

Session 6: The insurance market and its contribution to the capital market: challenges in emerging economies

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The State of Insurer Investments and Regulatory Oversight

- Agenda
 - Financial Crisis and Historical View
 - Current State of Insurer Investments in the U.S.
 - Regulatory Action from U.S. State Insurance Supervisors

Post-Financial Crisis

Post-Financial Crisis

- Heightened regulatory environment in order to maintain strong reserves
- Quantitative easing of and low interest rates to fuel growth and economic stimulus
- Encouraged insurers to re-examine their investment strategies

U.S. Insurance Industry Investment - 2015

Includes Annuities

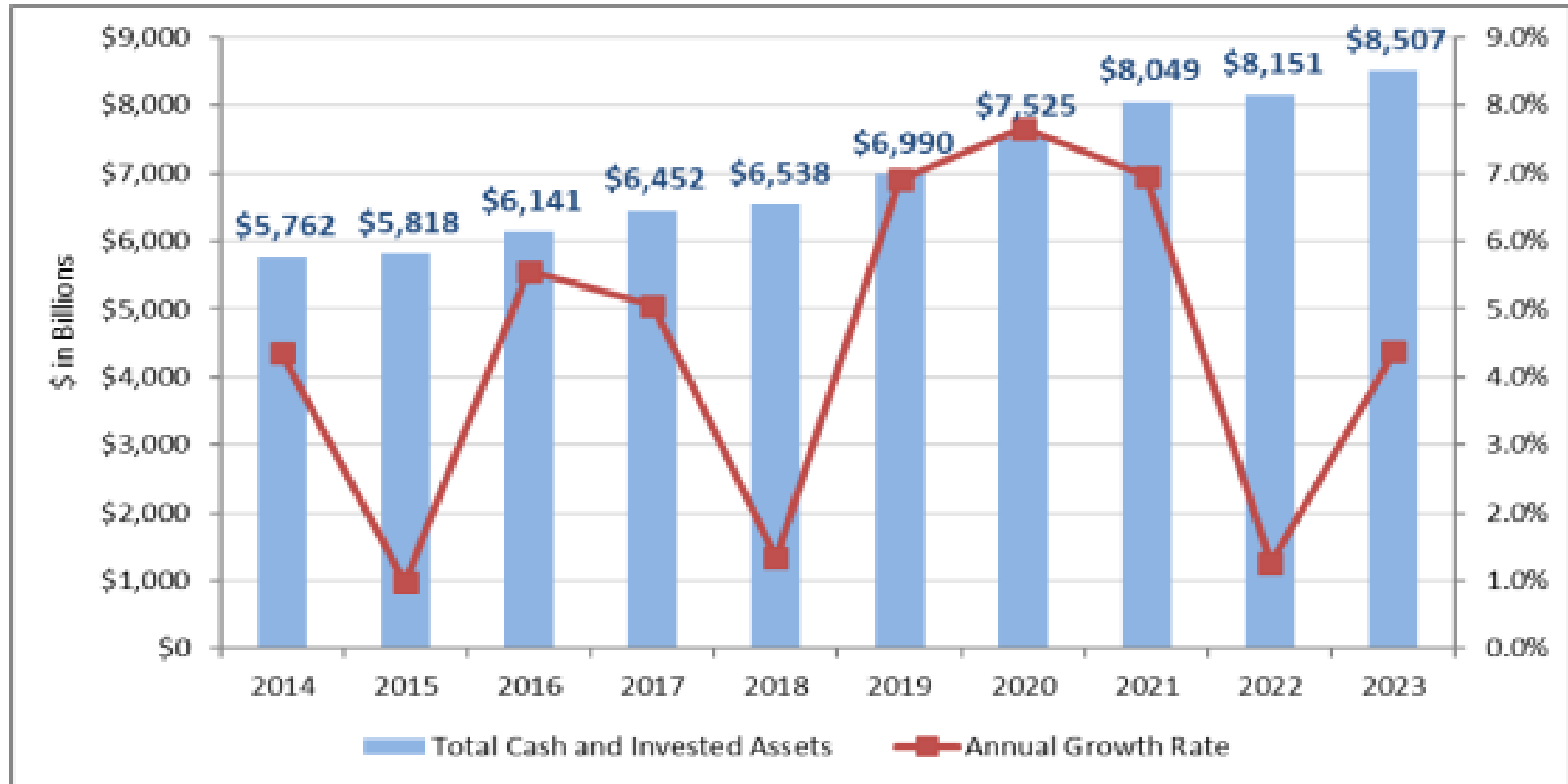
Asset Class	2014	2013	2012	2011	2010
Bonds	67.0%	67.5%	68.4%	69.3%	69.5%
Preferred Stock	0.4%	0.4%	0.4%	0.4%	0.6%
Common Stock	11.9%	12.1%	11.1%	10.7%	10.5%
Mortgages, First Lien	6.8%	6.7%	6.6%	6.5%	6.4%
Real Estate	0.7%	0.7%	0.7%	0.7%	0.7%
Cash & Short-term Investments	4.0%	3.8%	4.2%	3.8%	4.1%
Contract Loans	2.3%	2.4%	2.4%	2.4%	2.5%
BA & Other	5.4%	5.2%	5.0%	4.7%	4.6%
Other Receivables	0.2%	0.2%	0.2%	0.2%	0.3%
Derivatives	1.0%	0.7%	0.8%	0.9%	0.4%
Securities Lending (Reinvested Colla	0.3%	0.3%	0.3%	0.3%	0.4%
Industry Total	100%	100%	100%	100%	100%

