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Total U.S. Insurers' Emerging Markets Investments as of Year-End 2021 Are Minimal

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At year-end 2021 U.S. insurers' investment in emerging markets (EM) bonds and stocks totaled \$42.1 billion in book/adjusted carrying value (BACV), which was less than 1% of total

In this special report the NAIC Capital Markets Bureau has analyzed the U.S. insurance industry's exposure to EM countries based on the IMF definition. While there is no universal definition for what constitutes emerging market countries, the IMF defines non-advanced economies as emerging market and developing economies (EM).¹ The countries that comprise emerging markets shift with changes in economic conditions; as such, emerging market economies can include those that might have been

¹ IMF, *World Economic Outlook Update*, April 2022.



Within the industry's \$10 billion sovereign EM bond exposure, which represented 42% of total EM bond investments, the majority was with Indonesia at \$2.7 billion, followed by Saudi Arabia at \$2.0 billion (see Table 3). The top five sovereign EM bond exposures totaled about \$9 billion. Each of the top five EM sovereign bond exposures were rated at least in investment grade by S&P and Moody's, mitigating sovereign

stocks were about 4% of the U.S. insurance industry's exposure to EM investments at both year-end 2021 and year-end 2020. The largest EM country stock exposure was with China, at \$548.3 million, or 29% of total EM stock exposure at year-end 2021. The top three EM country stock investments accounted for almost 70% of the U.S. insurance industry's total EM stock exposure at year-end 2021. P/C companies accounted for the majority of U.S. insurers' EM stock exposure at year-end 2021, at 79% of total EM stocks. The top two industry sectors within the EM stock exposure were financials and technology, respectively.

Table 4: U.S. Insurers' EM Common and Preferred Unaffiliated Stocks (\$mil BACV), Year-End 2021

Country	Life	P/C	Title	Health	Total	% of Total
China	187.4	353.0	-	7.8	548.3	29%
Greece	0.1	498.6	-	-	498.7	27%
India	124.5	74.6	-	6.1	205.2	11%
Taiwan	5.9	177.1	-	19.5	202.4	11%
Mexico	1.5	119.3	4.0	22.7	147.6	8%
Egypt	-	136.9	-	-	136.9	7%
Russia	0.7	27.5	-	-	28.3	2%
Indonesia	0.2	20.1	-	2.8	23.1	1%
Thailand	0.7	17.7	-	-	18.4	1%
Brazil	4.4	11.7	-	0.6	16.8	1%
Colombia	0.1	15.9	-	-	15.9	1%
South Africa	1.2	13.5	-	-	14.7	1%
Other	1.0	5.9	-	4.9	11.8	1%
Total	327.8	1,471.7	4.0	64.5	1,868.0	100%
	18%	79%	0%	3%		

Global growth reached 6.1% in 2021; however, for 2022, growth projections are grim due in part to Russia's invasion of Ukraine following on the slow economic recovery from the COVID-19 pandemic, including among EM countries. According to the IMF Global Financial Report dated April 2022, rising risks to the inflation outlook and rapidly changing views about the likely pace of monetary policy tightening have been dominant themes affecting financial stability.⁴ As such, 2022 began economically weaker than expected. Increasing energy prices and persistent supply disruptions have led to higher and more broad-based inflation than previously anticipated, not only in the U.S., but also in EM countries. According to the IMF, in EM countries, inflation is projected to be 8.7% in 2022 (compared to 5.5% in 2021). Price pressures, reflecting higher commodity and food prices among other factors, have resulted in some EM central banks, such as in Brazil, raising interest rates in an attempt to manage inflation. Note that some EM countries, particularly those in Latin America, have benefited from higher commodity prices as energy exporters.

⁴ IMF World Economic Outlook Update, April 2022.

For EM countries, aggregate economic growth was estimated at 6.8% in 2021, (see Table 5). EM countries in Asia demonstrated stronger growth than other EM areas, at 7.3%. China's growth in 2021, 8.1%, exceeded both the U.S. and overall global growth. China's economy benefits, in part, from its role as a vital global supply chain source. As such, China is the only country that demonstrated economic growth in 2020, during the peak of the COVID-19 pandemic. However, in recent times China's economy has been negatively impacted by financial stress within its housing sector, along with COVID-19 pandemic-related disruptions.

Saudi Arabia – U.S. insurers' second largest sovereign EM bond exposure at year-end 2021 – is expected to achieve 7.6% growth in 2022 by the IMF, due likely to its role in oil production, compared to 3.2% growth in 2021; and in Indonesia – U.S. insurers' largest EM sovereign bond exposure – growth is expected to increase to 5.4% in 2022 from 3.7% in 2021. In contrast, for Mexico – U.S. insurers' third largest sovereign EM bond exposure, growth is projected to decrease to 2% in 2022 from 4.8% in 2021. Note that Russia's economy is expected to contract 8.5% in 2022 compared to 4.7% growth in 2021.

As of April 2022, the IMF forecasted growth in 2022 for all EM countries to be 3.8%. In emerging Europe, a contraction of 2.9% is expected in 2022, compared to 6.7% growth in 2021. Latin America/Caribbean is expected to achieve 2.5% growth in 2022, compared to 6.8% in 2021. According to the IMF's April 2022 WEO, employment and growth are likely to remain below pre-pandemic levels for a longer period of time in EM economies compared to advanced economies, due in part to limited policy support among other factors. The COVID-19 pandemic also resulted in an unprecedented increase in sovereign debt among EM countries, making them more vulnerable to interest rate increases.

Table 5:

Source: IMF *World Economic Outlook Update*, April 2022.

The lower expected growth in 2022 for the EM region is due mostly to negative economic impact of the Russia-Ukraine conflict.

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