

U.S. Insurance Industry's Cash and Invested Assets Rise 5.1% in 2017

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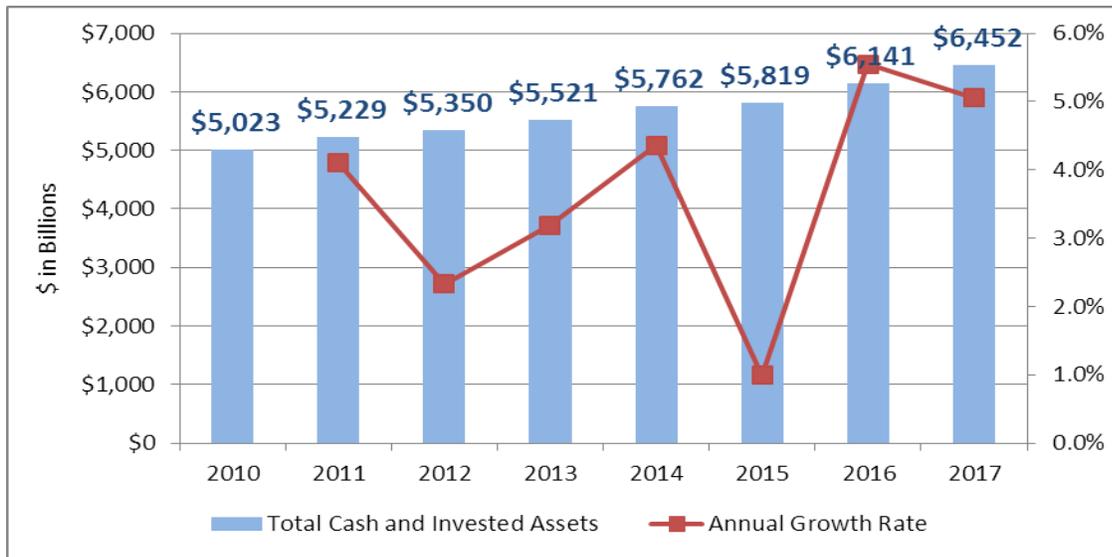
Executive Summary

- The U.S. insurance industry reported almost \$6.5 trillion of cash and invested assets as of year-end 2017, an increase of 5.1% compared to year-end 2016.
- Asset distribution remained relatively unchanged, with bonds remaining the largest component of U.S. insurer investments.
- An increase in book/adjusted carrying value (BACV) exposure to riskier, less liquid assets (such as mortgages and Schedule BA assets) is evident over recent years.
- The credit quality of the industry's bond holdings improved slightly at year-end 2017, with 5.5% of exposure carrying NAIC 3 designations and below.
- Exposure to below-investment grade bonds as a percent of total bond exposure increased marginally at fraternal and title companies to 5% and 9.1%, respectively

This report examines the U.S. insurance industry's cash and invested assets, as reported by approximately 4,500 insurance companies for the year ended Dec. 31, 2017. We review noteworthy changes in the industry's distribution of assets over time, as well as trends in asset distribution by insurer type and size. A detailed analysis of the industry's bond exposure is also provided, drilling down by bond type and credit quality.

U.S. insurers' reported cash and invested assets, including affiliated and unaffiliated investments, have increased on an annual basis since at least 2010. Chart 1 shows the industry's cash and invested assets on a book/adjusted carrying value (BACV) basis from 2010 through 2017, along with annual year-over-year (YOY) growth rates. With year-end 2017 cash and invested assets of almost \$6.5 trillion, the industry has experienced a compound annual growth rate (CAGR) of 3.6% in cash and invested assets for 2010 through 2017. Assets grew the most in 2016 and 2017, with annual growth rates greater than 5%, while asset growth in 2015 was only 1%.

Chart 1: Total U.S. Insurance Industry Cash and Invested Assets, 2010–2017



Note: includes affiliated and unaffiliated investments

Asset Allocations Remain Stable

At year-end 2017, the U.S. insurance industry’s asset allocations remained relatively unchanged from the prior year. Bonds remained the largest component of U.S. insurer assets at year-end 2017, representing 65.3% of total cash and invested assets. Common stock investments were the second largest holding for the industry at 12.5% of total cash and invested assets, followed by mortgages at 7.9% and Schedule BA assets (other long-term investments) at 5.5%—the same rankings as of year-end 2016. (See Table 1.)

