FHLB bonds in the annual statement filings within Schedule D Part 1 – Long-Term Bonds. At year-end 2022, U.S. insurers reported exposure to FHLB bonds with a BACV of $8.8 billion, up slightly from $8.1 billion in 2021 (Refer to Table 6). The proportion of FHLB bonds across industry types, in percentage terms, shifted slightly year-over-year (YOY) from 2021 to 2022. That is, the proportion of life companies holding FHLB bonds decreased by two percentage points, while the proportion of P/C companies that held FHLB bonds increased by the same amount. Nevertheless, similar to prior years, life and P/C insurers held almost 90% of the industry's total FHLB bonds at year-end 2022.

Table 6: U.S. Insurers' Year-End 2022 and 2021 Exposure to FHLB Bonds ($BACV in millions)

Statement Type	2022	Pct of Total	2021	Pct of Total2
Life	$ 4,341.2	49%	$ 4,180.9	51%
P/C	$ 3,311.8	38%	$ 2,969.5	36%
Health	$ 1,151.8	13%	$ 999.3	12%
Title	$ 9.8	0%	$ 14.7	0%
Total	**$ 8,814.6**	**100%**	**$ 8,164.4**	**100%**

Large U.S. insurers made up 40% of reported exposure to FHLB bonds at year-end 2022 (Refer to Table 7). The majority were large life companies, which accounted for $3.2 billion of the $3.5 billion (91%) of total FHLB bonds. U.S. insurers with more than $5 billion assets under management accounted for almost half of the total FHLB bond exposure at year-end 2022.

Table 7: U.S. Insurers' Year-End 2022 Exposure to FHLB Bonds by Total Assets Under Management

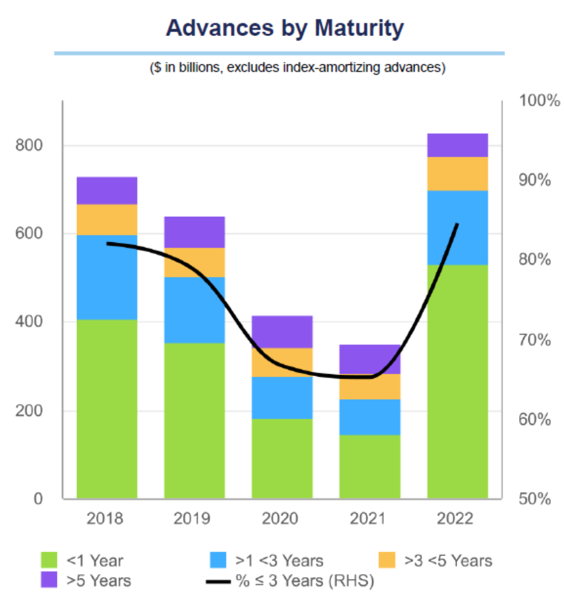
Assets Under Management	$mil, BACV	Pct of Total
Less than $250M	$ 976.8	11%
Between $250M and $500M	$ 603.9	7%
Between $500M and $1B	$ 859.8	10%
Between $1B and $2.5B	$ 1,190.4	14%
Between $2.5B and $5B	$ 1,107.3	13%
Between $5B and $10B	$ 524.5	6%
Greater than $10B	$ 3,551.9	40%
Total	**$ 8,814.6**	**100%**

About 52% of FHLB bonds held by U.S. insurers had maturities of five years or less at year-end 2022, compared to 48% in 2021, and about 40% of the FHLB bonds held by life insurers had maturities greater than 11 years at year-end 2022. The difference in the concentration of maturities across insurer types is typically a function of asset-liability matching.

