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Overview of U.S. Insurance Industry Holdings of Modeled Non-Agency Mortgage-Backed Securities

YE 2013 was the first period where both the average IP and BACV price⁷ increased year-over-year. The large decrease in eRBC based on SSAP No. 43R in 2013 is partially attributable to IP increasing at a faster pace than the BACV price, as depicted in Graph 3. IP increased to 88.44% at YE 2013 from 85.05% at YE 2012, while the BACV price did not increase as much; to 80.69% from 79.49% over the same time period. As the gap between IP and BACV price widened, the estimated SSAP No. 43R designations improved, and the eRBC requirement decreased to \$1.447 billion, which represented 1.4% of total RMBS (or \$107.050 billion BACV holdings). This trend is consistent with positive market dynamics and increases in the Home Price Index (HPI).

Graph 3: RMBS Intrinsic Price, BACV Price and Home Price Index⁸

Subsequent to the financial crisis, insurers recognized impairments and newly acquired securities were trading at discounted prices to par which led to lower BACV, particularly in the RMBS market. Other than temporary impairments (OTTI) have decreased over the past four years and unrealized gains (additions to BACV) have slightly offset the impairments.

Graph 4: RMBS Impairments and Unrealized Gains

Table 2

The bulk of the eRBC differential stems from the

Both IP and BACV price have gradually increased over the past four years for CMBS along with the Commercial Property Price Index (CPPI). YE 2013 was the first time that insurers' average BACV price was higher than the IP. Nevertheless, the overall estimated eRBC requirement was lower than it would have been under the CRP-equivalent designations. This is mainly due to 10.2% of CMBS being upgraded based on SSAP No. 43R designations, which is driven by the high percentage of zero loss bonds

Table 6 illustrates that, even though the overall BACV price of 98.38% is higher than the average IP of 97.73%, there were still improvements in the SSAP No. 43R-based designations; 10.2% of holdings were upgraded in relation to CRP-equivalent designations. The average upgraded IP was favorably higher at 90.66% vs. the average BACV of 84.27%. Securities that had no change represented 89.1%, where the IP and BACV were about the same,

Observing the SSAP No. 43R-based designations, the bulk of the lower eRBC stems from the NAIC 1 designation, where the IP of 99.12% is slightly higher than the BACV price of 99.02%. This NAIC 1 category, which accounts for \$150.974 billion (or 97.4%) of the CMBS portfolio, contributed to a difference of \$0.720 billion in eRBC out of the total difference of \$0.727 billion.

Table 8: SSAP No. 43R-based Designation and eRBC Compared to CRP-based eRBC



Conclusion

The implementation of SSAP No. 43R with financial modeling for insurers' year-end reporting of non-agency MBS has had a large impact on eRBC requirements, particularly for RMBS. The overall profile of non-agency holdings continues to improve and is consistent with positive market dynamics. The i average BACV price of RMBS holdings is conservative relative to the financially modeled intrinsic price. Additionally, the portion of zero loss bonds and prices increased at YE 2013 from YE 2012. CMBS holdings are comprised almost entirely of zero loss bonds. The SSAP No. 43R-based profile of insurers' non-agency MBS has resulted in lower eRBC requirements relative to equivalent designations.

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