Table 1: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2017 (BACV\$ in millions)

Asset Class	Life	P/C	Health	Fraternal	Title	Total	% of Total
Bonds	2,982,586	1,003,354	116,948	106,703	4,858	4,214,449	65.3%
Common Stock	166,027	598,478	37,510	4,486	2,460	808,962	12.5%
Mortgages	477,051	18,119	134	11,583	81	506,968	7.9%
Schedule BA (Other Long-Term Assets)	177,694	159,418	11,312	4,783	210	353,416	5.5%
Cash & Short-Term Investments	105,008	117,258	46,189	2,925	1,196	272,575	4.2%
Contract Loans	129,027	3	-	2,884	-	131,915	2.0%
Derivatives	58,661	233	1	48	-	58,942	0.9%
Real Estate	23,550	12,849	5,544	286	227	42,457	0.7%
Securities Lending (Reinvested Collateral)	16,870	4,476	724	571	-	22,640	0.4%
Other Receivables	11,652	9,785	652	67	5	22,161	0.3%
Preferred Stock	10,514	5,522	454	612	402	17,504	0.3%
Total	4,158,640	1,929,496	219,468	134,946	9,440	6,451,989	100%
% of Total	64.5%	29.9%	3.4%	2.1%	0.1%	100.0%	

Life companies held the largest share, or 64.5%, of the industry’s total cash and invested assets in 2017, consistent with prior years. Property/casualty (P/C) companies continued to account for almost 30% of total cash and invested assets.

Given the size of the U.S. insurance industry’s overall investment portfolio, it is unlikely to see material changes in the mix of cash and invested assets from one year to the next. At year-end 2017, however, we noted slight shifts in the two largest asset classes. The industry’s allocation to bonds decreased 1.3 percentage points to 65.3% of cash and invested assets at year-end 2017 from 66.6% at year-end 2016, and the allocation to common stock increased 0.7 percentage points to 12.5% of cash and invested assets at year-end 2017 from 11.8% at year-end 2016. (See Table 2.)

The uptick in common stock is partly attributed to the solid performance of the equity markets in 2017, with the Standard & Poor’s 500 Index (S&P 500) climbing almost 20% during the year. The shift out of bonds likely stems from insurers turning to higher yielding assets, such as mortgage loans, private equity and hedge funds, given the prolonged low interest environment. Although these asset classes offer higher yields than bonds, they are typically less liquid and subject to greater price volatility.

Table 2: Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2016 (BACV\$ in millions)

Asset Class	Life	P/C	Health	Fraternal	Title	Total	% of Total
Bonds	2,874,532	1,000,516	105,119	103,022	5,219	4,088,409	66.6%
Common Stock	158,184	527,995	35,001	3,968	2,101	727,248	11.8%
Mortgages	437,710	15,651	37	11,072	74	464,544	7.6%
Schedule BA (Other Long-Term Assets)	161,200	148,208	10,055	4,201	212	323,876	5.3%
Cash & Short-Term Investments	101,880	95,704	40,518	2,818	1,177	242,098	3.9%
Contract Loans	126,976	2	-	2,855	-	129,834	2.1%
Derivatives	62,014	531	3	36	-	62,584	1.0%
Real Estate	24,504	12,311	5,402	294	241	42,752	0.7%
Securities Lending (Reinvested Collateral)	12,627	2,671	1,253	775	-	17,327	0.3%
Other Receivables	11,876	8,213	664	82	11	20,847	0.3%
Preferred Stock	9,715	10,951	400	533	328	21,926	0.4%
Total	3,981,218	1,822,755	198,453	129,656	9,362	6,141,444	100%
% of Total	64.8%	29.7%	3.2%	2.1%	0.2%	100.0%	

Seeking Yield in Higher Risk, Less Liquid Assets

We also note a steady increase in BACV over time for certain asset classes, notably mortgages and Schedule BA assets. Exposure to mortgages increased to \$507 billion at year-end 2017 from \$322 billion at year-end 2010, for a CAGR of 6.7%. Schedule BA exposure increased to \$353 billion from \$228 billion in the same time period, for a CAGR of 6.5%; the CAGR for unaffiliated and affiliated Schedule BA exposure were 5.2% and 7.4%, respectively. The industry’s exposure to both mortgages and Schedule BA assets has grown faster than the 3.6% CAGR of total cash and invested assets.

