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U.S. Insurance Industry Outsourcing to Unaffiliated Investment Managers

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Executive Summary

- 49% of U.S. insurers reported outsourcing to an unaffiliated investment manager as of year-end 2017.
 - Small insurers (those with total cash and invested asset of less than \$250 million) accounted for 64% of outsourced investment management.
 - Property/casualty (P/C) insurers accounted for 67% of small insurers that outsource investment management.
 - 31% of U.S. insurers that reported outsourcing to an unaffiliated investment manager allocate at least 10% to a single unaffiliated manager and at least 50% of their total assets.

As of year-end 2016, the NAIC *Annual Statement Instructions* (Annual Instructions) required that U.S. insurers disclose data on unaffiliated investment managers controlling at least 10% of their assets. The Annual Instructions also require U.S. insurers to report the names of investment managers whom, in aggregate, managed at least 50% of their assets. However, the actual book-adjusted carrying value (BACV) of outsourced assets is currently not required to be reported by U.S. insurers.

This report updates the NAIC Capital Markets Bureau Special Report published in February 2018 titled "U.S. Insurance Industry Unaffiliated Investment Management Update, Year-End 2016," which discussed trends in U.S. insurers' use of unaffiliated investment managers.

Investment Management Outsourcing by U.S. Insurers in 2017

Although the Federal Reserve has been raising its target fed funds rate, fixed income yields on public assets remain relatively low. As a result over the past few years, insurers have moved

into private assets such as secured loans, structured products and private debt. As such, the need for expertise and access to new or higher yielding asset classes is driving the growth of U.S. insurers' outsourcing to unaffiliated investment managers.

As of year-end 2017, 49% (2,137) of U.S. insurers reported outsourcing investment management, with P/C companies representing 30% (1,282) of this total. (See Table 1). P/C companies also represented 60% of total insurers that reported outsourcing investment management.

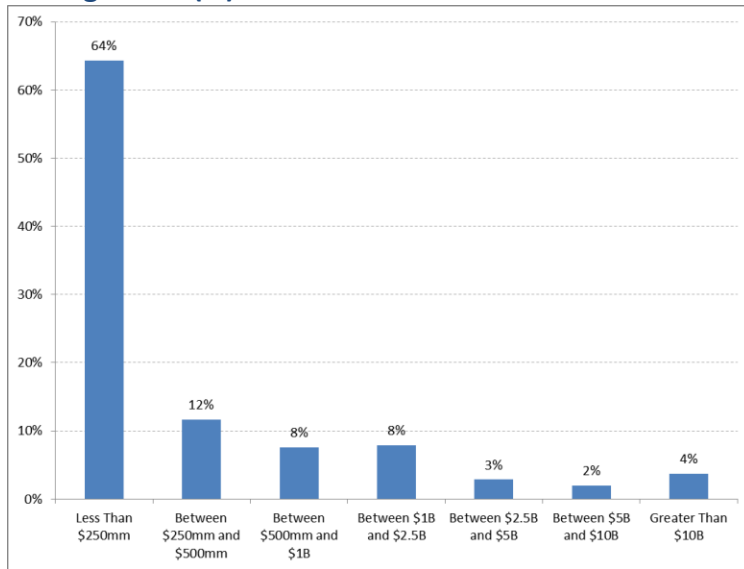
Table 1: U.S. Insurers Outsourcing to Unaffiliated Investment Managers as of Year-End 2017

Insurer Type	Number of Insurers Outsourcing	Pct of Total U.S. Insurers Outsourcing	Pct of All U.S. Insurers
Fraternal	43	2%	1%
Life	336	16%	8%
P/C	1,282	60%	30%
Title	22	1%	1%
Health	454	21%	10%
Total Outsourcing	2,137	100%	49%
Total U.S. Insurers Filing Annual Statements (YE2017)	4,335		

Size of U.S. Insurers Outsourcing Investment Management

Small insurers accounted for 64% of the total number of U.S. insurers that reported outsourcing to an unaffiliated investment manager as of year-end 2017. As shown in Chart 1, the percentage of insurers that outsource investment management decreases significantly, as total assets under management (AUM) increases.

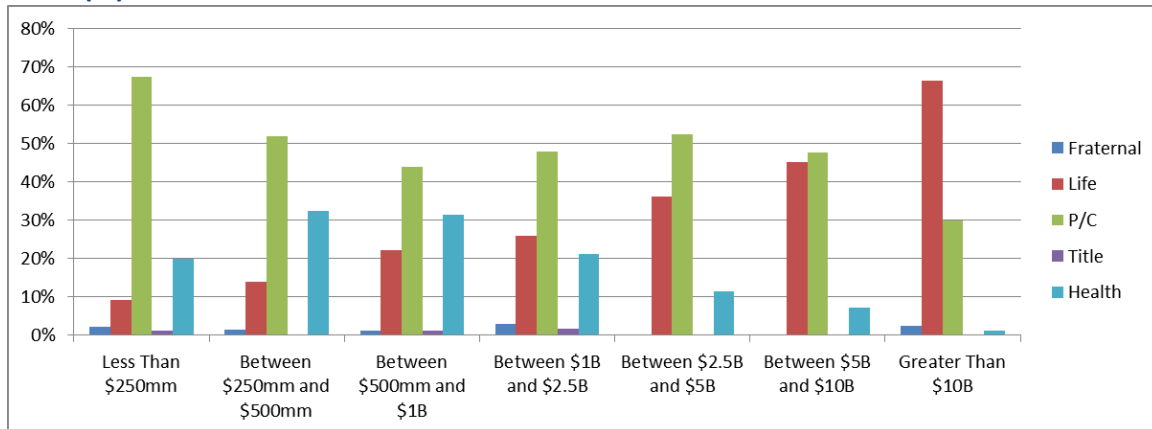
Chart 1: U.S. Insurers' Outsourcing to Unaffiliated Investment Managers by Assets Under Management (%)



