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U.S. Insurance Industry's Cash and Invested Assets Surpass $8 Trillion at Year-End 2021

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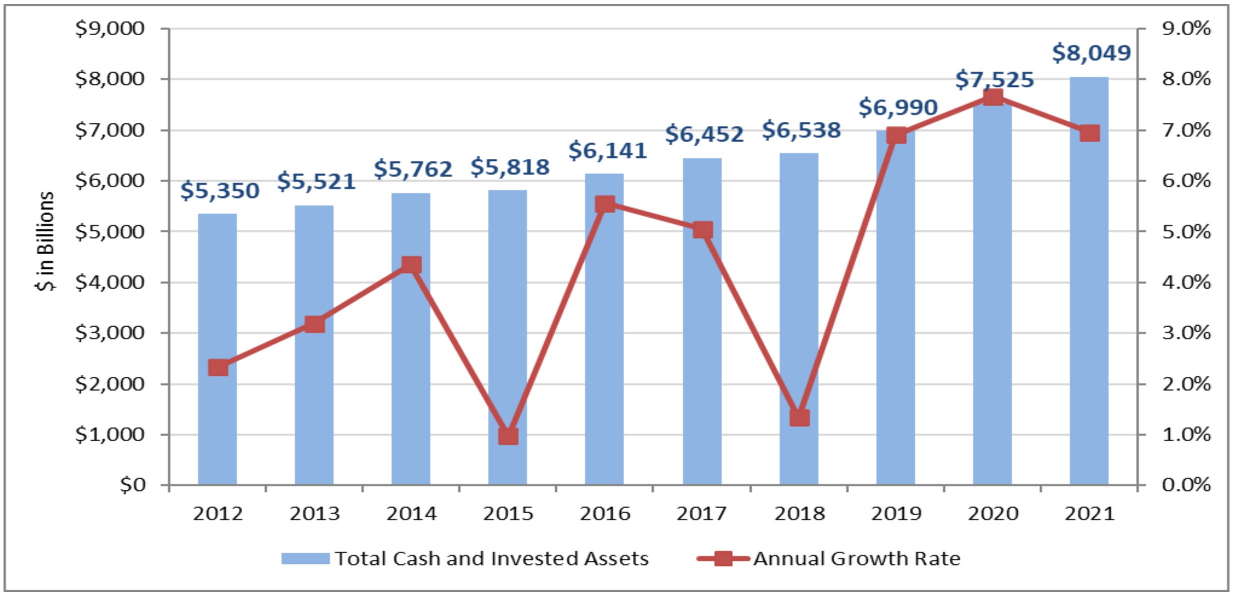
Executive Summary

- U.S. insurance companies reported $8 trillion in total cash and invested assets at year-end 2021, an increase of 7% compared to year-end 2020.
- Bonds and common stocks continue to be the U.S. insurance industry's largest and second largest asset classes, respectively, and mortgages and Schedule BA assets were the third and fourth largest categories, respectively.
- In 2021, U.S. insurers continued to invest in less liquid assets like mortgages and Schedule BA assets, with exposure increasing 6.9% and 14.7%, respectively, compared to 2020.
- The share of bonds in the U.S. insurance industry's investment portfolio has declined to 61.4% at year-end 2021 from 70% at year-end 2010, while the share of common stocks, mortgages, and Schedule BA assets have gradually increased to 14.6%, 8.3%, and 6.5%, respectively.
- Asset-backed securities (ABS) and other structured securities and bank loans were two of the fastest growing bond types in 2021, with exposure increasing 11% and 30%, respectively, compared to the prior year.
- After deteriorating in 2020, the credit quality of the bond portfolio stabilized at year-end 2021, with bonds designated NAIC 1 and NAIC 2 relatively unchanged at 94% of total bond exposure.

U.S. insurance companies reported total cash and invested assets, including affiliated and unaffiliated investments, of $8 trillion at year-end 2021, an increase of 7% compared to $7.5 trillion at year-end 2020. Chart 1 shows the book/adjusted carrying value (BACV) of the industry's total cash and invested assets from 2012 through 2021, along with annual year-over-year (YOY) growth rates. Cash and invested assets continue to grow steadily on an absolute dollar basis, with BACV increasing approximately 50% over the 10-year period. Despite the lingering effects of the COVID-19 pandemic, the YOY increase in cash and invested assets at year-end 2021 was the third consecutive year of annual growth of 7% or greater.