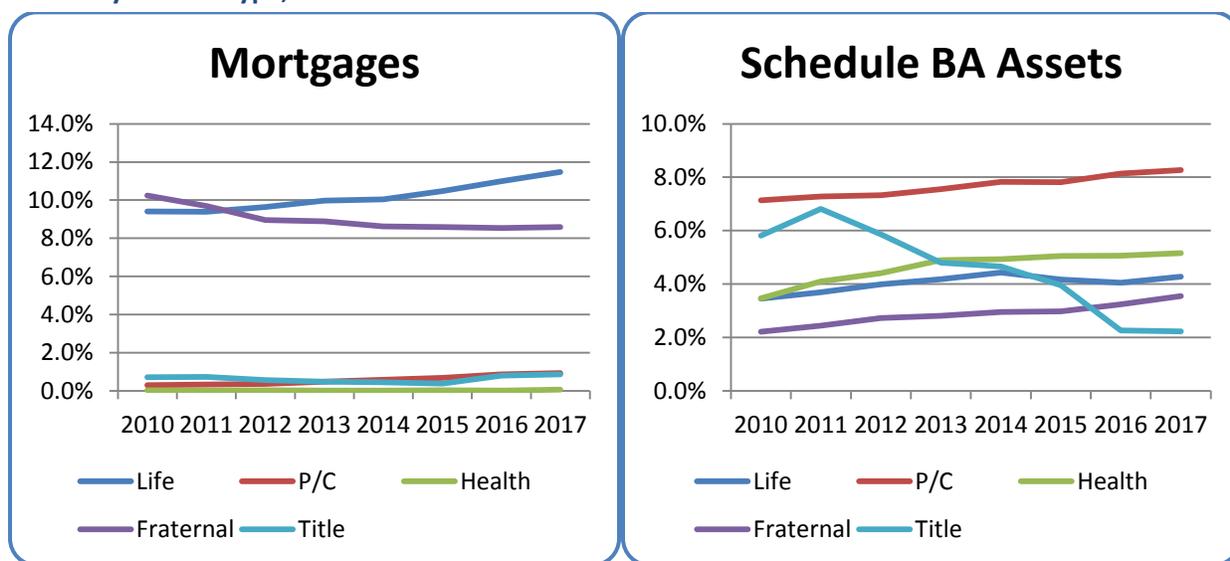
Life companies accounted for the majority of the industry’s mortgage exposure. In 2017, mortgage exposure at life companies increased 9% to \$477 billion, following increases of 10.2% and 6.4% in 2016 and 2015, respectively. P/C companies accounted for only 3.6% of the industry’s mortgage exposure at year-end 2017, but their exposure grew significantly over the past three years—15.8%, 31.4% and 18.9% in 2017, 2016 and 2015, respectively.

Life and P/C companies held the bulk of the industry’s Schedule BA exposure, with \$178 billion and \$159 billion, respectively, at year-end 2017. In 2017, Schedule BA exposure at P/C companies increased 8.3%,

after increasing approximately 8% each of the previous four years. Life companies' exposure increased 4.3% in 2017, while health companies' exposure increased 5.2%.

Furthermore, since 2010, exposure as a percent of assets for all insurer types has been steadily increasing in both mortgages and Schedule BA assets—with the exception of mortgages for fraternal companies and Schedule BA assets for title companies. (See Chart 2 and Chart 3). Mortgage exposure as a percent of assets increased to 11.5% at year-end 2017 from 9.4% at year-end 2010 for life companies and to 0.9% from 0.3% for P/C companies. Exposure to Schedule BA assets as a percent of assets increased to 8.3% at year-end 2017 from 7.1% at year-end 2010 for P/C companies and to 5.2% at year-end 2017 from 3.5% at year-end 2010 for health companies.

Chart 2 and Chart 3: Mortgages (Left Panel) and Schedule BA Assets (Right Panel) as a Percent of Assets by Insurer Type, 2010–2017



Further Insights into the Insurance Industry’s Cash and Invested Assets

Consistent with previous years, the largest U.S. insurers (those with assets under management greater than \$10 billion) held the majority, or 73%, of the industry’s total cash and invested assets at year-end 2017. (See Table 3.) Exposure for this group totaled \$4.7 trillion, an increase of 5.9% compared to year-end 2016—and slightly greater than the 5.1% increase in total cash and invested assets for the industry.

