

Capital Markets Special Report

U.S. Insurance Industry Cash and Invested Assets Rise 5.1% in 2017

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Executive Summary

- x The U.S. insurance industry reported almost \$6.5 trillion of cash and invested assets as of year-end 2017, an increase of 5.1% compared to year-end 2016
- x Asset distribution remained relatively unchanged, with bonds remaining the largest component of U.S. insurer investments
- x An increase in book/adjusted carrying value (BACV) exposure to riskier, less liquid assets (such as mortgages and Schedule BA assets) is evident over recent years.
- x The credit quality of the industry's bond holdings improved slightly at year-end 2017, with 5.5% of exposure carrying NAIC 3 designations and below
- x Exposure to below investment grade bonds as a percent of total bond exposure increased marginally at fraternal and title companies to 5% and 1%, respectively

This report examines the U.S. insurance industry's cash and invested assets, as reported approximately 4,500 insurance companies for the year ended Dec. 31, 2017. We review noteworthy changes in the industry's distribution of assets over time, as well as trends in asset distribution by insurer type and size. A detailed analysis of the industry's bond exposure is also provided, drilling down by bond type and credit quality.

U.S. insurers' reported cash and invested assets, including affiliated and unaffiliated investments, have increased on an annual basis since at least 2010. Chart 1 shows the industry's cash and invested assets on a book/adjusted carrying value (BACV) basis from 2010 through 2017, along with annual year-over-year (YOY) growth rates. With year-end 2017 cash and invested assets of almost \$6.5 trillion, the industry has experienced a compound annual growth rate (CAGR) of 3.6% in cash and invested assets for 2010 through 2017. Assets grew the most in 2016 and 2017, with annual growth rates greater than 5% while asset growth in 2015 was only 1%.

Given the size of the U.S. insurance industry's overall investment portfolio it is unlikely to see material changes in the mix of cash and invested assets one year to the next. At year-end 2017,

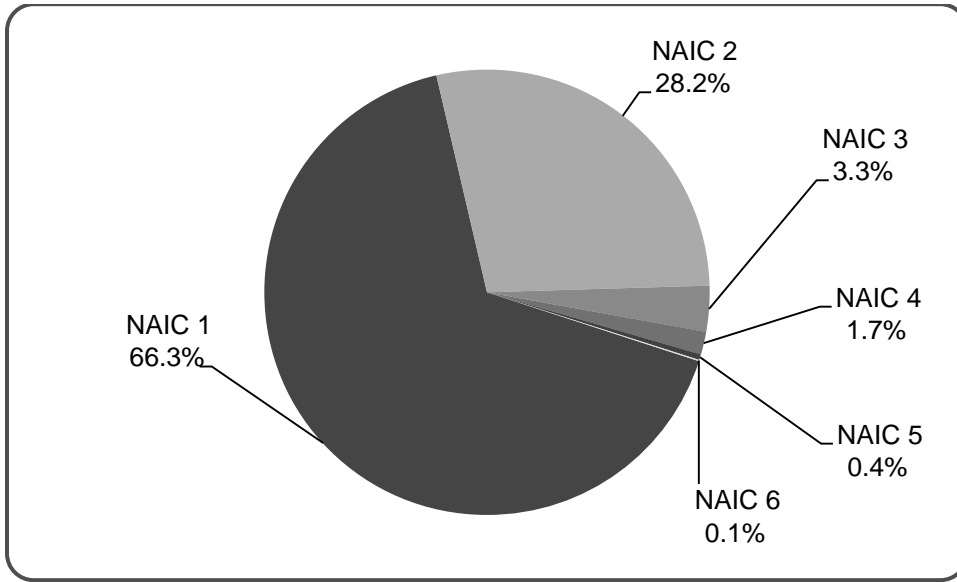
after increasing approximately 8% each of the previous four years. Life companies' exposure increased 4.3% in 2017, while health companies' exposure increased 5.2%.

Furthermore

Table 3: U.S. Insurance Industry Cash and Invested Assets by Insurer Size End 2017 (BACV\$ in millions)

The U.S. insurance industry reported \$4.2 trillion in bonds at yearend 2017, an increase of 3.1% compared to yearend 2016. Note that bond exposure increased at a slower pace than the 5.1% year over-year growth in total cash and invested assets. The ranking of bond types at yearend 2017 was

Chart 4: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2017



The Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's invested asset types and report as deemed appropriate.

	Close	Week	QTD	YTD	Week	Quarter	Year
	25,509.23	0.5	5.8	3.2	25,384.15	24,103.11	24,719.22
S&P 500	2,852.94	1.6	8.0	6.7	2,807.32	2,640.87	2,673.61
S&P Financial	469.30	0.5	2.6	1.2	466.94	457.53	463.94
S&P Insurance	386.83				390.45	390.30	402.08
/ Euro	\$1.15				\$1.17	\$1.23	\$1.20