For smaller insurers, outsourcing to an unaffiliated investment manager may represent a more cost-effective way to invest some or all of their assets. An insurer, for example, with limited resources (financial, staff or otherwise) may gain access to greater resources—such as investment expertise and capabilities—at a lower cost by working with an unaffiliated manager. A company with a small asset base may not be able to cost-effectively replicate the skills or deep experience of an unaffiliated investment manager, particularly for specialty asset classes such as high-yield, real estate or private equity.

Among U.S. insurers with up to \$10 billion in AUM, P/C companies accounted for the majority of outsourcing to unaffiliated investment managers, as shown in Chart 2. Among large U.S. insurers (those with assets above \$10 billion), life companies comprised the majority of those that outsourced, at 66% of all large insurers. This trend is a function of the number of insurers within each AUM category, as well as the percentage of the total insurer population that outsources. The number of P/C companies in the U.S. insurance industry is larger than the number of life companies, especially among small insurers, whereas the number of life companies is greater than the number of P/C companies as AUM increases. Chart 2 also shows an increase in life companies that outsource as AUM increases, and a decrease in health companies that outsource as AUM increases.

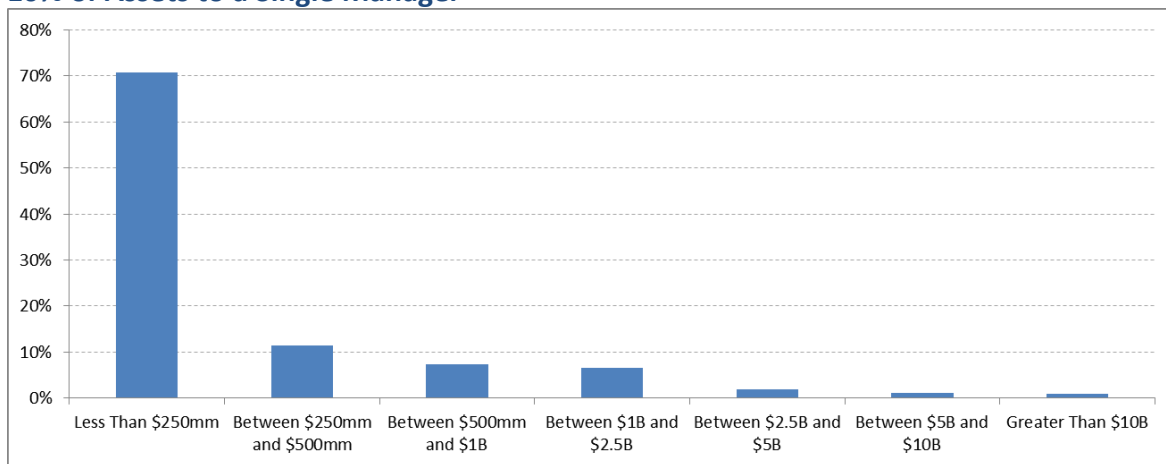
Chart 2: U.S. Insurers' by Company Type Outsourcing to Unaffiliated Investment Managers by AUM (%)



