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U.S. Insurance Industry's Mortgage Loan Exposure Rises at Year-End 2022 as Commercial Real Estate Trends Deteriorate

Analysts: Michele Wong and Steve Bardzik

Executive Summary

The U.S. insurance industry is exposed to commercial real estate (CRE) through various investments—including primarily through direct commercial mortgage loans, commercial mortgage-backed securities (CMBS), wholly-owned real estate, and unsecured bonds issued by real estate investment trusts (REITs). This special report focuses on commercial mortgage loans, which accoun

portfolios. Commercial mortgage loans, however, are relatively illiquid investments that generally have less credit and pricing transparency. Therefore, they are subject to greater price volatility.

Total Mortgage Loan Exposure Continues to Climb

Total U.S. insurer investments in mortgage loans have increased since at least 2013, with year-over-year growth rates of approximately 6% or greater each year except 2020. As of year-end 2022, U.S. insurance companies reported $727 billion in book/adjusted carrying value (BACV) in mortgage loans, an increase of 8.6% from the prior year. This year-over-year growth rate was the largest increase since 2019, when mortgage loans increased 9.5% (Refer to Chart 1). Furthermore, over the 10-year period between 2013 and 2022, the U.S. insurance industry's BACV exposure to mortgage loans has almost doubled.

Chart 1: U.S. Insurance Industry Mortgage Loans, Year-End 2013–2022

As of year-end 2022, mortgage loan exposure represented 8.9% of the 7.8 (.)-12.8 ( )]TJ-281 (S)9r

Table 1: Total U.S. Insurance Industry Mortgage Loans by Type, Year-End 2022 (BACV$ in Millions)

Mortgage Loan Type	Life	P/C	Health	Title	Total	% of Total
Commercial	598,339	260002T.17 (10.44 9.0834 74.0295 677.9213 Tm [(N				

Note: Numbers in the table have been rounded.

Similar to previous years, life companies accounted for the overwhelming majority of the industry's mortgage loan investments, or 95.7%, at year-end 2022. Property/casualty (P/C), health, and title companies represented less than 5% of the exposure. As of year-end 2022, mortgage loans accounted for approximately 13% of life companies' cash and invested assets, steadily increasing from 10% in 2013. At P/C, health, and title companies, mortgage loans represented 1% or less of the respective cash and invested assets for each insurer type.

In recent decades, life insurance companies have been the premiere source of permanent commercial real estate debt. They have commanded the lowest (most conservative) loan-to-value ratios and the highest debt service coverage ratios, resulting in the lowest delinquency rates in the CRE finance industry.[1]

Overall Commercial Real Estate Exposure Approaches $1 Trillion

U.S. insurance companies' overall exposure to commercial real estate—encompassing commercial mortgage loans, CMBS, real estate, and REITs—totaled $982 billion as of year-end 2022. (Refer to Table 2.) The industry's commercial real estate exposure represented 12% of total cash and invested assets. Approximately two-thirds of the exposure was attributed to commercial mortgage loans and almost one-third to CMBS. Life companies had the greatest exposure to CRE, with 87% of the industry's exposure, while P/C companies accounted for 11%.

Table 2: U.S. Insurance Industry Commercial Real Estate Exposure, Year-End 2022 (BACV$ in Millions)

Note: Numbers in the table have been rounded.

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[1] Fitch Ratings, U.S. Life Insurers' Commercial Mortgage Update (Diversified Exposures, Underwriting Quality Support Ratings Despite Challenges), June 28, 2023.

Overall, challenges in CRE going forward appear largely in the office sector, as the retail sector (except regional malls) seems to have experienced improvements from prior pandemic-related difficulties, and the industrial sector has shown much-improved performance. The hospitality sector has also largely

payments due at maturity (i.e., they are generally not fully amortizing) and thus, at maturity, they must be refinanced with a new mortgage. When interest rates significantly increase, the new debt requires a significantly higher payment. This