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U.S. Insurance Industry Outsourcing to Unaffiliated Investment Managers at Year-End 2019

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Executive Summary

About half of all U.S. insurers reported outsourcing to an unaffiliated investment manager as of year-end 2019, consistent with the percentage of U.S. insurers that outsourced investment management over at least the last few years; i.e., dating back to 2016.

Small insurers, or those with less than \$250 million in assets under management (AUM), accounted for 64% of the total number of U.S. insurers that outsourced investment management, which is also consistent with at least the last few years, due in part to the lack of a specialized skill set deemed necessary to manage all or portions of an insurer's investment portfolio.

For U.S. insurers that named the unaffiliated investment management firms that they utilize, BlackRock, Conning and New England Asset Management Inc. (NEAM) have been the top three most-named investment managers over the last few years. [Note that not all U.S. insurers included investment management firm names in their annual reporting.]

Property/casualty (P/C) companies accounted for almost 60% of the total number of U.S. insurers that outsource to unaffiliated investment managers.

U.S. insurers have been seeking yield pick-up in nontraditional investments due to the continued low yields on fixed income investments. The complexity of these nontraditional investments has caused some U.S. insurers to consider outsourcing all or some of their investment management capabilities. For example, over the past few years, U.S. insurers have moved into private assets, such as secured loans, structured products and private debt, and the need for expertise and access to new or higher yielding asset classes has driven the growth of U.S. insurers' outsourcing to unaffiliated investment managers. The NAIC *Annual Statement Instructions* requires that U.S. insurers disclose data on unaffiliated investment managers; however, the actual book/adjusted carrying value (BACV) of outsourced assets is currently not required to be reported by U.S. insurers.

While the number of U.S. insurers outsourcing investment management has increased over at least the last four years, in percentage terms, it has remained relatively stable. As of year-end 2019, 51% (2,269)

of the total number of U.S. insurers (4,482)

Percentage of Assets Outsourced to a Single Manager and Total Assets Outsourced

As of year-end 2019, 86% of U.S. insurers that outsourced to an unaffiliated investment manager did so with a *single* investment manager for more than 10% of their assets (consistent with year-end 2018). Further, small insurers accounted for 70% of all U.S. insurers that reported more than 10% of their assets managed by a single unaffiliated investment manager

million in AUM accounted for 83% of U.S. insurers that outsourced more than 50% of their assets to unaffiliated investment managers at year-end 2019, which was relatively consistent with year-end 2018.

Chart 4: U.S. Insurers by Total AUM

Table 3: Investment Managers Most Often Listed by U.S. Insurers, Year-End 2018

The NAIC Capital Markets Bureau will continue to monitor trends in unaffiliated investment management of U.S. insurer assets and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

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