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Trends With U.S. Insurers' Bond Acquisitions and Dispositions – 2019 and 2020

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Executive Summary

- For the first three quarters of 2020, U.S. insurers net acquired about \$180 billion in bonds in terms of total price paid; for the first three quarters of 2019, however, they net disposed about \$33 billion in bonds in terms of total price received.
- For both acquisitions and dispositions in the first three quarters of 2019 and 2020, unaffiliated corporate bonds were the largest bond type; historically, unaffiliated corporate bonds have been the largest bond type held by U.S. insurers at about half of total bond investments.
- Life companies accounted for the majority of the industry's bond acquisition and disposition activity for the first three quarters of 2019 and 2020, followed by property/casualty (P/C) companies.
- Large insurers, or those with more than \$10 billion assets under management, also accounted for the industry's largest bond acquisition and disposition activity for the first three quarters of 2019 and 2020.
- More than 90% of bonds disposed during the first three quarters of 2019 and 2020 were considered high-quality investment grade based on their NAIC 1 and NAIC 2 designations.

The Capital Markets Bureau has completed analysis of U.S. insurers' reported bond acquisitions and dispositions for the first three quarters of 2019 and 2020 based on information provided by insurers in the quarterly statement filings of Schedule D Part 3 and Part 4 that are filed with the NAIC. The analysis showed that for the first three quarters of 2020, U.S. insurers net acquired about \$180 billion in bonds in terms of total price paid; for the first three quarters of 2019, however, they net disposed about \$33 billion in bonds in terms of total price received. This trend is due in part to individual insurer investment strategies and perceived market opportunities. It appears that insurers

were opportunistic acquirers of bonds in the first three quarters of 2020, compared to the same time period in 2019.

Acquisitions

Bond Type

U.S. insurers reported an aggregate \$1.09 trillion (actual cost, or price paid) in bond acquisitions for the first three quarters of 2020, which was a 36% increase from total bond acquisitions for the first three quarters of 2019. (See Table 1.) Bond acquisitions in 2020 were evenly split between each of the three quarters, in the mid-\$300 billion range. The majority of bond acquisitions in each of the first three quarters in 2020 were unaffiliated corporate bonds, which accounted for 61% of the total. Corporate bonds have historically been about half of U.S. insurers' total bond exposure. The second largest asset type acquired by U.S. insurers in the first three quarters of 2020 was municipal bonds at 19% of the total. For the first three quarters of 2020, total U.S. bond issuance was about \$9 billion according to the Securities Industry and Financial Markets Association (SIFMA). Within this total, corporate and municipal bond issuance was \$1.9 billion and \$349.5 billion, respectively, for the same time period.

Table 1: U.S. Insurer Acquisitions by Bond Type – 2020, Q1–3 (\$ Actual Cost)

| Bond Type | Q1 | Q2 | Q3 | Total | % of Total |
|------------------------|------------------------|------------------------|------------------------|--------------------------|-------------|
| Unaffiliated Corporate | 211,172,186,001 | 228,679,519,983 | 225,792,377,862 | 665,644,083,846 | 61% |
| Municipal | 67,115,108,587 | 58,002,426,503 | 84,539,835,940 | 209,657,371,030 | 19% |
| U.S. Government | 73,955,058,108 | 69,411,085,622 | 54,972,484,987 | 198,338,628,717 | 18% |
| Foreign Governments | 4,867,726,800 | 5,598,930,668 | 4,223,763,248 | 14,690,420,716 | 1% |
| Hybrid Securities | 1,634,611,183 | 1,559,915,081 | 1,250,630,441 | 4,445,156,705 | 0% |
| Total | 358,744,690,679 | 363,251,877,857 | 370,779,092,478 | 1,092,775,661,014 | 100% |

In terms of sectors, asset-backed securities (ABS), financials and mortgage securities each accounted for 11% of total acquisitions in the first three quarters of 2020 as reported by U.S. insurers. Note that about 12% of total bonds were not reported with specific sectors by U.S. insurers (i.e., the sector field was blank) for this time period.