The Federal Home Loan Bank System – Advances, Pledged Collateral, and Debt

Total assets for the FHLB system increased by 73% to $1.25 trillion at year-end 2022 from $723 billion in 2021. Among total assets, $819 billion represented advances, or lent funds, to *all* members, which was a significant increase, over 100%, from $351 billion in 2021. The YOY increase is due not only to banks and other FHLB members increasing their advances, but also, as the data referenced above shows, U.S. insurers as FHLB members increased their YOY advances. In addition, an FHLB tends to offer a cheaper source of funding than other institutional lenders, resulting in attractive borrowing opportunities. Chart 3 shows FHLB advances by maturity; almost 80% had a term of three years or less at year-end 2022, representing a large increase from about 60% in 2021.

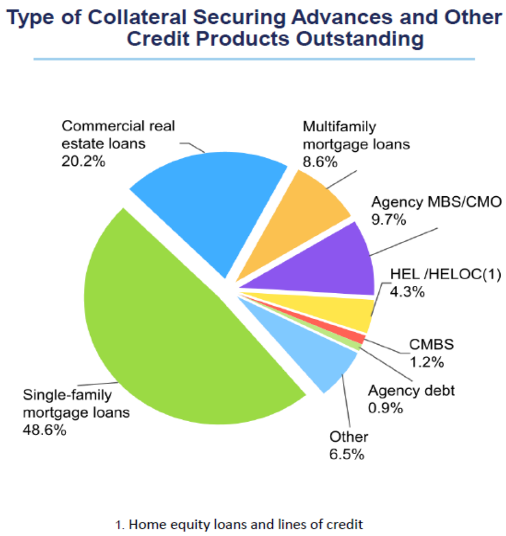
Chart 3:



Source: FHLB Investor Presentation, May 2023.

Consistent with prior years, almost half of collateral posted by members to secure FHLB advances consisted of single-family residential mortgage loans at 48.6% of the total at year-end 2022, followed by commercial real estate loans at 20% of the total (Refer to Chart 4).

Chart 4:

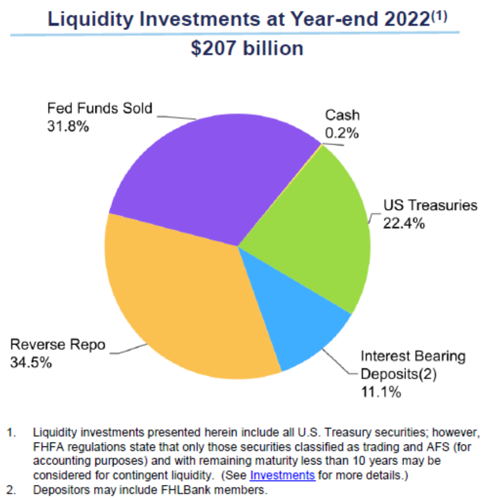


Source: FHLB Investor Presentation, May 2023.

The FHLB issues senior unsecured bonds through its Office of Finance that are "joint and several" obligations (or consolidated obligations) of all its regional banks. This means all regional banks are responsible for the full and timely payment of principal and interest on the bonds regardless of which one of the 11 issued the bonds. The bonds are the primary funding source used by the FHLB to not only make advances but also to purchase mortgage loans and investments. They are high-credit quality, rated AA+ and AAA by S&P Global and Moody's Investors Service (Moody's), respectively. As of Dec. 31, 2022, the FHLB had about $1.2 trillion in outstanding consolidated obligations according to the FHLB Combined Financial Report dated Dec. 31, 2022, which was almost double the amount as of Dec. 31, 2021 ($651.9 billion).

The FHLB maintains a liquidity portfolio of cash and short-term investments in the event of a market disruption that results in an inability to access the capital markets. As of year-end 2022, the liquidity portfolio totaled $207 billion and was about 17% of the FHLB's total assets. Just as in 2021, the largest short-term asset was reverse repos at 34.5% of the total (Refer to Chart 5).

Chart 5:



Source: FHLB Investor Presentation, May 2023.

The Capital Markets Bureau will continue to monitor trends with U.S. insurers' exposure to the FHLB 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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