



# Capital Markets Special Report

The **NAIC's Capital Markets Bureau** monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of US insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the [index](#)

## U.S. Insurer Exposure to U.S. Common Stock as of Year-End 2015

This special report analyzes U.S. insurer exposure to common stock and serves in part as an update to an NAIC Capital Markets Bureau special report published Aug. 9, 2013, on the industry's common and preferred stock exposure, titled "Insurance Company Holdings of Equities: A Detailed Review." Because preferred stock is less than 1% of insurer total cash and invested assets, common stock is the focus of this report update. In addition, while affiliated common stock is a large proportion of the industry's common stock exposure, in this report, we focus on the industry's *unaffiliated* common stock exposure. In addition to common stock issued by a company, *Statement of Statutory Accounting Principles (SSAP) No. 30—Investments in Common Stock* treats as common stock shares of mutual funds not qualified for bond or preferred stock designation.

As of year-end 2015, U.S. insurers reported exposure to common stock with a book/adjusted carrying value (BACV) of \$673.9 billion, of which \$373.1 billion (55%) was affiliated and \$269.2 billion (40%) was unaffiliated. An additional \$31.5 billion in mutual funds were also reported as common stock, representing the remaining 5% of total common stock exposure. Total BACV of common stock exposure (including affiliated and mutual funds reported as common stock) represented 12% of the U.S. insurance industry's total cash and invested assets as of year-end 2015, unchanged from year-end 2014 percentage terms (although BACV of common stock at year-end 2014 was slightly higher, at \$684 billion). Within the approximately \$270 billion of unaffiliated common stock, P/C companies accounted for the largest part of the industry's exposure, at 87%, followed by life companies at 9% of total common stock exposure at year-end 2015.

### **Description of the Market**

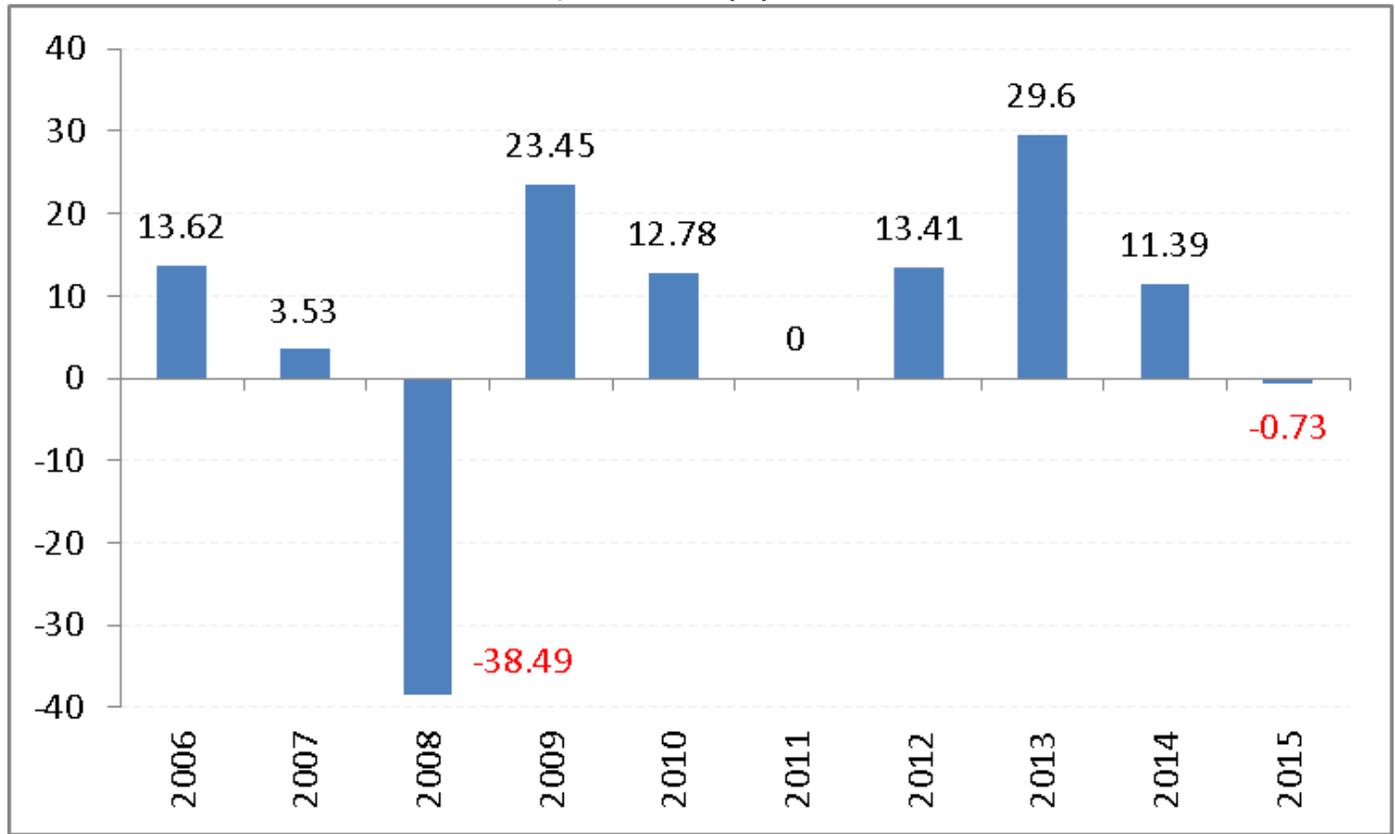
As of June 1, 2016, the total U.S. equity market, which is measured as total value of shares outstanding of publicly traded entities, was \$23.6 trillion, up from \$21.3 trillion at year-end 2015. U.S. market capitalization reached its all-time high of \$25.4 trillion in May 2015. The U.S. stock market is comprised of companies of varying size as measured by equity market capitalization; large capitalization (large cap) is greater than \$5 billion, mid-capitalization is between \$1 billion and \$5 billion, and small capitalization is less than \$1 billion. U.S. insurer common stock portfolios consist mainly of large cap companies, such as those included in the Standard & Poor's 500 Index (S&P 500). (These statistics do not include common stock of companies that are privately held.)

