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## U.S. Insurer Exposure to Schedule BA (Other Long-Term Invested Assets): Focus on Private Equity, Hedge Funds and Real Estate as of Year-End 2018

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### Executive Summary

- Total affiliated and unaffiliated Other Long-Term Invested Assets (as reported in Schedule BA) increased 3.3% to \$365.2 billion in 2018 from \$353.4 billion in 2017.
  - Unaffiliated investments that comprised private equity (PE), hedge funds (HF) and real estate (RE) increased a combined 9% to \$73.9 billion, \$25 billion and \$15.5 billion, respectively.
  - Life insurers accounted for the largest portion of Other Long-Term Invested Assets at 52%, or \$189.8 billion.
- 1,035 U.S. insurers reported exposure to Other Long-Term Investments.

This special report analyzes U.S. insurer exposure to Other Long-Term Invested Assets, as reported on Schedule BA, focusing on joint ventures, partnerships and limited liability companies (LLCs) that have the underlying characteristics of common stock (primarily PE funds), real estate (primarily RE funds, not including mortgages) or “other” (primarily HF), as they are a significant component of insurer investments in Other Long-Term Invested Assets. Insurers’ Other Long-Term Invested Assets are comprised of affiliated and unaffiliated investments; affiliated investments as a percentage of total Other Long-Term Invested Assets were 56% as of year-end 2018, the lowest percentage since 2015.

As of year-end 2018, U.S. insurer exposure to Other Long-Term Invested Assets increased 3.3% to \$365.2 billion from \$353.4 billion at year-end 2017. (See Table 1.) Other Long-Term Invested Assets were 5.6% of total cash and invested assets, unchanged from year-end 2017. Affiliated investments accounted for \$204.5 billion, while \$160.7 billion were unaffiliated investments.

**Table 1: U.S. Insurer Schedule BA Exposure as of Year-End 2018 (BACV, \$Mil.)**

Asset	Life	P/C	Health	Fraternal	Title	Total	Pct of Total
Hedge Fund (HF)	24,429	81,875	5,324	708	106	112,442	31%
Private Equity (PE)	80,142	17,534	3,786	3,916	1	105,379	29%
Real Estate (RE)	35,321	17,772	1,182	468	1	54,744	15%
All Other Schedule BA	49,913	39,117	2,938	576	63	92,607	25%
<b>Total</b>	<b>189,806</b>	<b>156,298</b>	<b>13,229</b>	<b>5,667</b>	<b>171</b>	<b>365,172</b>	<b>100%</b>
Pct of Total	52%	43%	4%	2%	0%	100%	

**U.S. Insurer Exposure to Unaffiliated HF, PE and RE**

Insurer exposure to unaffiliated investments that comprised PE, HF and RE increased 9% to \$73.9 billion, \$25 billion and \$15.5 billion, respectively, at year-end 2018 (see Table 2), which followed a 9.9% increase in 2017 from year-end 2016. Exposure to unaffiliated PE, HF and RE decreased 1% and 6% in 2016 and 2015, respectively. Since 2005, unaffiliated PE, HF and RE exposure increased an average of about 11% annually. Unaffiliated PE remained more than 65% of the total book/adjusted carrying value (BACV) of the three combined asset types at year-end 2018, with HF accounting for 22% at year-end 2018. RE remained at 14%.

**Table 2: U.S. Insurer Exposure to Unaffiliated HF, PE and RE (BACV, \$Mil.)**

Asset	Life	P/C	Health	Fraternal	Title	Total	Pct of Total
Private Equity (PE)	55,511	16,746	1,130	472	-	73,860	65%
Hedge Fund (HF)	7,336	14,409	2,820	538	8	25,110	22%
Real Estate (RE)	7,250	6,683	1,136	383	1	15,453	14%
<b>Total</b>	<b>70,097</b>	<b>37,838</b>	<b>5,087</b>	<b>1,393</b>	<b>8</b>	<b>114,423</b>	<b>100%</b>
Pct of Total	61%	33%	4%	1%	0%	100%	

Life and property/casualty (P/C) companies together accounted for an aggregate of \$107.9 billion at year-end 2018, or 94% of total unaffiliated HF, PE and RE (shown in Table 2), compared to about \$99.5 billion at year-end 2017. Life and P/C companies' exposure to unaffiliated HF, PE and RE has been 94% of U.S. insurer unaffiliated exposure since at least 2016. Life companies accounted for 61% of total unaffiliated PE, HF and RE as of year-end 2018. About 22% of the total unaffiliated PE, HF and RE was reported by New York-domiciled insurers, the largest domicile exposure.

**Notable Unaffiliated Other Long-Term Invested Assets Exposure Among U.S. Insurers**

Large insurers (those with total cash and invested asset greater than \$10 billion) accounted for the majority (76%) of exposure to unaffiliated Other Long-Term Invested Assets as of year-end 2018. (See Table 3.) Large insurers reported an 8% increase in unaffiliated Other Long-Term Invested Assets exposure.

