CAPITAL MARKETS
Special Report

NATIONAL ASSOCIATION OF
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Chart 1: Historical U.S. Insurance Industry Total Cash and Invested Assets, Year-End 2014–2023

Note: Includes affiliated and unaffiliated investments

Common Stock Exposure Rises on Strong Equity Markets

The composition of investments in the U.S. insurance industry's asset portfolio has generally remained stable due to its significant scale. The four largest asset classes have remained unchanged since at least 2010, when the NAIC Capital Markets Bureau began tracking U.S. insurers' investment. Bonds are the largest asset class at the most active equity investors within the U.S. insurance industry, accounting for 76% of the overall common stock exposure.

Based on a mark-to-market analysis of year-end 2022 investments, U.S. insurers' unaffiliated publicly traded common stock holdings experienced a weighted average 20% increase in value in 2023 compared to 24% for the Standard & Poor's 500 Index (S&P 500) in the same period.

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2023 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,658,290	1,305,183	200,217	6,012	5,169,703	60.8%
Common Stocks	220,000	914,299	47,778	2,711	1,184,787	13.9%
Mortgages	733,801	33,476	749	7	768,033	9.0%
Schedule BA and Other Assets	344,958	164,942	23,019	577	533,496	6.3%
Cash and Short-Term Investments	190,594	201,096	77,350	1,647	470,687	5.5%
Contract Loans	138,926	2	1	-	138,928	1.6%
Derivatives	102,006	2,463	27	-	104,496	1.2%
Real Estate	22,7-23.3(496)]TJ 0			-		

Note: Numbers in the table have been rounded.

Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2022 (BACV$ in Millions)

Note: Numbers in the table have been rounded.

At year-end 2023, life and P/C companies accounted for the bulk of the industry's assets, or 95.7%. Life companies held the largest share, or 64%, of the industry's total cash and invested assets, while P/C

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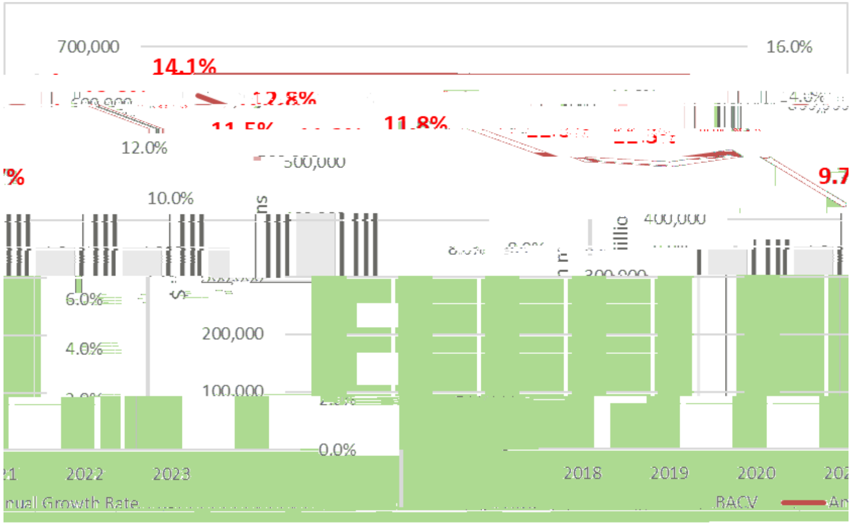
and total exposure almost doubling since year-end 2017, when exposure totaled $319 billion (Refer to Chart 3.) In addition to consumer ABS, the "ABS and Other Structured Securities" category includes collateralized loan obligations (CLOs), commercial ABS, and lease-backed securities, among other types of structured finance investments.

Chart 3: Historical U.S. Insurance Industry ABS and Other Structured Securities Exposure, 2018–2023



The U.S. insurance industry's year-end 2023 exposure to agency-backed RMBS and private-label RMBS increased 13.4% and 12.9%, respectively, compared to the prior year. They represented the two fastest growing bond types in 2023. This is in contrast to private-label U.S. RMBS issuance volume declines of approximately 50% amid rising interest rates and mortgage rates peaking at 8.1% in late 2023, the highest level since June 2000.

High-Yield Bond Exposure Falls Below Pre-Pandemic Levels

The credit quality of U.S. insurance companies' bond investment portfolios has continued to improve following the broad-based deterioration in credit quality in 2020 due to the effects of the COVID-19 pandemic. Investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 95% of total bonds, representing an increase, albeit modest, from 94.7% at year-end 2022 (refer to Chart 4 and Chart 5) and reflecting a marginal improvement in credit quality. Below-investment-grade bonds, or those with reported NAIC 3 designations and below, decreased further to 5% of total bond exposure at year-end 2023 after reaching 6.1% in 2020. At this level, high-yield bond exposure is just below the pre-pandemic level of 5.1% at year-end 2019.

Chart 4 and Chart 5: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2023 and Year-End 2022

While U.S. insurance companies have limited exposure to below investment-grade bonds, this exposure should still be monitored closely, particularly amid higher interest rates. Higher interest rates have not only exacerbated both bond and equity market volatility but are also leading to less attractive and more expensive financing conditions. Highly leveraged companies will be hit hardest by the elevated cost of debt and tighter financing availability, given their weaker cash flows and limited

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