The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Bureau Special Reports are available via its webpage and the NAIC archives (for reports published prior to 2016).

U.S. Insurers' Bank Loan Exposure Rises at a Decelerated Pace in 2023

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2023 ($ bil. BACV)

The Federal Reserve has kept interest rates at a 23-

Countering the increase in life companies' bank loan investments was a decrease in property/casualty (P/C) companies' investments. These investments decreased to 13% of the total from 16% of the total at year-end 2022 and 21% at year-end 2021.

Large Life Companies Account for Almost All Exposure

Large insurers accounted for the majority, or 92%, of industry exposure to bank loans at year-end 2023, particularly large life companies. (Refer to Table 2.) Companies with assets under management between $1 billion and $10 billion accounted for the remaining 7% for the most part.

Table 2: Bank Loan Exposure by Assets Under Management, Year-End 2023 ($ bil. BACV)

Assets Under Management	Life	P/C	Title and Health	Total	% of Total
Less Than $250M	0.1	0.0	0.0	0.1	0%
Between $250M and $500M	0.0	0.2	0.0	0.2	0%
Between $500M and $1.0B	0.1	0.1	0.2	0.4	0%
Between $1.0B and $2.5B	0.6	1.3	0.4	2.2	2%
Between $2.5B and $5.0B	1.8	0.8	0.4	3.0	2%
Between $5.0B and $10.0B	1.6	1.6	0.4	3.7	3%
Greater Than $10B	99.6	12.1	0.9	112.6	92%
Total	103.8	16.2	2.2	122.2	100%
% of Total	85%	13%	2%	100%	

The top 25 U.S. insurers accounted for 75% of U.S. insurers' bank loan investments at year-end 2023. Similar to the year prior, the top 10 accounted for about 60% of the total. All the top 10 insurers were large life companies, and one company accounted for 29% of U.S. insurers' total bank loan exposure, an increase from 27% the prior year.

Continued Improvement in Credit Quality

The credit quality of U.S. insurers' bank loan investments shifted from speculative grade to a heavier concentration in investment grade. The percentage of bank loans carrying NAIC 1 and NAIC 2 Designations increased to 49% of total bank loans at year-end 2023 from 45% at year-end 2022. (Refer to Charts 2 and 3.) Conversely, about 42% of bank loans held by U.S. insurers at year-end 2023 carried NAIC 3 and NAIC 4 Designations (implying below investment grade credit quality or the BB-rating and B-rating categories), which was a decrease from 46% at year-end 2022.

Chart 2: U.S. Insurer Bank Loan Credit Quality, Year-End 2023

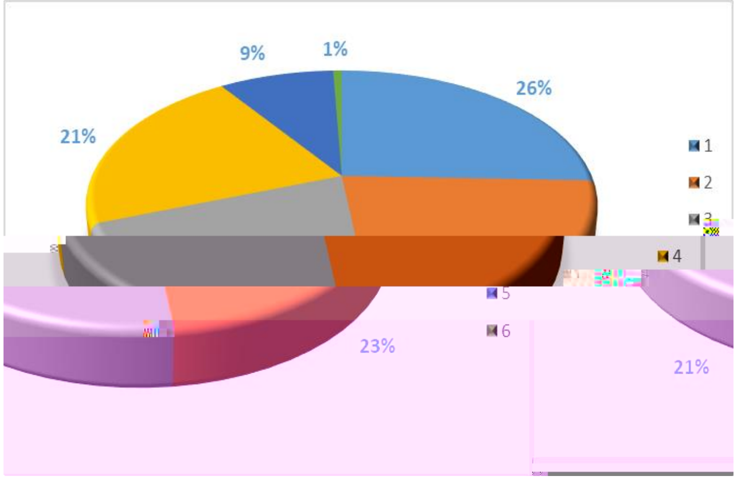
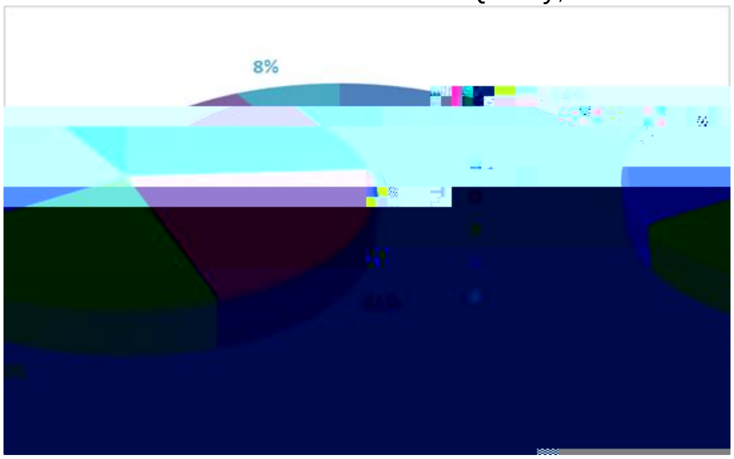


Chart 3: U.S. Insurer Bank Loan Credit Quality, Year-End 2022



Senior unsecured bank loans comprised 56% of total bank loan investments, an increase from 52% in 2022. Senior secured bank loans accounted for 38% of total bank loan investments at year-end 2023, a decrease from 40% at year-end 2022. The proportion of senior secured and senior unsecured bank loans held by U.S. insurers may be a reflection of the market's bank loan inventory.

Leveraged Bank Loan Yields Above Historical Average

About half of U.S. insurers' bank loans were considered leveraged bank loans at year-end 2023 based on the assigned NAIC designations. Leveraged bank loans are considered senior secured credit, or the highest in terms of payment priority. Generally, they are loans to companies with speculative-grade or high-yield credit quality (i.e., rated BB+ or lower) by a group of lenders. Institutional investors of leveraged bank loans are not only insurers but also finance companies, pension funds, and collateralized loan obligations (CLOs).

Outstanding U.S. institutional leveraged loans totaled about $1.7 trillion across 1,700 issuers at year-end

Default RatesExpected to Increase

According to the Morningstar LSTA U.S. Leveraged Loan Index (Morningstar LSTA Index), the trailing 12-month leveraged loan default rate rose slightly from 1.1% (by issuer count) as of February 2023 to 1.9% as of March 2024. (Refer to Chart 6.) The default rate is also above its 10-year historical average of 1.6%.

Chart 6:

As of May 31, 2024, the composition of the Morningstar LSTA Index

Chart 7:

The NAIC Capital Market Bureau's primer on leveraged bank loans, published in November 2018, provides a background on these loans.

The NAIC Capital Markets Bureau will continue to monitor U.S. insurers' bank loan exposure trends and report as deemed appropriate.

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