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

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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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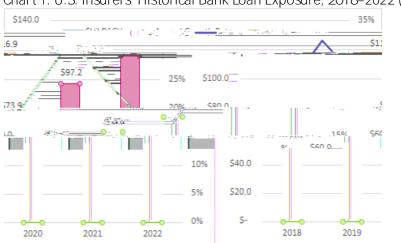


Chart 1: U.S. Insurers' Historical Bank Loan Exposure, 2018–2022 (\$bil. BACV)

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)