### **Current Market Conditions**

Stock market performance, as measured by S&P 500 annual price return, has been positive in eight of the past 10 years, with 2015 and 2008 as the only years where a negative return occurred, at -0.7% and -38.5%, respectively (see Chart 1). The S&P 500 had five-year and 10-year average annualized returns of 11.7% and 7.4%, respectively, as of May 31, 2016. The S&P 500 had an average annual return of 6.4% from 2008 to 2015. In 2015, concern over slowing economic growth in China and its impact on demand for commodities, resulted in falling commodity prices, and diminished growth prospects in emerging

market economies were strong forces against market advancement. Stock market volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX)—which measures the implied market volatility interpreted from changes in option prices on the S&P 500—spiked, and the market began moving in a negative direction. The S&P 500 had negative returns in January and February of 2016. Although the index ended February 2016 in negative territory year-to-date, positive market developments, such as the February 2016 rally in West Texas Intermediate Crude (WTI) (which was up 50% as of March 22, 2016, from the start of 2016) and greater clarity on monetary policy worldwide, narrowed the loss to -0.4%. As of June 30, 2016, the return on the S&P 500 year-to-date was 2.7%.

**Chart 1: S&P 500 Index Annual Returns, 2006–2015 (%)**



The VIX is a measure of market expectations of near-term volatility as conveyed by S&P 500 stock index option prices. Since the introduction of this index in 1993, VIX has often been used by market observers as a measure of investor sentiment and market volatility. It is especially popular as a forward-looking volatility measure because, unlike backward-looking, historically based volatility measures which are plentiful in number, few alternatives exist to measure expectations for future market volatility.

**Chart 2: CBOE Volatility Index (as of June 30, 2016)**



**U.S. Insurer Exposure**

Historically, U.S. insurers have maintained an average exposure of 4% of cash and invested assets in unaffiliated common stock. However, 2008 was the lowest reported year where unaffiliated common stock fell to 2% of total cash and invested assets. As of year-end 2015, unaffiliated common stock was 5% of total cash and invested assets. The BACV of unaffiliated common stock increased an average 7% annually from 2006 to year-end 2015. At year-end 2008, BACV of unaffiliated common stock was 35% lower (\$115.6 billion) than at year-end 2007 (\$178.4 billion); the loss was recouped in 2009 with a 44% increase in BACV.

**Table 1: U.S. Insurer Historical Exposure to Total Common Stock (BACV, \$mil)**

Common Stock	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Unaffiliated Common Stock	269,201	287,270	270,120	212,832	192,548	176,861	166,889	115,634	178,412	170,868
Affiliated Common Stock	373,133	363,205	367,043	349,737	332,631	323,616	319,345	277,910	285,300	269,155
Mutual Fund	30,992	32,989	32,037	26,527	23,106	21,555	19,243	15,655	20,314	20,399
Money Market Mutual Fund	594	508	488	501	726	761	928	1,821	1,023	953
<b>Total</b>	<b>673,920</b>	<b>683,973</b>	<b>669,688</b>	<b>589,597</b>	<b>549,011</b>	<b>522,793</b>	<b>506,405</b>	<b>411,019</b>	<b>485,049</b>	<b>461,375</b>

One interesting comparison, albeit very simple, is to look at changes in common stock exposure year-over-year versus stock market performance. An increase in exposure that exceeds equity market increases overall would suggest that the industry is adding to its exposure, while the reverse would suggest that the industry is a net seller. Table 2 implies, then, that the industry was a net seller in 2015 because the market, as exemplified by the S&P 500, was down 0.73% while the industry's exposure declined by 5.28%.