Chart 1: Historical U.S. Insurance Industry Total Cash and Invested Assets, Year-End 2012–2021



Note: Includes affiliated and unaffiliated investments

Decline in Bonds' Share of the Investment Portfolio Persists

U.S. insurance companies have consistently invested in the same types of assets YOY. Bonds continue to be the largest component, representing 61.4% of total cash and invested assets at year-end 2021. Common stock investments are the second largest holding for the industry at 14.6% of total cash and invested assets, followed by mortgages at 8.3% and Schedule BA assets at 6.5%. (See Table 1.)

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2021 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,544,972	1,214,816	178,765	5,914	4,944,467	61.4%
Common Stocks	223,017	895,734	49,219	3,955	1,171,924	14.6%
Mortgages	640,447	28,221	323	30	669,021	8.3%
Schedule BA and Other Assets	296,385	205,780	20,774	236	523,175	6.5%
Cash and Short-Term Investments	148,863	160,279	60,054	2,541	371,737	4.6%
Contract Loans	131,600	3	1	-	131,604	1.6%
Derivatives	96,881	997	1	-	97,879	1.2%
Real Estate	22,871	13,502	6,428	210	43,011	0.5%
Preferred Stocks	20,550	17,668	1,013	367	39,598	0.5%
Securities Lending (Reinvested Collateral)	19,528	6,633	2,693	-	28,855	0.4%
Other Receivables	21,342	5,357	1,208	3	27,910	0.3%
Total	**5,166,456**	**2,548,990**	**320,478**	**13,256**	**8,049,180**	**100%**
% of Total	64.2%	31.7%	4.0%	0.2%	100%	

Note: Numbers in the table have been rounded.

Similar to previous years, life and property/casualty (P/C) companies accounted for more than 95% of the industry's assets. Life companies hold the largest share, or 64.2%, of the industry's total cash and invested assets in 2021, while P/C companies account for 31.7%. Health and title companies together represent less than 5% of the industry's total cash and invested assets.

As the low interest rate environment persists and insurers continue to be challenged with finding attractive yields in the fixed income market, the share of bonds in the industry's investment portfolio has declined. Bonds—which are generally a stable source of investment income for investors, including insurers—fell to 61.4% of total cash and invested assets at year-end 2021 from 62.6% at year-end 2020. (See Table 2.) Over a longer period of time, the decline is much more evident, falling eight percentage points as of year-end 2021 from 69.7% in 2010.

Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2020 (BACV$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,399,076	1,141,337	162,485	5,411	4,708,309	62.6%
Common Stocks	194,670	748,602	46,681	3,135	993,087	13.2%
Mortgages	600,782	24,823	180	40	625,825	8.3%
Schedule BA and Other Assets	238,172	200,428	17,206	310	456,117	6.1%
Cash and Short-Term Investments	157,841	142,485	64,798	1,975	367,098	4.9%
Contract Loans	133,487	1	1	-	133,488	1.8%
Derivatives	121,698	577	1	-	122,276	1.6%
Real Estate	23,065	13,869	6,256	216	43,405	0.6%
Preferred Stocks	15,499	16,632	670	373	33,175	0.4%
Securities Lending (Reinvested Collateral)	16,840	4,651	1,617	0	23,108	0.3%
Other Receivables	13,395	4,622	1,402	1	19,420	0.2%
Total	**4,914,524**	**2,298,027**	**301,297**	**11,461**	**7,525,308**	**100%**
% of Total	65.3%	30.5%	4.0%	0.2%	100%	

