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 <u>NAIC Capital Markets Bureau Special Reports</u> are available via its webpage and the NAIC archives (for reports published prior to 2016).

Another Year of Double-Digit Growth in U.S. Insurers' Bank Loan Exposure in 2022

Analysts: Jennifer Johnson

Executive Summary

Bank loans were one of the fastest-growing asset types in 2022 for U.S insurers, increasing by 21% to \$117 billion in book/adjusted carrying value (BACV) from \$97.2 billion in 2021.

Despite the double-

invested assets at year-end 2022, and about 75% were acquired in market transactions; the remaining 25% were issued by the reporting entities.

Large life companies, or those with more than \$10 billion in assets under management,

the top 10 -end

2022, up from 54% in 2021.

There was continued improvement in credit quality for U.S insurer bank loans, evidenced in part by a decrease in those carrying NAIC4 Designations i.e., implying a B credit rating to 26% of total bank loans in 2022 from 33% in 2021, and countered by an increase in bank loans carrying NAIC1 Designations to 24% in 2022 from 18% in 2021.

Total U.S. leveraged bank loan volume was about \$1.7 trillion in 2022, representing a 2% increase from 2021.

Bank loans, as reported in Schedule D, Part 1; Schedule DA; and Schedule E, Part 2, were one of the fastest-growing bond types in 2022 for U.S insurers. nvestments in bank loans totaled about \$117 billion at year-end 2022, a 21% increase from \$97.2 billion at year-end 2021 (Refer to Chart 1). Despite the double-digit growth, bank loans were 1.4% of U.S insurers total cash and invested assets at year-end 2022, which was a small increase from 1.2% of total cash and invested assets in 2021. Note

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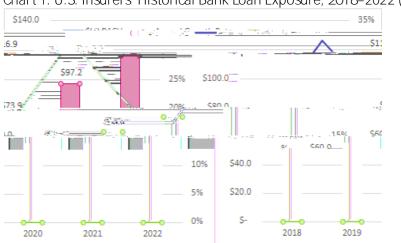


Chart 1: U.S. Insurers' Historical Bank Loan Exposure, 2018–2022 (\$bil. BACV)

From March 2022 through May 2023, the Federal Reserve increased the federal funds rate by five percentage points (to a 16-year high) to combat the 40-year inflation rate high. As a result, bank loans, which are floating- rate investments, became an even more attractive alternative to traditional bond investments, such as corporate bonds.

loan investments at year-end 2022, and

acquired, with the remaining 25% having been issued by the reporting entities; i.e., the insurers themselves.

Almost All Bank Loans Mature in Less than 10 Years, Mostly with Life Companies

U.S insurers reported about 93% of bank loans having maturities of 10 years or less as of year-end 2022 (Refer to Table 1), which was relatively consistent with that of 2021. Approximately 60% are scheduled to mature in four years or less.

		Between 1-Yr	Between 5-Yrs	Between 11-Yrs	Greater Than		
Statement Type	Less Than 1-Yr	and 4-Yrs	and 10-Yrs	and 20-Yrs	20-Yrs	Total	Pct of Total
Life	4,799.0	54,270.6	30,083.4	5,084.5	2,151.6	96,389.1	82%
P/C	1,209.0	11,463.3	5,399.8	48.0	33.8	18,153.9	16%
Title	5.7	124.9	62.5	-	-	193.1	0%
Health	111.7	1,282.8	775.1	4.9	4.2	2,178.6	2%
Total	6,125.4	67,141.6	36,320.8	5,137.4	2,189.6	116,914.7	100%
Pct of Total	5%	57%	31%	4%	2%	100%	0.0

Table 1: U.S Insurer Bank Loan Maturities, Year-End 2022 (\$mil. BACV)