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Significant Increase in U.S. Insurers' Bank Loan Exposure as of Year-End 2021

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Executive Summary

At year-end 2021, U.S. insurers' exposure to bank loans as reported in the annual statement filings to the NAIC—i.e., Schedule D, Part 1; Schedule DA; and Schedule E, Part 2—totaled $97.2 billion in BACV, representing a 32% increase from $73.9 billion at year-end 2020. U.S. insurers' exposure to bank loans has been on an increasing trend over at least the last four years as shown in Chart 1. While the increase in total bank loan exposure was relatively large

insurers' total cash and invested assets at year-end 2021. U.S. insurers were first required to report bank loans as a separate line item in the annual statements beginning with year-end 2018 filings.

Chart 1: U.S. Insurers' Historical Bank Loan Exposure, 2018–2021 ($mil BACV)

U.S. insurers' bank loan investments include those that were acquired in market transactions, as well as those issued directly by the reporting entity; i.e., the insurer itself.

At year-end 2021, 79% of total bank loans held by U.S. insurers were acquired, with the remainder issued by the reporting entities. In the low interest rate environment, bank loans have represented an attractive alternative to traditional bond investments, such as corporate bonds. In addition, U.S. insurers reported that about 94% of bank loans had maturities of 10 years or less as of year-end 2021. Unaffiliated bank loans represented the majority of U.S. insurers' bank loan investments at year-end 2021 at 95% of the total (see Table 1).

Table 1: U.S Insurer Exposure to Bank Loans, Year-End 2021 ($BACV)

Similar to prior years, at year-end 2021, the majority of bank loans, or 76%, was held by life companies, followed by 21% with property/casualty (P/C) companies. Almost all, or 98%, of the exposure was reported in Schedule D, Part 1.

Large Life Co panie Continue to Do inate

Table 2 shows that large insurers, or those with more than $10 billion in assets under management, accounted for the majority, or 91%, of the industry's exposure to bank loans at year-end 2021.

Companies with between $1 billion and up to $10 billion in assets under management, for the most part, accounted for the remaining 9%.

Table 2: Bank Loan Exposure by Industry Type and Assets Under Management ($BACV), Year-End 2021

The top 10 insurance companies with bank loan exposure accounted for about half, or 54%, of the total as of year-end 2021, all of which were large life companies. One large life company accounted for 24% of U.S. insurers' total bank loan exposure at year-end 2021.

S all I prove ent in Cre it Quality

As shown in Chart 2, about 33% of bank loans held by U.S. insurers at year-end 2021 carried NAIC 4 designations, implying below investment grade credit quality, or the B-rating category as assigned by nationally recognized statistical ratings organizations (NRSROs). This was a small decrease from 35% at year-end 2020 (see Chart 3). Together, NAIC 3 (implied BB-ratings category) and NAIC 4 designated bank loans made up 53% of U.S. insurers' total bank loan exposure at year-end 2021, compared to 57% at year-end 20[illegible]

Chart 3: U.S. Insurer Bank Loan Credit Quality, Year-End 2020

Bank loans that were senior in terms of capital structure accounted for 91% of total bank loan exposure, with 44% senior secured

Chart 4:

New leveraged loan issuance in 2021 was $615 billion, surpassing the previous record of $503 billion in 2017. Year-to-date (YTD) leveraged loan issuance through April 2022 was $253.9 billion. CLOs have been the driver for demand for new leveraged loan issuance. New CLO issuance reached almost $194 Tf1 194 Tf1

Chart 5:

Increa e In B- Rate Leverage Loan

According to the LCD, as of April 2022, about 27% of the S&P/LSTA LL Index included leveraged loans that were rated B-,