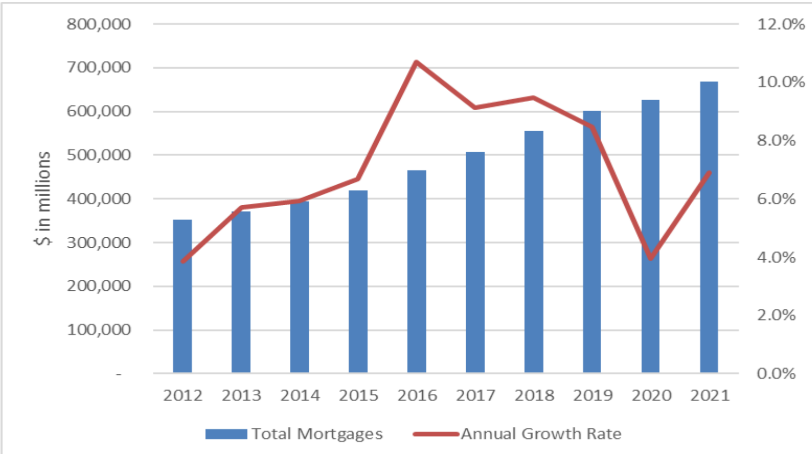
Note: Numbers in the table have been rounded.

In comparison, the share of common stocks in U.S. insurer portfolios has increased due, in part, to higher market valuations. At year-end 2021, common stocks accounted for 14.6% of cash and invested assets, increasing from 13.2% at year-end 2020. Since 2010, the share of common stocks has increased more than four percentage points from 10.3% of the industry's total cash and invested assets. P/C companies are the most active equity investors within the industry, holding 76% of the overall common stock exposure.

While equity markets fared well in 2021, with the Standard & Poor's 500 index (S&P 500) returning approximately 27% for the full year, they have been particularly volatile in 2022 given the expectations of rising interest rates following significant inflationary pressures. The S&P 500 has declined approximately 14% year-to-date (YTD) through the end of April. U.S. insurers with material exposure to equities could be negatively affected upon a prolonged market downturn.

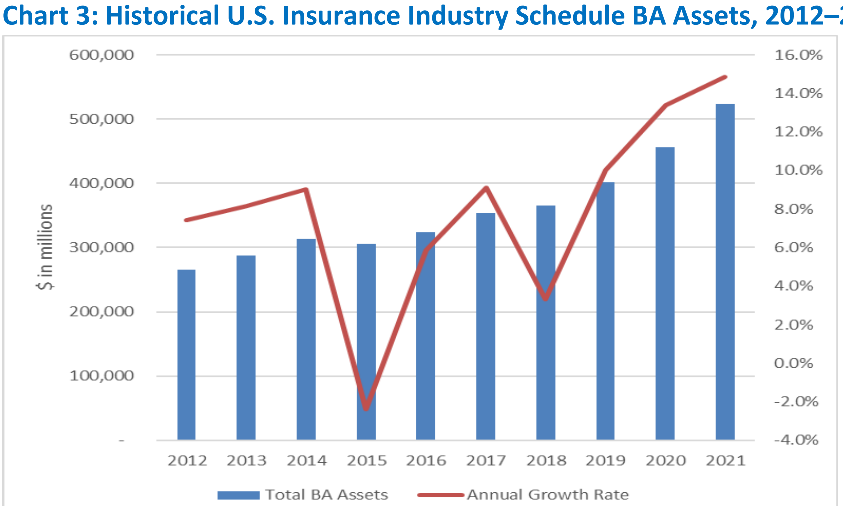
As U.S. insurance companies have reduced their allocation to bonds, they have increased exposure to mortgages and Schedule BA assets, which typically offer more attractive and higher yields but are relatively illiquid. Illiquid investments generally have less credit and pricing transparency and are, therefore, subject to greater price volatility. The BACV of mortgages increased gradually over the last 10 years, almost doubling over the period. In terms of percentage, mortgages accounted for 8.3% total cash and invested assets as of year-end 2021 compared to 6.4% as of year-end 2010. While there was a slowdown in the pace of growth in 2020, mortgage exposure grew 6.9% in 2021 to $669 billion. (See Chart 2.)

Chart 2: Historical U.S. Insurance Industry Total Mortgages, 2012–2021



Growth in Schedule BA assets held by U.S. insurance companies, including affiliated and unaffiliated, accelerated to almost 15% at year-end 2021. (See Chart 3.) 2021 marks the largest YOY increase in Schedule BA exposure since the NAIC Capital Markets Bureau began tracking data in 2010, and it is the third year in a row that Schedule BA assets grew more than 10% on a YOY basis. The share of Schedule BA assets has increased to 6.5% of total cash and invested assets as of year-end 2021 from 4.5% at year-end 2010. Despite significant growth over the years, Schedule BA assets do not represent a traditional core investment for U.S. insurers, but it is a fast-growing asset class. The largest categories reported on Schedule BA include private equity, hedge funds, and real estate.