**Table 3: 2018 U.S. Insurer Exposure to Unaffiliated Other Long-Term Invested Assets by Total Cash and Invested Assets (BACV, \$Mil.)**

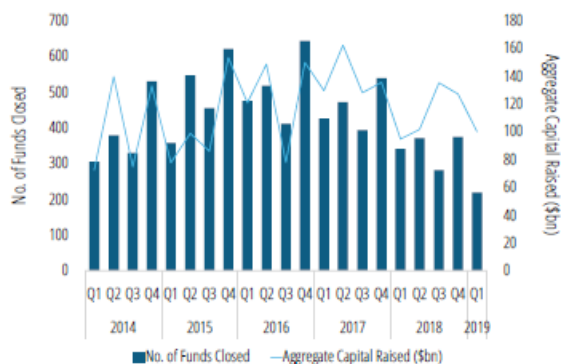
Asset	Less than \$250mm	Between \$250mm and \$500mm	Between \$500mm and \$1B	Between \$1B and \$2.5B	Between \$2.5B and \$5B	Between \$5B and \$10B	Greater than \$10B	Total
Private Equity (PE)	195	345	585	2,246	2,114	5,993	62,378	73,856
Hedge Fund (HF)	217	614	1,304	2,718	2,385	1,600	16,255	25,093
Real Estate (RE)	130	43	507	1,089	687	2,290	10,697	15,443
All Other Schedule BA	643	598	1,021	3,806	3,108	4,964	32,107	46,247
<b>Total</b>	<b>1,185</b>	<b>1,599</b>	<b>3,418</b>	<b>9,859</b>	<b>8,294</b>	<b>14,847</b>	<b>121,437</b>	<b>160,639</b>
Pct of Total	1%	1%	2%	6%	5%	9%	76%	100%

When U.S. insurers’ exposure to an asset type exceeds 10% of total capital and surplus, there is a potential for liquidity risk. In particular, investments reported in Schedule BA may be considered “alternative investments” (i.e., not conventional and often higher-yielding than traditional assets due in part to their complexity), so concerns regarding liquidity risk with these investments may be heightened compared to the more traditional asset types (such as municipal or corporate bonds). At year-end 2018, about 36% of insurers with PE, HF and RE exposure (370) reported that it was more than 10% of total capital and surplus. And one insurer reported exposure to PE, HF and RE that represented 1,426% of total capital and surplus.

### Total 2018 PE and HF Fundraising

PE fundraising in 2018 reached about \$330 billion, which was down from \$490 billion in 2017, according to Preqin (a provider of alternative assets data). Aggregate PE capital raised was \$100 billion in about 219 PE funds in the Q1 2019. Capital raised is comparable to \$95 billion raised in Q1 2018, but the number of funds is less than the 340 funds of Q1 2018. (See Chart 1.) Capital raised in the Q1 2019 continues the trend of lowest amount in the first quarter of any year since 2015.

**Chart 1: Global Quarterly Private Equity Fund Raising**



Source: Preqin.com

In Q1 2018, PE funds focused on leveraged buyouts raised the most capital at \$62 billion from 51 funds, followed by venture capital at \$17 billion from 115 funds. North America-focused funds led capital raising with \$63 billion from 133 funds, followed by Europe with \$21.6 billion from 46 funds. This was the lowest Q1 activity for funds focused on Europe since 2015.

HF experienced four consecutive quarters of outflows in Q1 2019, when investors withdrew \$22.1 billion. Total assets under management (AUM) grew 3.3% to \$3.6 trillion despite the net outflows. Hedge funds with equity-focused strategies increased AUM 6.5% since December 2018, the largest increase of all strategies. Ironically,

Equity Strategies had net outflows of \$9.9 billion in Q1 2019, the largest outflow of all strategies. The increase in AUM given the net outflows is due to improved total return performance, according to Preqin.

## Summary

About 1,035 U.S. insurers reported exposure to Other Long-Term Invested Assets with a BACV of about \$365.2 billion (including affiliated and unaffiliated exposure). Unaffiliated exposure increased to \$160.7 billion—44% of Other Long-Term Invested Assets from \$147.2 billion, or 42% in 2018. Similar to prior years, HF, PE and RE were the largest components of unaffiliated Other Long-Term Invested Assets at year-end 2018, at approximately \$114.4 billion (an increase of 9% over 2018), with PE being the largest at \$73.9 billion.

For the U.S. insurance industry, unaffiliated Other Long-Term Invested Assets represented 13% of total capital and surplus but only 3% of total cash and invested assets, as of year-end 2018. For most U.S. insurers (64%), exposure to Other Long-Term Invested Assets represented 10% or less of total capital and surplus. For insurers where exposure to Other Long-Term Invested Assets exceeded 10% of total capital and surplus (which totaled 370 in number), liquidity may be a concern.

The Capital Markets Bureau will continue to monitor trends in U.S. insurers' Other Long-Term Invested Assets and report on any developments as deemed appropriate.

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Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org](mailto:CapitalMarkets@naic.org).

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