Other Long-Term Invested Assets (\$billions)



U.S. Insurance Industry's Cash and Invested Assets - Year-End 2023

Historical U.S. Insurance Industry Total Cash and Invested Assets, Year-End 2014-2023



Note: Includes affiliated and unaffiliated investments

U.S. Insurance Industry's Cash and Invested Assets at Year-End 2023

- The U.S. insurance industry reported \$8.5 trillion in total cash and invested assets
- The four largest asset classes were **bonds, common stocks, mortgages, and other long-term invested assets**
- Mortgage exposure grew at a faster pace than growth in total cash and invested assets
- The share of bonds in the U.S. insurance industry's investment portfolio decreased to 60.8% at year-end , while the share of common stocks increased to 13.9%.
- The credit quality of the bond portfolio improved to pre-pandemic levels at year-end 2023, with bonds designated NAIC 1 and NAIC 2

Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2023 (BACV\$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,658,290	1,305,183	200,217	6,012	5,169,703	60.8%
Common Stocks	220,000	914,299	47,778	2,711	1,184,787	13.9%
Mortgages	733,801	33,476	749	7	768,033	9.0%
Schedule BA and Other Assets	344,958	164,942	23,019	577	533,496	6.3%
Cash and Short-Term Investments	190,594	201,096	77,350	1,647	470,687	5.5%
Contract Loans	138,926	2	1	-	138,928	1.6%
Derivatives	102,006	2,463	27	-	104,496	1.2%
Real Estate	22,767	12,830	6,573	202	42,372	0.5%
Preferred Stocks	17,660	15,279	997	150	34,086	0.4%
Aggregate Write-Ins	22,107	2,849	343	1	25,300	0.3%
Securities Lending (Reinvested Collateral)	15,380	5,658	2,771	-	23,809	0.3%
Receivables for Securities	8,829	2,478	399	6	11,712	0.1%
Total	5,475,318	2,660,556	360,222	11,313	8,507,410	100%
% of Total	64.4%	31.3%	4.2%	0.1%	100%	

Total U.S. Insurance Industry Cash and Invested Assets by Asset Class and Insurer Type, Year-End 2022 (BACV\$ in Millions)