In comparison, for the first three quarters of 2019, total bond acquisitions (total cost, or price paid) for U.S. insurers was \$802.3 billion. (See Table 2.) Similar to 2020, bond acquisitions were evenly split across the three quarters; however, they totaled about \$300 billion less in aggregate. Also similar to 2020, unaffiliated corporate bonds were the largest bond type acquired in 2019 at 60% of the total, but they were followed by U.S. government bonds at 20% of the total. For the first three quarters of 2019, SIFMA data showed a total of \$6 billion in new bond issuance; \$1.1 billion included corporate bonds, and \$280.7 billion included municipal bonds.

Table 2: U.S. Insurer Acquisitions by Bond Type – 2019, Q1–3 (\$ Actual Cost)

| Bond Type | Q1 | Q2 | Q3 | Total | % of Total |
|------------------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Unaffiliated Corporate | 155,568,911,933 | 171,611,547,740 | 155,745,107,736 | 482,925,567,409 | 60% |
| U.S. Government | 49,119,352,475 | 57,833,441,052 | 55,464,661,037 | 162,417,454,564 | 20% |
| Municipal | 44,531,389,855 | 42,414,897,769 | 53,044,462,300 | 139,990,749,924 | 17% |
| Foreign Governments | 4,728,215,313 | 5,526,302,072 | 4,015,963,870 | 14,270,481,255 | 2% |
| Hybrid Securities | 836,000,918 | 802,032,841 | 1,053,487,978 | 2,691,521,737 | 0% |
| Total | 254,783,870,494 | 278,188,221,474 | 269,323,682,921 | 802,295,774,889 | 100% |

In terms of sectors, mortgage securities represented 18% of the total, followed by financials at 12%, and ABS at 11% of the total, as reported by U.S. insurers.

Insurer Type

By insurer type, life companies accounted for the largest acquisitions for the first three quarters of 2020 and first three quarters of 2019, representing 58% and 52% of the total, respectively. (See Table 3 and Table 4.) Note that life companies' exposure also includes fraternal companies' exposure. P/C companies accounted for the second largest for the first three quarters of both years. Life companies comprised a larger proportion of acquisitions in 2020 than in 2019 (58% compared to 52%, respectively), whereas P/C companies comprised a larger proportion of acquisitions in 2019 versus 2020 (35% compared to 43%, respectively).

Table 3: U.S. Insurer Acquisitions by Insurer Type – 2020, Q1–3 (\$ Actual Cost)

| Industry Type | Q1 | Q2 | Q3 | Total | % of Total |
|---------------|------------------------|------------------------|------------------------|--------------------------|-------------|
| Life | 201,284,552,252 | 213,548,716,996 | 215,425,924,591 | 630,259,193,839 | 58% |
| P/C | 132,969,318,911 | 126,091,144,626 | 127,321,782,457 | 386,382,245,994 | 35% |
| Health | 24,179,107,421 | 23,208,050,236 | 27,600,940,825 | 74,988,098,482 | 7% |
| Title | 311,712,095 | 403,965,999 | 430,444,605 | 1,146,122,699 | 0% |
| Total | 358,744,690,679 | 363,251,877,857 | 370,779,092,478 | 1,092,775,661,014 | 100% |

Table 4: U.S. Insurer Acquisitions by Insurer Type – 2019, Q1–3 (\$ Actual Cost)

| Industry Type | Q1 | Q2 | Q3 | Total | % of Total |
|---------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Life | 128,793,821,168 | 149,333,701,991 | 140,241,795,498 | 418,369,318,657 | 52% |
| P/C | 112,615,492,718 | 114,768,291,135 | 115,040,473,855 | 342,424,257,708 | 43% |
| Health | 12,968,084,247 | 13,898,840,893 | 13,734,394,749 | 40,601,319,889 | 5% |
| Title | 406,472,361 | 187,387,455 | 307,018,819 | 900,878,635 | 0% |
| Total | 254,783,870,494 | 278,188,221,474 | 269,323,682,921 | 802,295,774,889 | 100% |

U.S. Insurer Assets Under Management

As shown in Table 5, U.S. insurers with more than \$10 billion assets under management (AUM) accounted for the majority of acquisitions for the first three quarters of 2020 at 64% of the total; U.S. insurers with more than \$1 billion assets under management accounted for 90% of total acquisitions. A similar trend occurred in 2019. The trend suggests that larger insurers were more active in acquiring assets than smaller insurers. This may be due in part to larger investors' access to the capital markets

compared to smaller investors, as well as larger insurers having more cash available to invest than smaller insurers.

