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Small Increase in U.S. Insurers' Exposure to Residential Mortgage-Backed Securities in 2022

Analysts: Jennifer Johnson and Jean-Baptiste Carelus

Executive Summary

As of year-end 2022, U.S. insurers' investment in residential mortgage-backed securities (RMBS), including both agency-backed (agency) and private-label, totaled about \$341 billion in book/adjusted carrying value (BACV), which was about 4% of total cash and invested assets, a 1.5% increase from 2021.

For the five years ending in 2022, however, U.S. insurers' exposure to RMBS decreased by 12% due in part to trends in the mortgage market and the negative economic impact and recovery from COVID-19.

Agency RMBS—i.e., backed by the U.S. government or government-sponsored entities (GSEs)—totaled \$237.1 billion, while private label RMBS totaled almost \$104 billion BACV at year-end 2022.

U.S. insurers' exposure to all RMBS mainly carried NAIC 1 Designations, implying the highest credit quality, mitigating concern regarding credit risk.

More than 90% of U.S. insurers' private-label RMBS and almost half of agency RMBS were with life companies.

Residential mortgage-backed securities (RMBS) are included in U.S. insurers' structured securities investments and may be agency-backed (agency) or non-agency-backed (private-label). For agency RMBS, the underlying mortgage loans are guaranteed or backed by U.S. government-sponsored entities (GSEs), such as Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), or by the full faith and credit of the U.S. government as issued by the Government National Mortgage Association (GNMA), a wholly owned U.S. government corporation. In contrast, private-label RMBS are neither issued nor guaranteed by a GSE or U.S. government corporation; rather, they are issued by other private, non-government financial institutions, such as banks. As such, private-

label RMBS bear the credit risk of underlying mortgage loans as

At year-end 2022, exposure to private-label RMBS was predominantly held by life companies, at about 76% of the industry total, which was a slight decrease from 77% at year-end 2021, even though the book/adjusted carrying value (BACV) experienced a small increase YOY to \$78.6 billion from \$73 billion (Refer to Table 1). Property/casualty (P/C) companies' exposure increased slightly to 21% of the industry total at year-end 2022 from 20% in 2021, and it also increased in terms of BACV to \$22 billion. About 94% of U.S. insurers' private-label RMBS exposure carried NAIC 1 Designations, implying the highest credit quality. The remainder was mostly in securities carrying NAIC 2 Designations, implying high credit quality and mitigating concerns regarding credit risk.

Table 1: U.S. Insurers' Private-Label Residential Mortgage-Backed Securities Exposure, Year-End 2021 and 2022

The majority of U.S. insurers' exposure to private-label RMBS is scheduled to mature in more than 20 years, at 72% of the total (Refer to Table 2)



