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 web page and the NAIC archives (for reports published prior to 2016).

U.S. Insurance Industry's Exposure to Commercial Mortgage-Backed Securities Totals Almost $300 Billion at Year-End 2022

Analyst: Michele Wong

Executive Summary

The U.S. insurance industry is exposed to commercial real estate (CRE) through various investments, including commercial mortgage-backed securities (CMBS), direct commercial mortgage loans (CMLs), owned real estate, and unsecured bonds issued by real estate investment trusts (REITs). Historically, CMBS has accounted for the second largest CRE exposure, following CMLs largest increase since 2018, while agency CMBS have experienced exposure declines over the last three years.

Chart 1: U.S. Insurance Industry Private-Label CMBS and Agency CMBS, Year-End 2018–2022

Note: Includes affiliated and unaffiliated investments.

Private-label CMBS accounted for approximately three-quarters of U.S. insurers' CMBS exposure at year-end 2022, with agency CMBS accounting for the remainder. The distribution by CMBS type has been relatively consistent over the past several years.

Similar to previous years, life and property/casualty (P/C) companies accounted for the majority of the industry's CMBS investments. Life companies held the largest share, or 70.1%, of the industry's CMBS in 2022, while P/C companies owned 25.7%. Health and title companies together represented approximately 4% of the industry's CMBS exposure. Note that life, P/C, and health companies invested proportionately more in private-label CMBS, while title companies invested more in agency CMBS.

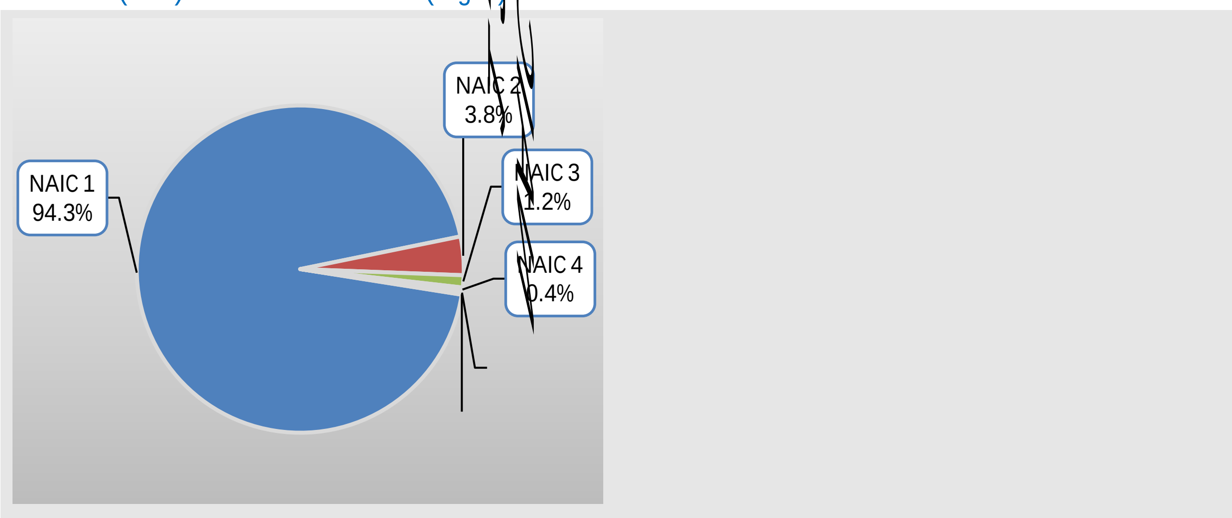
Table 1: Total U.S. Insurance Industry CMBS by Type, Year-End 2022 (BACV$ in MilliEnd 20C

Commercial Mortgage-Backed Securities Portfolio Credit Quality Weakens Over Time

The U.S. insurance industry's CMBS investments are often in the most senior triple-A rated tranches, which are typically structured with considerable credit enhancement. At year-end 2022, approximately 94% of U.S. insurers' CMBS investments carried an NAIC 1 Designation, which is unchanged from the previous year. Together with investments carrying an NAIC 2 Designation, approximately 98% of CMBS exposure was considered investment grade or high credit quality.

However, over a longer time period, the credit quality of the CMBS portfolio has deteriorated modestly (Refer to Chart 2 and Chart 3). Compared to year-end 2019, CMBS investments carrying an NAIC 1 Designation declined to 94% from 97% of total exposure, while investments carrying an NAIC 2 Designation increased to nearly 4% from 2%. In addition, CMBS with an NAIC 3 Designation and lower accounted for 2% of the year-end 2022 CMBS portfolio compared to 1% at year-end 2019.

Chart 2 and Chart 3: Reported Credit Quality of the U.S. Insurance Industry's CMBS Portfolio at Year-End 2022 (Left) and Year-End 2019 (Right)



U.S. Commercial Mortgage-Backed Securities Market and New Issuance Trends

The CRE sector faces significant headwinds. The hybrid work environment became more widely adopted during the COVID-19 pandemic and remains a more common work model. This has led to significant occupancy concerns within the office sector, which can ultimately pressure CMBS fundamentals and valuations. In addition, high interest rates have created a new challenge for existing commercial mortgages that are due for refinancing, as well as the financing of new projects. For additional details related to CRE market trends, please refer to the NAIC Capital Markets Bureau special report, "U.S. Insurance Industry's Mortgage Loan Exposure Rises at Year-End 2022 as Commercial Real Estate Trends Deteriorate," which was published in August 2023.