Table 5: Total Acquisitions in Q1–Q3 2020 by U.S. Insurer Assets Under Management

| Assets Under Management | Total Cost(\$) | % of Total |
|-----------------------------|--------------------------|-------------|
| Greater Than \$10B | 699,962,552,187 | 64% |
| Between \$5B and \$10B | 106,294,415,037 | 10% |
| Between \$2.5B and \$5B | 82,220,901,902 | 7% |
| Between \$1B and \$2.5B | 91,006,249,240 | 8% |
| Between \$500MM and \$1B | 42,525,172,477 | 4% |
| Between \$250MM and \$500MM | 32,470,317,812 | 3% |
| Less Than \$250MM | 38,257,388,116 | 4% |
| N/A | 38,664,243 | 0% |
| Total | 1,092,775,661,014 | 100% |

Dispositions

Bond Type

U.S. insurers' dispositions for the first three quarters of 2020 totaled \$912.9 billion in terms of sale price, representing an 8% increase from the first three quarters of 2019. (See Table 6.) Dispositions include bond sales, paydowns and maturing bonds. Due to data limitations, it was not possible to categorize the type of dispositions by dollar amount. In 2020, there was a similar amount of dispositions in Q1 and Q2, but a 15% decrease from Q2 to Q3. Similar to acquisitions, the majority of dispositions were with corporate bonds, representing half of all dispositions for the first three quarters of 2020. Note that after netting out the \$802 billion of disposed bonds in the first three quarters of 2020 from total bond acquisitions for the same time period, U.S. insurers net acquired about \$180 billion in bonds during the first three quarters of 2020.

Table 6: U.S. Insurer Dispositions by Asset Type – 2020, Q1–3 (\$ Sales Price)

| Bond Type | Q1 | Q2 | Q3 | Total | % of Total |
|------------------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Unaffiliated Corporate | 147,001,093,171 | 165,484,920,941 | 153,475,082,054 | 465,961,096,166 | 51% |
| U.S. Government | 88,390,063,797 | 81,679,006,378 | 55,858,689,196 | 225,927,759,371 | 25% |
| Municipal | 66,259,365,709 | 70,305,191,812 | 67,227,825,132 | 203,792,382,653 | 22% |
| Foreign Government | 5,146,999,090 | 5,510,905,145 | 3,609,010,004 | 14,266,914,239 | 2% |
| Hybrid Securities | 1,115,079,723 | 871,226,707 | 1,013,041,049 | 2,999,347,479 | 0% |
| Total | 307,912,601,490 | 323,851,250,983 | 281,183,647,435 | 912,947,499,908 | 100% |

In terms of sectors, mortgage securities represented 17%, while ABS and financials each accounted for 10% of the total. About 6% of total bond dispositions were reported without a sector by U.S. insurers for this time period.

For the first three quarters of 2019, total dispositions were about \$835 billion in terms of price paid upon sale, and they were evenly distributed across all three quarters. (See Table 7.) Similar to 2020, about half of all dispositions in the first three quarters of 2019 were corporate bonds. When accounting

for both acquisitions and dispositions in the first three quarters of 2019, U.S. insurers net disposed about \$33 billion in total bonds.

Table 7: U.S. Insurer Dispositions by Asset Type – 2019, Q1–3 (\$ Sales Price)

| Bond Type | Q1 | Q2 | Q3 | Total | % of Total |
|------------------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Unaffiliated Corporate | 147,663,767,962 | 160,250,965,044 | 141,313,566,166 | 449,228,299,172 | 54% |
| U.S. Government | 66,975,970,084 | 66,643,736,972 | 58,453,108,091 | 192,072,815,147 | 23% |
| Municipal | 51,215,464,889 | 60,644,644,370 | 65,012,275,760 | 176,872,385,019 | 21% |
| Foreign Governments | 4,376,173,470 | 4,574,869,034 | 5,179,476,826 | 14,130,519,330 | 2% |
| Hybrid Securities | 1,143,389,760 | 947,354,728 | 1,270,270,799 | 3,361,015,287 | 0% |
| Grand Total | 271,374,766,165 | 293,061,570,148 | 271,228,697,642 | 835,665,033,955 | 100% |

In terms of sectors, mortgage securities, financials and ABS accounted for 14%, 9% and 8%, respectively, of the total. Note that bonds reported by U.S. insurers without identifying a sector accounted for 8% of the total.

