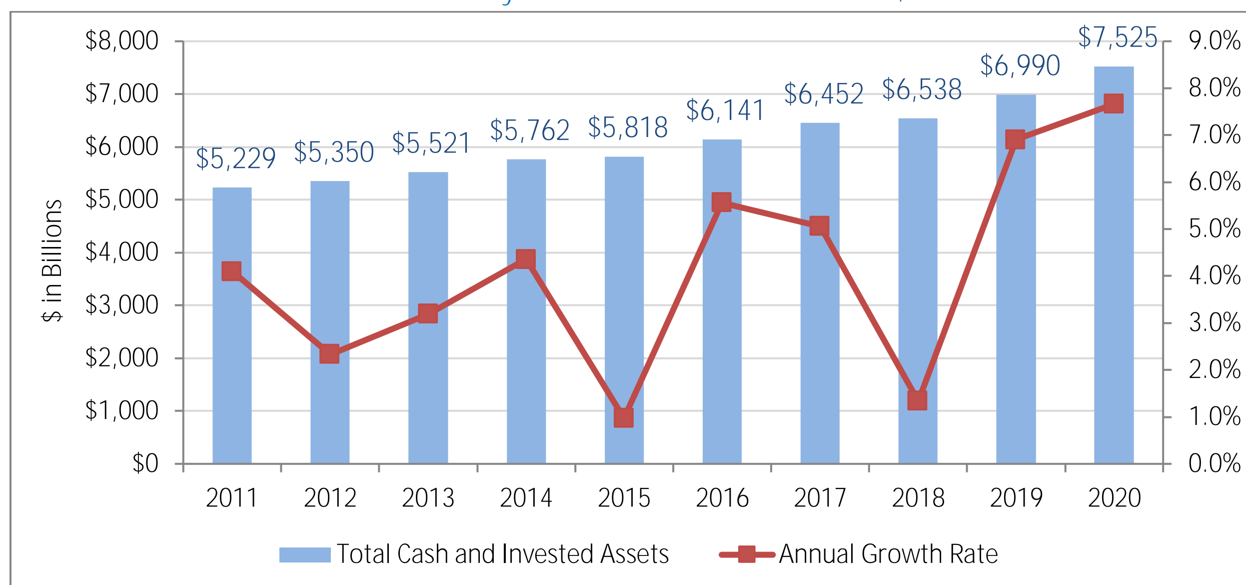
Chart 1: Historical U.S. Insurance Industry Total Cash and Invested Assets, Year-End 2011–2020



Note: Includes affiliated and unaffiliated investments.

The U.S. insurance industry's composition of assets has been relatively stable over time. Bonds continue to be the largest component, representing 62.6% of total cash and invested assets at year-end 2020. Common stock investments are the second largest holding for the industry at 13.2% of total cash and invested assets, followed by mortgages at 8.3% and Schedule BA assets at 6.1%. (See Table 1.)

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2020 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,399,076	1,141,337	162,485	5,411	4,708,309	62.6%
Common Stock	194,670	748,602	46,681	3,135	993,087	13.2%
Mortgages	600,782	24,823	180	40	625,825	8.3%
Schedule BA and Other Assets	238,172	200,428	17,206	310	456,117	6.1%
Cash and Short-Term Investments	157,841	142,485	64,798	1,975	367,098	4.9%
Contract Loans	133,487	1	1	-	133,488	1.8%

Note: Numbers in the table have been rounded.

Similar to previous years, life companies hold the largest share, or 65.3%, of the industry's total cash and invested assets in 2020, while property/casualty (P/C) companies account for 30.5%. Health and title companies together represent less than 5% of the industry's total cash and invested assets.

While the U.S. insurance industry's asset allocations do not typically change significantly from year to year, the share of bonds in the industry's portfolio at year-end 2020 declined to 62.6% from 63.8% at year-end 2019 as the low interest environment persists and insurers continue to be challenged with finding attractive yields in the fixed income market. (See Table 2.) Interestingly, cash and short-term investments increased to 4.9% of total cash and invested assets as of year-end 2020 from 4.1% as of year-end 2019. As the COVID-19 pandemic created uncertainty with respect to business prospects and the financial markets alike, insurance companies have enhanced their balance sheet liquidity with larger cash balances. U.S. insurers reported cash and short-term investments of $367 billion at year-end 2020, an increase of 27% compared to year-end 2019.

Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2019 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,213,563	1,095,558	141,323	5,299	4,455,744	63.8%
Common Stock	179,092	702,843	41,339	2,735	926,009	13.3%
Mortgages	578,642	23,143	183	43	602,011	8.6%
Schedule BA and Other Assets	214,996	171,682	15,479	172	402,329	5.8%
Cash and Short-Term Investments	123,443	119,770	43,558	1,750	288,520	4.1%
Contract Loans	134,059	2	1	-	134,062	1.9%
Derivatives	79,672	340	-	-	80,012	1.1%
Real Estate	23,361	13,838	5,763	228	43,191	0.6%
Preferred Stock	13,701	14,386	605	412	29,103	0.4%
Securities Lending (Reinvested Collateral)	16,157	4,680	952	-	21,789	0.3%
Other Receivables	5,094	1,604	236	1	6,936	0.1%
Total	4,581,779	2,147,849	249,438	10,640	6,989,706	100%
% of Total	65.5%	30.7%	3.6%	0.2%	100%	

Note: Numbers in the table have been rounded.

U.S. insurance companies continue to seek more attractive and higher yields in relatively illiquid investments, such as mortgage loans, private equity and hedge funds (the former asset class is reported on Schedule A and the latter two on Schedule BA) in the prolonged low interest rate environment. Although these asset classes generally offer higher yields than public corporate bonds, they are typically less liquid and have less credit and pricing transparency. As such, they are subject to greater price volatility. While the share of Schedule BA assets in the industry's portfolio increased to 6.1% at year-end 2020 from 5.8% at year-end 2019, the share of mortgages declined to 8.3% from 8.6%. However, U.S. insurers' exposure as measured in terms of BACV to these two asset classes continues to increase, with mortgage exposure increasing 4% YOY to $626 billion and Schedule BA exposure increasing over 13% YOY to $456 billion.

The pace of growth in mortgage exposure slowed in 2020 compared to YOY growth of more than 8% from 2016 to 2019. (See Chart 2.) Furthermore, 2020 marks the first year that the annual growth in

mortgage loan exposure has not exceeded the annual growth of total cash and invested assets since the NAIC Capital Markets Bureau began tracking data in 2010.

Chart 2: Historical U.S. Insurance Industry Total Mortgages, 2011–2020

Table 4: Bond Breakdown by Insurer Type, Year-End 2019 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,003,171	399,994	54,939	2,504	2,460,609	55.2%
Municipal Bonds	202,995	273,273	19,760	1,090	497,118	11.2%
ABS and Other Structured Securities	316,535	82,146	11,829	21	410,530	9.2%
Agency-Backed RMBS	172,018	100,438	22,243	749	295,448	6.6%
U.S. Government	147,211	117,641	17,747	368	282,966	6.3%
Private-Label CMBS	143,217	41,575	6,033	21	190,846	4.3%
Private-Label RMBS	74,951	18,261	1,581	1	94,794	2.1%
Agency-Backed CMBS	53,773	28,323	2,060	91	84,246	1.9%
Foreign Government	46,185	17,736				

17,736 BT1 0 0 1 401.8 105164.85047.491.T1 m -0.0464 Tc(BT1 0 0 1 401.8 105.226(v)9(47.491.Tm)23(en)
Note: Numbers in the table have been rounded.

The beginning of the COVID-19 pandemic and oil price dislocation in April 2020 resulted in significant pressure on credit quality. This led to a record number of negative rating actions that reflected sudden and, in some cases, sustained declines in revenues amid deteriorating cash flows and rising leverage. In 2020, for example, S&P Global Ratings (S&P) took approximately 2,100 public rating actions on global corporate, financial and sovereign bonds where the COVID-19 pandemic, the oil price shock or both were cited as a factor, with more than 50% of the ratings actions resulting in downgrades. The majority, or 68%, of the rating actions affected high-yield issuers, which tend to have weaker liquidity and refinancing profiles. Almost 45% of S&P's corporate, financial and sovereign rated universe experienced a negative rating action, with approximately 23% of them downgraded.