Chart 3: Historical U.S. Insurance Industry Schedule BA Assets, 2012–2021



Industry's Exposure to ABS and Other Structured Securities Continues to Rise

The U.S. insurance industry's exposure to bonds totaled $4.9 trillion at year-end 2021, increasing 5.1% compared to year-end 2020. (See Table 3 and Table 4.) Corporate bonds, municipal bonds, and asset-backed securities (ABS) and other structured securities remained the three largest bond types in U.S. insurer investment portfolios, representing 56.4%, 10.4%, and 10.3%, respectively, of total bond exposure. U.S. government bonds, agency-backed residential mortgage-backed securities (RMBS), and private-label commercial mortgage-backed securities (CMBS) accounted for the next three largest bond types. The share of corporate bonds, ABS and other structured securities, U.S. government bonds, and private-label CMBS increased YOY, while the share of municipal bonds and agency-backed RMBS declined. ABS and other structured securities experienced the largest YOY increase to 10.3% of total bond exposure at year-end 2021 from 9.7% of at year-end 2020.

Table 3: Bond Breakdown by Insurer Type, Year-End 2021 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,245,647	465,844	72,320	3,023	2,786,835	56.4%
Municipal Bonds	212,282	276,875	22,659	1,016	512,832	10.4%
ABS and Other Structured Securities	392,735	100,613	16,295	25	509,667	10.3%
U.S. Government	153,701	138,180	23,918	533	316,332	6.4%
Agency-Backed RMBS	132,226	88,442	21,658	641	242,967	4.9%
Private-Label CMBS	158,199	49,083	9,215	14	216,511	4.4%
Bank Loans	73,097	20,152	2,231	226	95,706	1.9%
Private-Label RMBS	73,029	19,420	2,975	7	95,431	1.9%
Agency-Backed CMBS	46,463	28,543	1,909	83	76,998	1.6%
Foreign Government	53,162	21,034	1,313	325	75,834	1.5%
Exchange-Traded Funds (ETFs)	3,240	6,586	4,272	22	14,120	0.3%
Hybrid Securities	1,664	44	-	-	1,708	0.0%
Total	**3,545,446**	**1,214,816**	**178,765**	**5,914**	**4,944,941**	**100%**
% of Total	71.7%	24.6%	3.6%	0.1%	100%	

Note: Numbers in the table have been rounded.

With corporate bond spreads at historically low levels despite some recent widening, U.S. insurance companies have continued to turn to ABS and other structured securities for higher yields. In addition to consumer ABS, the ABS and other structured securities category includes collateralized loan obligations (CLOs), commercial ABS, lease-backed securities, and other types of structured finance investments. In terms of BACV, exposure to ABS and other structured securities has increased double digits on a percentage basis for the last three years, with a YOY growth rate of 11.3% and exposure of $510 billion as of year-end 2021.

According to Bloomberg data, structured product issuance in the U.S. reached almost $1.4 trillion in 2021 as demand for complex securities surged globally. CLO issuance was approximately $198 billion in 2021, the highest amount in the last six years as private equity buyouts accelerated to its fastest pace since 2007.

While bank loans represent a small percent of total bonds, they have been a fast-growing bond type in U.S. insurer portfolios. Exposure in terms of BACV increased 30% YOY to $96 billion as of year-end 2021, following YOY growth rates of 13% and 17% in 2020 and 2019, respectively. The significant growth has resulted in the industry's exposure to bank loans exceeding exposure to both private-label RMBS and agency-backed CMBS, with bank loans representing the seventh largest bond type in insurers' investment portfolios at year-end 2021, up from the ninth largest at year-end 2020.