Table 3: U.S. Insurance Industry Cash and Invested Assets by Insurer Size, Year-End 2017 (BACV\$ in millions)

Bond Type	Greater Than \$10B	Between \$5B and \$10B	Between \$2.5B and \$5B	Between \$1B and \$2.5B	Between \$500mm and \$1B	Between \$250mm and \$500mm	Less Than \$250mm
Bonds	3,030,790	314,486	264,430	278,235	120,726	93,425	112,357
Common Stock	560,952	70,982	55,894	60,605	25,545	19,512	15,472
Mortgages	465,807	20,334	9,295	7,625	1,840	1,252	815
Schedule BA (Other Long-Term Assets)	292,797	23,692	13,902	13,946	4,821	2,582	1,676
Cash & Short-Term Investments	139,397	20,058	18,009	26,823	20,281	16,758	31,249
Contract Loans	113,657	8,886	3,923	3,544	718	778	408
Derivatives	55,479	2,344	657	411	49	2	2
Real Estate	28,632	2,657	2,978	4,184	1,536	1,277	1,193
Securities Lending (Reinvested Collateral)	17,849	1,610	1,464	1,333	142	117	126
Other Receivables	16,132	3,492	429	676	541	581	310
Preferred Stock	9,670	2,231	1,759	1,807	936	532	568
Total	4,731,163	470,773	372,739	399,188	177,135	136,816	164,176
% of Total	73.3%	7.3%	5.8%	6.2%	2.7%	2.1%	2.5%

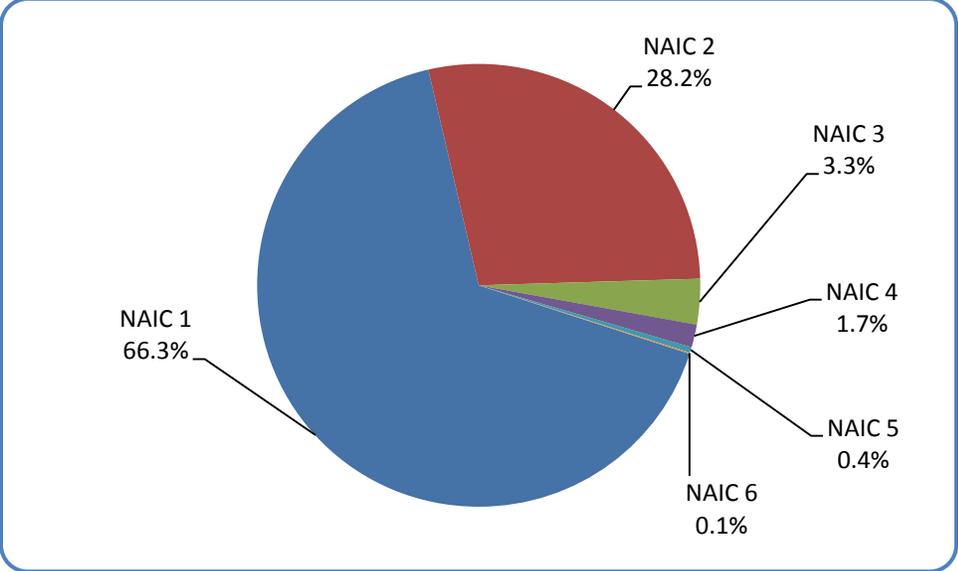
The U.S. insurance industry reported \$4.2 trillion in bonds at year-end 2017, an increase of 3.1% compared to year-end 2016. Note that bond exposure increased at a slower pace than the 5.1% year-over-year growth in total cash and invested assets. The ranking of bond types at year-end 2017 was consistent with prior years. Corporate bonds and municipals bonds were the two largest bond types, representing 54.8% and 13.2%, respectively, of the industry's total bond exposure. (See Table 4.)