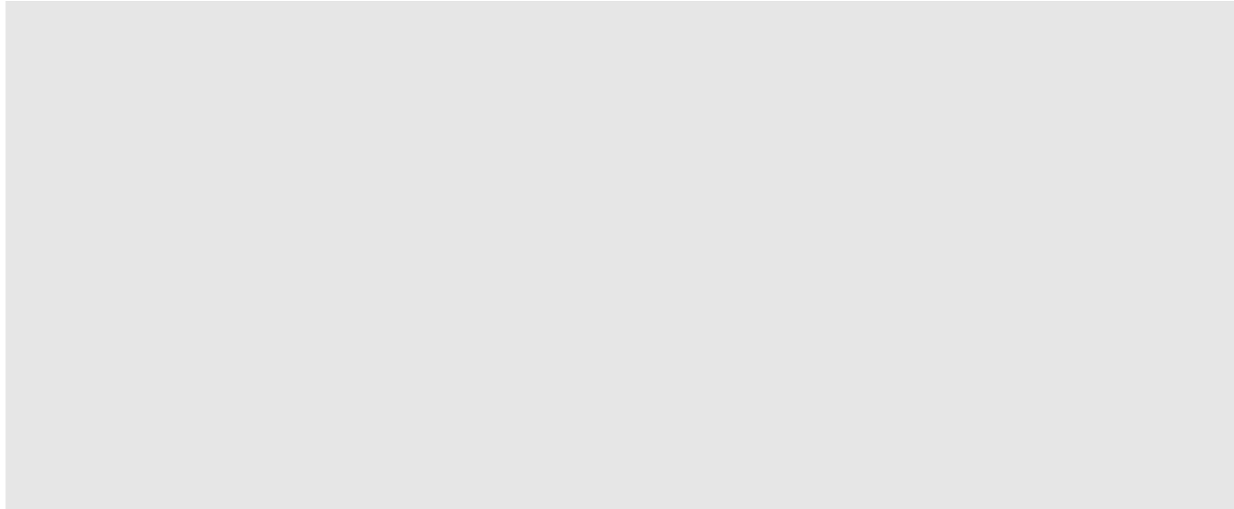
In addition, in 2020, S&P lowered the ratings of more than 1,800 structured finance tranches in the U.S. due to the COVID-19 pandemic and/or the decline in oil and gas prices. The rating actions represent approximately 5% of the outstanding S&P-rated traches in the U.S. and Canada. RMBS and CLOs accounted for 37% and 27% of the structured finance rating actions.

In July 2020, the NAIC Capital Markets Bureau conducted a high-level analysis of ratings transitions to better understand the impact of the record level of rating downgrade activity on U.S. insurer investment portfolios. For more information on the analysis, please see the NAIC Capital Markets Special Report titled "U.S. Insurance Industry's High-Yield Bond Exposure at Year-End 2019 Remains at 5.1% of Total Bonds" published in August 2020.

While the U.S. insurance industry's corporate bond investment portfolio predominantly consists of high credit quality companies, which have greater financial flexibility to withstand the negative credit effects of macroeconomic shocks, credit quality deterioration was nevertheless evident in the year-end 2020 bond portfolio given the broad-based economic and credit impact of the COVID-19 pandemic. Investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 93.9% of total bonds, declining from 94.9% at year-end 2019. (See Chart 4 and Chart 5.) Below-investment grade bonds, or those with reported NAIC 3 designations and below, increased from 5.1% of total bond

exposure in 2019 to 6.1% in 2020—the highest level since the financial crisis, when it reached 6.3% at year-end 2009.

Chart 4 and Chart 5: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2020 (Left) and Year-End 2019 (Right)



A shift toward the lower end of the investment grade, or higher quality, spectrum also occurred in 2020, whereby bonds with NAIC 2 designations increased to 32% of total bonds from 30% in 2019, while bonds with NAIC 1 designations decreased to 62% from 65%. In addition, on a YOY basis, NAIC 3-designated bonds increased to almost 4% of total bonds from 3%, reflecting the heightened level of "fallen angels,"