

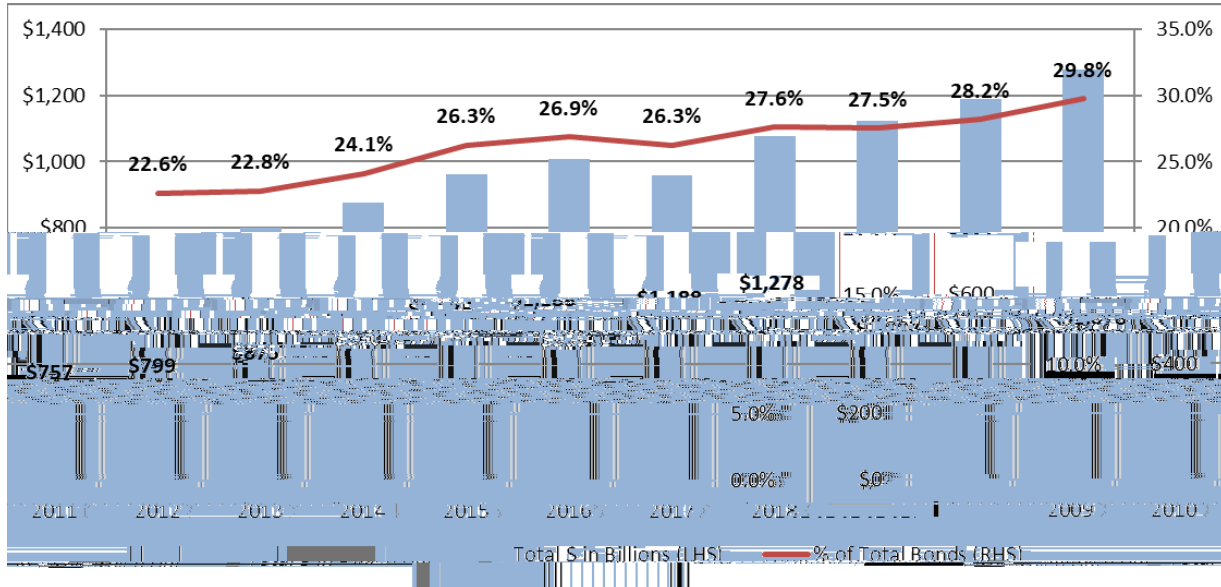
The [NAIC's Capital Markets Bureau](#) monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the [INDEX](#).

The U.S. Insurance Industry's Exposure to Bonds with NAIC 2 Designations Continues to Climb

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greater dollars to NAIC 2 designated bonds at the expense of NAIC 1 designated bonds during the prolonged low interest rate environment. Bonds with NAIC 1 designations represented 65.2% of the industry's total bonds as of year end 2018, a decline from 71% as of year end 2009.

Chart 1: Total U.S. Insurance Industry Exposure to Bonds with NAIC 2 Designation 2009-2018



The growth of NAIC 2 exposure is also a function of the shift in the structure of the corporate bond market, whereby BBB-rated corporate debt currently represents approximately 50% of total corporate bonds outstanding, compared to about 35% in 2006. Note that the insurance industry's exposure to bonds with NAIC 2 designations is significantly below that of the overall market.

By insurer type exposure to bonds with NAIC 2 designations increased except for title companies (see Chart 2). At year end 2018, life and fraternal companies had the largest exposures to NAIC 2 bonds which increased by three percentage points from year-end 2016 to 5% and 3% of total bonds, respectively. Bonds with NAIC 2 designations represent a relatively smaller portion of property/casualty (P/C), title and health companies' investment portfolios at 17%, 19% and 7% of total bonds as of year end 2018 respectively.

Chart 2: Industry Exposure to Bonds with NAIC 2 Designations as a Percent of Total Bonds by Insurer Type, 2009-2018

A Closer Look at Year-End 2018 NAIC 2 Designated Bond Exposure

The majority, or 91%, of the U.S. insurance industry's exposure to bonds with NAIC 2 designations

Chart 3 and Chart 4 U.S. Insurance Industry Distribution of NAIC Designated Bond Exposure (Left Panel) and S&P Global Ratings Distribution of BBB- Deb (Right Panel)