Table 4: Bond Breakdown by Insurer Type, Year-End 2017 (BACV\$ in millions)

Bond Type	Life	P/C	Health	Fraternal	Title	Total	% of Total
Corporate Bonds	1,836,986	352,788	45,161	72,951	2,626	2,310,512	54.8%
Municipal Bonds	194,016	325,139	26,277	8,455	1,256	555,143	13.2%
ABS and Other Structured Securities	250,532	57,760	7,350	3,543	28	319,213	7.6%
Agency-Backed RMBS	180,346	82,176	14,927	9,712	292	287,453	6.8%
U.S. Government	165,329	95,376	15,722	2,822	341	279,591	6.6%
Private-label CMBS	123,250	33,559	3,456	3,707	11	163,983	3.9%
Foreign Government	93,780	17,424	567	1,212	270	113,254	2.7%
Private-Label RMBS	78,779	18,070	944	1,173	-	98,966	2.3%
Agency-Backed CMBS	40,050	15,574	738	2,871	1	59,234	1.4%
Hybrid Securities	15,711	3,022	310	223	32	19,296	0.5%
ETF-SVO Identified Funds	3,784	2,395	1,379	32	-	7,590	0.2%
Bond Mutual Funds-SVO Identified Funds	25	69	117	-	-	211	0.0%
Total	2,982,586	1,003,350	116,948	106,703	4,857	4,214,444	100%
% of Total	70.8%	23.8%	2.8%	2.5%	0.1%	100%	

The credit quality of the industry's bond holdings improved slightly at year-end 2017, with 94.5% in investment grade bonds, or those with reported NAIC 1 or NAIC 2 designations, compared to 94.1% the prior year. Below-investment grade bonds, or those with reported NAIC 3 designations and below, represented 5.5% of bond exposure. (See Chart 4.) While the exposure to below-investment grade bonds as a percent of total bond exposure decreased at life, P/C and health companies, it increased marginally at fraternal and title companies to 5% and 9.1%, respectively.

Chart 4: Reported Credit Quality of U.S. Insurance Industry's Bond Portfolio at Year-End 2017



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

August 9, 2018								
Major Insurer Share Prices			Change %			Prior		
		Close	Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	\$46.72	0.4	6.8	6.4	\$46.55	\$43.76	\$43.89
	Ameriprise	139.64	(5.7)	(5.6)	(17.6)	148.04	147.94	169.47
	Genworth	4.42	(3.8)	56.2	42.1	4.60	2.83	3.11
	Lincoln	66.69	(2.0)	(8.7)	(13.2)	68.06	73.06	76.87
	MetLife	46.12	0.1	0.5	(8.8)	46.07	45.89	50.56
	Principal	55.58	(5.0)	(8.8)	(21.2)	58.52	60.91	70.56
	Prudential	99.89	(0.3)	(3.5)	(13.1)	100.19	103.55	114.98
	UNUM	36.04	(8.5)	(24.3)	(34.3)	39.39	47.61	54.89
PC	Axis Capital	54.31	(4.3)	(5.7)	8.1	56.76	57.57	50.26
	Allstate	99.42	4.5	4.9	(5.1)	95.14	94.80	104.71
	Arch Capital	30.33	(0.6)	(64.6)	(66.6)	30.52	85.59	90.77
	Cincinnati	74.93	(1.0)	0.9	(0.1)	75.68	74.26	74.97
	Chubb	137.18	(1.7)	0.3	(6.1)	139.52	136.77	146.13
	Everest Re	215.21	(5.1)	(16.2)	(2.7)	226.81	256.82	221.26
	Progressive	62.58	4.3	2.7	11.1	59.97	60.93	56.32
	Travelers	129.58	(1.6)	(6.7)	(4.5)	131.63	138.86	135.64
	WR Berkley	76.15	0.4	4.7	6.3	75.82	72.70	71.65
	XL	56.41	0.4	2.1	60.4	56.21	55.26	35.16
Other	AON	\$142.98	(1.2)	1.9	6.7	\$144.70	\$140.33	\$134.00
	AIG	52.03	(5.4)	(4.4)	(12.7)	54.99	54.42	59.58
	Assurant	105.90	(3.6)	15.9	5.0	109.87	91.41	100.84
	Fidelity National	39.87	(1.3)	(0.4)	1.6	40.39	40.02	39.24
	Hartford	52.18	(1.8)	1.3	(7.3)	53.11	51.52	56.28
	Marsh	84.02	(0.8)	1.7	3.2	84.66	82.59	81.39
Health	Aetna	\$194.00	2.4	14.8	7.5	\$189.52	\$169.00	\$180.39
	Cigna	185.19	4.8	10.4	(8.8)	176.63	167.74	203.09
	Humana	323.46	3.0	20.3	30.4	314.07	268.83	248.07
	United	261.58	2.5	22.2	18.7	255.11	214.00	220.46
Monoline	Assured	\$41.38	9.0	14.3	22.2	\$37.98	\$36.20	\$33.87
	MBIA	11.32	16.3	22.2	54.6	9.73	9.26	7.32
	MGIC	12.62	1.1	(3.0)	(10.6)	12.48	13.00	14.11
	Radian	19.71	4.3	3.5	(4.4)	18.89	19.04	20.61
	XL Capital	56.41	0.4	2.1	60.4	56.21	55.26	35.16