Asset Class	Life	P/C	Health	Title	Total	% of Total
Bonds	3,630,254	1,248,301	189,308	6,127	5,073,991	62.3%
Common Stocks	210,618	817,493	43,830	2,847	1,074,789	13.2%
Mortgages	695,160	29,372	514	12	725,059	8.9%
Schedule BA and Other Assets	324,657	188,258	21,552	384	534,851	6.6%
Cash and Short-Term Investments	143,957	158,127	70,160	2,176	374,420	4.6%
Contract Loans	131,852	2	1	-	131,855	1.6%
Derivatives	95,430	2,350	6	-	97,787	1.2%
Real Estate	22,611	13,147	6,174	206	42,138	0.5%
Other Receivables	31,799	5,093	752	14	37,658	0.5%
Preferred Stocks	17,195	16,526	988	177	34,886	0.4%
Securities Lending (Reinvested Collateral)	14,329	6,196	2,641	-	23,165	0.3%
Total	5,317,863	2,484,864	335,927	11,943	8,150,598	100%
% of Total	65.2%	30.5%	4.1%	0.1%	100%	

Total U.S. Insurance Industry Schedule BA, Year-End 2023 (BACV\$ in Millions)

Asset Type	Life	P/C	Health	Title	Total	% of Total
Private Equity	150,856	36,692	8,463	-	196,011	37%
Hedge Funds	41,822	55,340	7,624	202	104,987	20%
Real Estate	57,233	26,236	1,978	2	85,449	16%
Surplus Debentures	19,458	2,715	685	7	22,866	4%
Mortgage Loans	21,495	847	154	124	22,620	4%
Collateral Loans	18,949	777	311	9	20,046	4%
Bonds/Fixed Income Instruments	11,440	8,026	397	-	19,862	4%
Any Other Class of Assets	5,396	18,251	2,418	8	26,073	5%
Residual Tranches	11,631	1,552	373	3	13,558	3%
Low Income Housing Tax Credits	4,766	3,887	210	-	8,863	2%
Non-Collateral Loans	248	9,043	174	222	9,688	2%
Other*	1,649	1,887	143	-	3,679	1%
Total	344,944	165,251	22,929	577	533,700	100%
% of Total	65%	31%	4%	0%	100%	

*The "Other" asset type includes capital notes, mineral rights, oil and gas production, other fixed income instruments (non-registered private funds), transportation equipment, and working capital finance investments (WCFIs).

Challenges and Regulatory Actions

Challenges

- The investment landscape is shifting.
- Insurance supervisors need to understand the shifts and new investment paradigms.
- In addition to education, the forms and handbooks need to be updated appropriately.

"13 Considerations"

- 2022 Summer National Meeting, the NAIC adopted the *Regulatory Considerations Applicable to (But Not Exclusive to) Private Equity (PE) Insurers*.
- This document lists 13 considerations addressing financial transparency around private equity (PE)-affiliated insurers and related investment activities.

13 Considerations (con't)

- Holding Company Structure
- Ownership and Control
- Investment Management Agreements
- Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer
- Operational Governance and Market Conduct Practices
- Definition of Private Equity
- Identifying Related Party-Originated Investments
- Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities
- Asset Manager Affiliates and Disclaimers of Affiliation
- Private Structures Securities
- Reliance on Rating Agencies
- Pension Risk Transfer Business Supported by Complex Investments
- Offshore/Complex Reinsurance

Updated Holistic Investment Framework

- Increased oversight of credit ratings providers
- Improved analysis of CLOs and other structured securities
- Enhanced investment analytical resources for state insurance regulators

RBC Modernization and Model Governance Task Force

- The NAIC announced that the creation of the **RBC Model Governance Task Force** to modernize and strengthen the RBC framework to respond to emerging market risks and support innovation.
- The goals of the Task Force are to:
 - Develop a set of guiding principles for the RBC framework to ensure a consistent approach to future adjustments.
 - Complete a comprehensive gap analysis and consistency assessment to identify and inventory gaps that exist and establish a plan for addressing identified gaps and potential inconsistencies that improve the framework;
 - Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system; and,
 - Create a process for analyzing both retrospective and future adjustments to RBC

Resources

- NAIC Capital Markets Bureau: <https://content.naic.org/capital-markets-bureau>
 - <https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2023.pdf>
- NAIC Industry Snapshots: <https://content.naic.org/industry/insurance-industry-snapshots-analysis-reports>
- NAIC Financial Condition (E) Committee: <https://content.naic.org/committees/e/financial-condition-cmte>
- NAIC Financial Condition (E) Committee Topics: <https://content.naic.org/insurance-topics/committee/financial-condition-%28e%29-committee>

Thank you!