



The **Capital Markets Bureau** 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

Annual Report on Derivatives

The NAIC Capital Markets Bureau published several special reports in the past few years concerning derivatives, providing insight into exposure trends, credit default swaps, hedging, changing reporting requirements, and market developments resulting from enactment of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and other global initiatives. This report reviews U.S. insurers' derivatives holdings and exposure trends as of year-end 2015.

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- Derivatives activity in the U.S. insurance industry leveled off in 2015. The total notional value of derivative positions was virtually unchanged over year-end 2014, at \$2

After several consecutive years of increase, U.S. insurers' derivatives activity leveled off in 2015 in terms of notional value. Note that most quantities discussed in this special report are in terms of notional value.

Industry Segment	Number of Companies with Derivs. Exposure	Number of Companies: Total Industry	Percentage of Companies with Derivs. Exposure
Life	136	750	18%
P/C	64	2,643	2%
Accident and Health	208	4,100	5%
Other	10	200	5%
Total	418	7,693	5%
Total Assets	\$3.68 trillion	\$5.8 trillion	63%

As Table 1 shows, 208 companies—only 5% of all active insurance companies nationwide—have derivatives exposure, but those involved with derivatives tend to be larger, accounting for \$3.68 trillion, or 63% of total insurance industry assets. In the life segment, derivatives use is concentrated among just 136 companies that together account for \$3.29 trillion in assets, or 87% of the segment total. In all other segments, fewer than 5% of insurers use derivatives, although the two fraternal companies with derivatives positions account for 45% of segment assets, and the 64 P/C companies using derivatives account for 19% of that sector's assets. Table 2 shows U.S. insurance industry derivatives exposure by company size, in terms of total assets. The data show the vast majority of industry derivative holdings are at companies with more than \$1 billion.

Industry Segment	Hedging	Replication	Income		Total Notional (\$ Mil.)	% of Total
			Generation	Other		
Life	1,818,068	36,720	3	44,597	1,899,389	95%
P/C	63,116	806	50	40,243	104,216	5%
Health	544	-	-	-	544	0%
Fraternal	419	0	400	-	819	0%
Total	1,882,147	37,527	453	84,840	2,004,967	100%
% of Total	94%	2%	0%	4%	100%	

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Derivative Type	Hedging	Replication	Income		Total Notional (\$ Mil.)	% of Total
			Generation	Other		
Swaps	919,824	27,150	-	6,551	953,525	53%
Options	1,000,000	10,000	453	78,289	1,088,289	54%
Other	62,323	1,377	-	1,000	64,700	3%
Total	1,982,147	38,527	453	85,840	2,106,967	100%

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Industry Segment	Interest					Hedging Total Notional Value (\$ Mil.)	% of Total
	Rate	Equity	FX	Credit	Other		
Life	970,575	480,963	106,762	5,320	254,448	1,818,068	97%
P/C	3,276	2,819	2,980	223	53,818	63,116	3%
Health	276	-	269	-	-	544	0%
Fraternal	50	200	168	-	-	419	0%
Total	974,177	483,982	110,179	5,543	308,266	1,882,147	100%
% of Total	52%	26%	6%	0%	16%	100%	

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on Schedule DB, still are intended to reduce risk, but simply do not meet the accounting and documentation requirements.

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Total				
	10%	90%	100%	
Swaps	152,298	797,536	949,834	50%
Options	29,123	780,048	809,171	43%
Futures	38	63,326	63,365	3%
Forwards	15,738	44,040	59,778	3%
Total	197,197	1,684,950	1,882,147	100%
% of Total	10%	90%	100%	

According to [NAIC](#), derivatives used in effective hedges are valued and reported in a manner consistent with the hedged asset or liability ("hedge accounting"). Derivative instruments used in transactions that are not deemed hedge-effective are reported at fair value, and changes in fair value are recorded as unrealized gains or losses ("fair value accounting"). In those cases, BACV would reflect the changes in value. Hedge accounting, then, helps limit volatility in financial reporting. As shown in Table 10, the proportion of hedges classified as hedging effective as of Dec. 31, 2015, was 10%; it has ranged between 7% and 12% in recent years.

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Table 11 breaks down the insurance industry's exposure to swaps by type

Option Type	Life	P/C	Health	Fraternal	Total Notional (\$ Mil.)	% of Total
Put options	213,321	9,051	-	-	222,372	25%
Caps	202,606	311	-	50	202,966	23%
Total	415,927	9,362	-	50	425,339	48%

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