Table 4: Bond Breakdown by Insurer Type, Year-End 2020 (BACV$ in Millions)

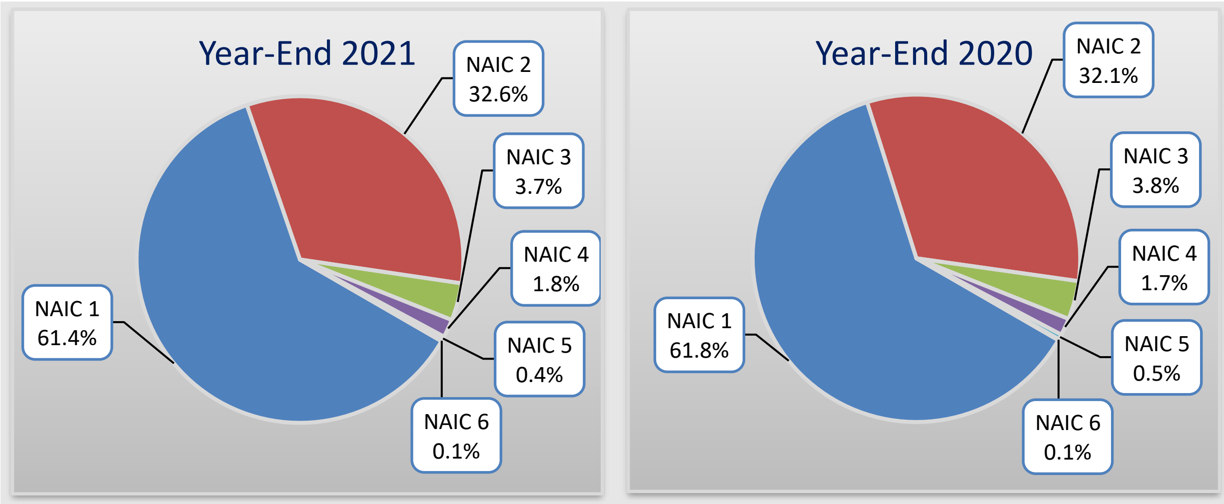
Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,138,031	441,971	64,454	2,763	2,647,220	56.2%
Municipal Bonds	207,845	284,172	22,286	1,069	515,372	10.9%
ABS and Other Structured Securities	359,412	84,719	13,695	22	457,847	9.7%
U.S. Government	151,888	108,509	19,817	354	280,568	6.0%
Agency-Backed RMBS	151,383	96,052	23,840	663	271,938	5.8%
Private-Label CMBS	148,250	44,569	7,273	-	200,093	4.3%
Private-Label RMBS	75,594	16,530	2,011	1	94,135	2.0%
Agency-Backed CMBS	51,886	27,920	2,383	93	82,283	1.7%
Bank Loans	57,417	13,925	1,980	126	73,448	1.6%
Foreign Government	48,311	17,795	1,210	288	67,604	1.4%
Exchange-Traded Funds (ETFs)	5,773	4,301	3,325	20	13,419	0.3%
Hybrid Securities	2,127	71	0	-	2,198	0.1%
Bond Mutual Funds	326	284	210	3	823	0.0%
Total	**3,398,243**	**1,140,820**	**162,483**	**5,401**	**4,706,948**	**100%**
% of Total	72.2%	24.2%	3.5%	0.1%	100%	

Note: Numbers in the table have been rounded.

Portfolio Credit Quality Stabilizes Following Pandemic Weakness

After broad-based deterioration in credit quality in 2020, bond upgrades outpaced downgrades in 2021 according to S&P Global Ratings (S&P) due to central bank and government support that enabled the global economy and credit ratings to begin recovering from the effects of the COVID-19 pandemic. The credit quality of U.S. insurance companies' investment portfolios, therefore, stabilized in 2021 after experiencing an increase in high-yield bond exposure in 2020. Below-investment grade bonds, or those with reported NAIC 3 designations and below, decreased marginally from 6.1% of total bond exposure in 2020 to 6% in 2021, following a spike from 5.1% in 2019. Investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 94% of total bonds, relatively unchanged from 93.9% at year-end 2020. (See Chart 4 and Chart 5.)

Chart 4 and Chart 5: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2021 (Left) and Year-End 2020 (Right)



While credit quality stabilized in 2021, lingering supply chain disruptions, inflationary pressures, additional COVID-19 waves resulting in lockdowns, and the Russian invasion of Ukraine have posed new challenges to credit in 2022. Record levels of inflation have resulted in higher input and material costs that will likely lead to pressure on corporate margins and profitability. Russia's invasion of Ukraine and subsequent sanctions on Russia have contributed to market volatility and uncertainty. In addition, market expectations for rising interest rates have also exacerbated volatility and are likely to lead to less attractive financing conditions.

The NAIC Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's various invested asset types and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.