August 9, 2018							
Major Market Variables		Change %			Prior		
		Close	Week	QTD	YTD	Week	Quarter
Dow Jones Ind	25,509.23	0.5	5.8	3.2	25,384.15	24,103.11	24,719.22
S&P 500	2,852.94	1.6	8.0	6.7	2,807.32	2,640.87	2,673.61
S&P Financial	469.30	0.5	2.6	1.2	466.94	457.53	463.94
S&P Insurance	386.83	(0.9)	(0.9)	(3.8)	390.45	390.30	402.08
US Dollar \$		Change %			Prior		
/ Euro	\$1.15	(1.6)	(6.4)	(3.9)	\$1.17	\$1.23	\$1.20
/ Crude Oil bbl	66.72	(4.8)	2.7	11.0	70.12	64.94	60.11
/ Gold oz	1,211.70	(0.9)	(8.4)	(7.2)	1,222.60	1,322.80	1,305.20
Treasury Ylds %		Change bp			%	%	%
1 Year	2.42	0.01	0.32	0.67	2.41	2.10	1.75
10 Year	2.93	(0.05)	0.19	0.52	2.97	2.74	2.41
30 Year	3.07	(0.03)	0.09	0.33	3.10	2.98	2.74
Corp Credit Spreads -bp		Change %			Prior		
CDX.IG	59.28	0.5	(9.6)	20.9	59.01	65.56	49.02

August 9, 2018										
Major Insurer Bond Yields					Weekly Change					YTD
					Price			Spread over UST		Spread
Company	Coupon	Maturity	Current	Change	Yield	B.P.	Change	Change		
Life	Ameriprise	AMP	3.700%	10/15/2024	\$100.10	\$0.15	3.68%	81	3	17
	Lincoln National	LNC	3.350%	3/9/2025	\$96.28	\$0.30	4.00%	109	(1)	25
	MassMutual	MASSMU	3.600%	4/9/2024	\$99.90	\$0.37	3.62%	76	(3)	20
	MetLife	MET	4.050%	3/1/2045	\$94.90	\$0.69	4.38%	131	(2)	28
	New York Life	NYL	2.350%	7/14/2026	\$91.05	\$0.29	3.66%	74	1	16
	Pacific Life	PACLIF	5.125%	1/30/2043	\$106.75	\$0.72	4.66%	160	(2)	5
	Principal	PFG	6.050%	10/15/2036	\$118.93	\$0.31	4.51%	149	(0)	26
	Prudential	PRU	4.600%	5/15/2044	\$103.18	\$0.78	4.39%	134	(1)	27
	Allstate	ALL	4.500%	6/15/2043	\$103.49	\$0.17	4.27%	119	1	20
	Berkshire Hathaway	BRK	4.300%	5/15/2043	\$102.10	\$0.46	4.16%	111	0	21
	Travelers	TRV	4.600%	8/1/2043	\$105.61	\$0.50	4.23%	118	2	21
	XL Group	XL	6.250%	5/15/2027	\$113.77	\$0.52	4.34%	137	(3)	(4)
Other	AON	AON	4.250%	12/12/2042	\$92.60	\$0.75	4.77%	171	(3)	32
	AIG	AIG	6.820%	11/15/2037	\$123.12	(\$0.06)	4.94%	191	4	32
	Hartford	HIG	4.300%	4/15/2043	\$95.99	\$0.15	4.57%	153	3	38
	Nationwide	NATMUT	5.300%	11/18/2044	\$106.70	\$0.43	4.85%	177	(1)	33
Health	Aetna	AET	6.750%	12/15/2037	\$126.37	\$0.42	4.66%	164	2	25
	CIGNA	CI	6.150%	11/15/2036	\$113.33	\$0.43	5.03%	198	0	62
	United Healthcare	UNH	4.750%	7/15/2045	\$108.75	\$0.01	4.20%	113	3	16