In terms of credit quality, in both 2020 and 2019, bonds carrying NAIC 1 and NAIC 2 designations represented more than 90% of dispositions for U.S. insurers. Credit quality of acquisitions was not reported.

Insurer Type

For the first three quarters of 2020 and 2019, life companies accounted for the largest bond dispositions at 54% and 56%, respectively. (See Table 8 and Table 9.) P/C companies followed, accounting for 39% and 37% of total dispositions in 2020 and 2019, respectively.

Table 8: U.S. Insurer Dispositions by Industry Type – 2020, Q1–3 (\$ Sales Price)

| Insurer Type | Q1 | Q2 | Q3 | Total | % of Total |
|--------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Life | 157,065,821,842 | 178,453,228,223 | 159,103,630,680 | 494,622,680,745 | 54% |
| P/C | 127,307,582,115 | 123,722,239,894 | 102,841,497,098 | 353,871,319,107 | 39% |
| Health | 22,704,114,972 | 20,992,793,004 | 18,720,881,786 | 62,417,789,762 | 7% |
| Title | 474,629,844 | 381,170,183 | 358,641,973 | 1,214,442,000 | 0% |
| N/A | 360,452,717 | 301,819,679 | 158,995,898 | 821,268,294 | 0% |
| Total | 307,912,601,490 | 323,851,250,983 | 281,183,647,435 | 912,947,499,908 | 100% |

Table 9: U.S. Insurer Dispositions by Industry Type – 2019, Q1–3 (\$ Sales Price)

| Industry Type | Q1 | Q2 | Q3 | Total | % of Total |
|---------------|------------------------|------------------------|------------------------|------------------------|-------------|
| Life | 145,265,873,255 | 165,205,200,079 | 153,785,849,858 | 464,256,923,192 | 56% |
| P/C | 106,187,097,434 | 108,079,120,920 | 98,115,755,169 | 312,381,973,523 | 37% |
| Title | 382,232,839 | 234,109,550 | 216,680,382 | 833,022,771 | 0% |
| Health | 19,015,440,263 | 18,615,334,413 | 18,965,737,596 | 56,596,512,272 | 7% |
| N/A | 524,122,374 | 927,805,186 | 144,674,637 | 1,596,602,197 | 0% |
| Total | 271,374,766,165 | 293,061,570,148 | 271,228,697,642 | 835,665,033,955 | 100% |

U.S. Insurer Assets Under Management

Similar to the trend with acquisitions, U.S. insurers with more than \$10 billion AUM accounted for the majority of dispositions for the first three quarters of 2020, and the same was true for Q1 through Q3 in 2019. (See Table 10.) The larger the insurer (in terms of AUM), the more they accounted for dispositions.

Table 10: Total Dispositions in Q1–Q3 2020 by U.S. Insurer Assets Under Management

| Assets Under Management | Sales Price | % of Total |
|-----------------------------|------------------------|-------------|
| Greater Than \$10B | 565,190,895,495 | 62% |
| Between \$5B and \$10B | 90,898,081,670 | 10% |
| Between \$2.5B and \$5B | 71,634,158,100 | 8% |
| Between \$1B and \$2.5B | 81,388,151,031 | 9% |
| Between \$500MM and \$1B | 38,956,313,426 | 4% |
| Between \$250MM and \$500MM | 29,492,542,086 | 3% |
| Less Than \$250MM | 34,650,548,269 | 4% |
| N/A | 736,809,831 | 0% |
| Total | 912,947,499,908 | 100% |

The Capital Markets Bureau will continue to monitor trends regarding in the U.S. insurance industry’s bond acquisitions and dispositions 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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