



The _____ monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of US insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the _____

The U.S. insurance industry's foreign exposure has remained at 12% of total cash and investments since at least 2013. Canada and European Union (EU) countries accounted for 56% of the industry's total foreign investments at year-end 2015, unchanged from 2014, but down from 60% at year-end 2013. This report updates the NAIC Capital Markets Bureau's "Year-end 2014 Foreign Exposure of the U.S. Insurance Industry" special report that was published on Jan. 21, 2016.

Since the publication of the aforementioned report, Brexit came a step closer to reality on June 23, 2016. Additionally, oil prices collapsed from more than \$100 per barrel in 2014 to below \$40 per barrel in 2016, impacting the budgets and economies of oil exporting emerging market countries. The International Monetary Fund (IMF) World Economic Outlook as of July 2016 estimates positive 2016 gross domestic product (GDP) growth of 3.1% worldwide, with 1.7% GDP growth in the United Kingdom (UK), and 1.4% GDP growth in Canada, the two countries with which the U.S. insurance industry has its largest total foreign exposure. Worldwide GDP growth was revised down from 3.2% to account for potential downside risk from Brexit. The Eurozone is also expected to experience positive GDP growth, while emerging market economies are estimated to grow 4.1% in 2016 according to IMF estimates.

As of year-end 2015, the U.S. insurance industry reported total foreign exposure with a book/adjusted carrying value (BACV) of about \$674.6 billion, or 12% of total assets.

	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change	
Foreign Stock Exposure	533,243	545,330	10%	Total Bond and Total Cash	17,007	8%	Foreign Bond Exposure	118,932	119,000	0%
Life	502,339	515,195	3%	P/C	31,226	6%	Fraternal	13,302	13,562	2%
P/C	87,706	87,706	0%	Fraternal	260	7%				

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In terms of industry type, property/casualty (P/C) companies reported the largest percentage decrease (10%) in BACV of foreign investments to \$107.4 billion as of year-end 2015 from \$118.9 billion at year-end 2014. Life companies increased foreign exposure by about 6% to \$545.3 billion at year-end 2015 from \$515.2 billion at year-end 2014. Life companies accounted for 81% of total industry foreign investment

On July 30, 2014, Argentina, the third-largest Latin American economy, defaulted on \$13 billion of interest payments on government bonds due 2033. (See the NAIC Capital Markets Bureau Hot Spot "U.S. Insurance Industry Exposure to Argentine Sovereign Debt Is Small as Default is Possible," published July 30, 2014, for greater detail.) As of year-end 2015, U.S. insurers had exposure with a BACV of \$59 million to these government bonds, which was held at 98% of par value. Since the 2014 default, \$16.5 billion in sovereign debt was issued by Argentina in April 2016, followed by an additional \$2.8 billion on Oct. 5, 2016, despite an expected contraction of the Argentinian economy in 2016. Argentina's sovereign debt is currently rated B/B- (Standard & Poor's [S&P]/Fitch Ratings [Fitch]). As of year-end 2015, U.S. insurer overall bond exposure to Argentina was \$195 million, up from \$110 million at year-end 2014; government bonds accounted for about \$114

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Country	Financial	Government	Other	Country Total	Part of Total
Netherlands	7,662	91	39,782	47,535	19%
France	5,379	132	25,368	30,879	12%
Luxembourg	670	139	20,129	20,937	8%
Ireland	4,242	33	12,217	16,491	7%
Germany	2,536	1,75	7,024	9,735	4%
Spain	911	2,622	3,111	6,644	3%
Italy	1,901	2,245	2,709	6,855	3%
Portugal	1,000	1	1	2,001	1%
Other	1,000	1	1	2,001	1%
Total	22,100	4,728	103,000	130,828	100%

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Country	Financial	Government	Other	Country Total	Part of Total
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Total	22,100	4,728	103,000	130,828	100%

Note: The EU is comprised of 28 member states. The result of this analysis reflects only 25 member states as insurers did not have

prices were falling rather than rising. In fact, equity market performance was negative in the Eurozone, Switzerland and Japan following their respective negative interest rate policy announcements. (See Chart 1.)

Despite market concerns, the non-U.S. equity markets performed well as of year-end 2015. The worst performer (as measured in U.S. dollars) was the Shanghai Composite Index (a stock market index of all Chinese stocks traded on the Shanghai Stock Exchange), with a 6.7% return. The MSCI Emerging Market Index was the worst performer at negative BM