Percentage of Assets Outsourced to a Single Manager and Total Assets Outsourced

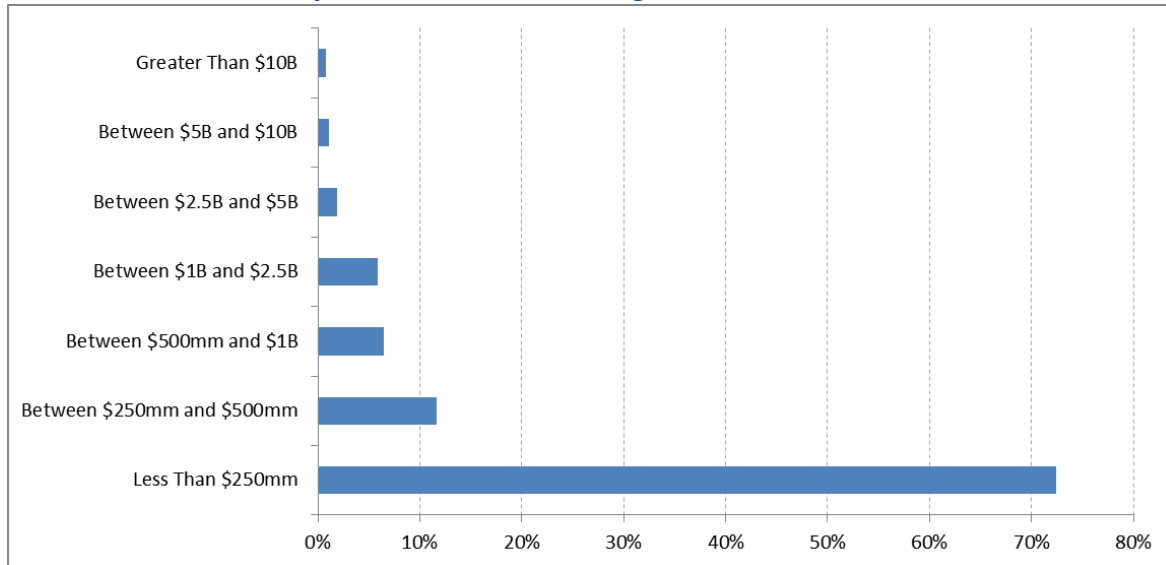
As of year-end 2017, as shown in Chart 3, small insurers accounted for 71% of insurers that had more than 10% of their assets managed by a single unaffiliated investment manager, which was unchanged from year-end 2016. Additionally, the percentage of small insurers that outsourced more than 50% of their assets to unaffiliated investment managers was 72% at year-end 2017, compared to 73% in 2016.

Chart 3: Percentage of U.S. Insurers by Total Cash and Invested Assets Outsourcing at Least 10% of Assets to a Single Manager



P/C companies accounted for an average 61% of insurers with AUM of \$10 billion or less that outsourced more than 50% of their assets to unaffiliated investment managers. Among large insurers, life companies accounted for 73% that outsourced more than 50% of their assets to unaffiliated investment managers. (See Chart 4.)

Chart 4: U.S. Insurers by Total AUM Outsourcing at Least 50% of Total Assets



U.S. Insurer Unaffiliated Asset Managers

The top four unaffiliated investment managers reported by U.S. insurers in 2017 were unchanged from 2016. BlackRock maintains the top listing, followed by Conning, New England Asset Management Inc. (NEAM) and Deutsche Investment Management Americas Inc. J.P. Morgan Asset Management Inc. entered the top 10 as the fifth most-reported asset manager, displacing Pacific Investment Management Co. LLC (PIMCO) from the top 10. (See Table 2 and Table 3.)

Table 2: Investment Managers Most Often Listed by U.S. Insurers, Year-End 2017

	Most Listed Investment Firms:	Number of Insurance Companies
1	BlackRock	230
2	Conning	200
3	New England Asset Management, Inc. ("NEAM")	177
4	Deutsche Investment Management Americas, Inc.	148
5	J.P. Morgan Asset Management Inc.	141
6	Asset Allocation and Management Company LLC (AAM)	134
7	Wellington Management Co. LLP	117
8	Goldman Sachs Asset Management LP	85
9	Wells Capital Management, Inc.	84
10	Prime Advisors, Inc.	78

Table 3: Investment Managers Most Often Listed by U.S. Insurers, Year-End 2016

	Most Listed Investment Firms:	Number of Insurance Companies
1	BlackRock	228
2	Conning	204
3	New England Asset Management, Inc. ("NEAM")	170
4	Deutsche Investment Management Americas, Inc.	137
5	Wellington Management Co. LLP	110
6	Asset Allocation and Management Company LLC (AAM)	104
7	Wells Capital Management, Inc.	88
8	Goldman Sachs Asset Management LP	84
9	Prime Advisors, Inc.	74
10	Pacific Investment Management Co. LLC (PIMCO)	68

As of year-end 2017, 1,359 insurers reported outsourcing at least 50% of invested assets, or \$1.8 trillion was outsourced to unaffiliated investment managers.

According to the Insurance Asset Outsourcing Exchange, from its survey of 46 investment managers, at year-end 2017 U.S. insurers outsourced about \$1.1 trillion to unaffiliated investment managers, up from \$992 billion at year-end 2016. According to that same survey, insurance assets managed by North American unaffiliated investment managers increased about 5.7% in 2017 following an increase of 8.5% in 2016.

Conclusion

In 2017, 49% of U.S. insurers that filed an annual statement with the NAIC reported outsourcing to unaffiliated investment managers. About 85% of U.S. insurers that outsourced reported that at least 10% of invested assets were managed by a single unaffiliated investment manager, while about 31% reported outsourcing more than 50% of their aggregate assets to unaffiliated investment managers.

As of year-end 2017, 64% (1,374) of U.S. insurers that outsourced to unaffiliated investment managers were small insurers, with P/C companies accounting for 67% (925) of those small insurers. The investment firms that were more often listed by insurers represented large global investment management firms (in terms of total AUM), such as BlackRock.

The NAIC Capital Markets Bureau will continue to monitor trends in unaffiliated investment management of U.S. insurer assets and report as deemed appropriate.

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

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