**Table 2: Change in BACV of Unaffiliated Common Stock of U.S. Insurers versus S&P 500**

Insurer Type	2015	2014	2013	2012	2011	2010	2009	2008	2007
P/C	-4.06%	6.11%	29.27%	12.13%	12.23%	2.36%	47.22%	-32.52%	5.20%
Life	-15.36%	10.07%	12.34%	2.33%	-5.55%	30.69%	31.28%	-47.00%	2.10%
Health	-11.58%	-0.37%	20.28%	2.31%	-2.46%	6.44%	33.39%	-39.59%	0.96%
Fraternal	5.96%	7.70%	14.25%	4.32%	-6.61%	15.19%	30.08%	-38.05%	5.26%
Title	28.71%	25.39%	32.60%	36.84%	-6.19%	102.81%	-8.06%	-56.67%	-26.81%
<b>Industry Average</b>	<b>-5.28%</b>	<b>6.35%</b>	<b>26.92%</b>	<b>10.53%</b>	<b>8.87%</b>	<b>5.98%</b>	<b>44.32%</b>	<b>-35.19%</b>	<b>4.41%</b>
<b>S&amp;P 500</b>	<b>-0.73%</b>	<b>11.39%</b>	<b>29.60%</b>	<b>13.41%</b>	<b>0.00%</b>	<b>12.78%</b>	<b>23.45%</b>	<b>-38.49%</b>	<b>3.53%</b>

Note: Calculated return excluding dividends.

The BACV of unaffiliated common stock for the U.S. insurance industry was \$269 billion as of year-end 2015, with P/C companies accounting for the largest proportion at \$233.6 billion (87% of total unaffiliated common stock). Unaffiliated common stock exposure decreased 5% for P/C and 15% for life companies from year-end 2014 to year-end 2015. The decrease in unaffiliated common stock exposure for P/C companies kept its share of total industry exposure to unaffiliated common stock relatively consistent year-over-year (i.e., to 48% from 49%, while life companies' share of total industry exposure to unaffiliated common stock dropped to 17% at year-end 2015 from 20% at year-end 2014).

**Table 3: U.S. Insurer Exposure to Common Stock by Industry Type, Year-End 2015 (BACV, \$mil)**

Common Stock	P/C	Life	Health	Fraternal	Title	Common Stock Total	Common Stock/Total (%)
<b>Unaffiliated Common Stock</b>	<b>233,606</b>	<b>24,941</b>	<b>6,893</b>	<b>2,938</b>	<b>823</b>	<b>269,201</b>	<b>40%</b>
Affiliated Common Stock	240,251	117,791	13,784	419	888	373,133	55%
Mutual Fund	16,963	4,855	8,841	298	35	30,992	5%
Money Market Mutual Fund	188	148	257	0	1	594	0%
<b>Total</b>	<b>491,008</b>	<b>147,735</b>	<b>29,775</b>	<b>3,655</b>	<b>1,746</b>	<b>673,920</b>	<b>100%</b>
Insurer Type Total/ Total (%)	73%	22%	4%	1%	0%	100%	
Total Cash & Invested Assets	1,738,337	3,791,186	165,400	123,866	8,687	5,827,477	
Common Stock as % of Cash & Invested Assets	28%	4%	18%	3%	20%	12%	
Unaffiliated Common Stock/Cash & Invested Assets (%)	13%	1%	4%	2%	9%	5%	

**Table 4: U.S. Insurer Exposure to Common Stock by Industry Type, Year-End 2014 (BACV, \$mil)**

Common Stock	P/C	Life	Health	Fraternal	Title	Common Stock	Common Stock/Total (%)
<b>Unaffiliated Common Stock</b>	<b>245,733</b>	<b>29,506</b>	<b>8,617</b>	<b>2,774</b>	<b>639</b>	<b>287,270</b>	<b>42%</b>
Affiliated Common Stock	233,394	114,895	13,554	415	947	363,205	53%
Mutual Fund	17,260	4,965	10,388	287	89	32,989	5%
Money Market Mutual Fund	165	68	272	0	3	508	0%
<b>Total</b>	<b>496,551</b>	<b>149,435</b>	<b>32,831</b>	<b>3,477</b>	<b>1,678</b>	<b>683,973</b>	<b>100%</b>
Insurer Type Total/ Total (%)	73%	22%	5%	1%	0%	100%	
Total Cash & Invested Assets	1,739,605	3,717,225	177,010	119,541	8,388	5,761,769	
Common Stock as % of Cash & Invested Assets	29%	4%	19%	3%	20%	12%	
Unaffiliated Common Stock/Cash & Invested Assets (%)	14%	1%	5%	2%	8%	5%	

### **Common Stock Exposure by Insurer Size**

Grouped by total cash and invested assets, U.S. insurers with cash and invested assets of greater than \$10 billion (large insurers) reported unaffiliated common stock investments with a BACV of \$180.7 billion, or about 67% of total unaffiliated common stock (see Table 5).

P/C companies accounted for 88% of the unaffiliated common stock exposure reported by large insurers. In fact, P/C companies comprised at least 82% of the unaffiliated common stock exposure reported by insurers for all size groupings except for those with cash and invested assets of between \$500 million and \$1 billion, where they accounted for 76%. The pattern of the largest companies having the greatest exposure to common stock is also true for life companies. Large life companies represented 74% of total common stock exposure reported by all life companies.

The BACV of unaffiliated common stock held by P/C companies represented 13.6% of the P/C industry's total cash and invested assets as of year-end 2015. The second highest concentration of unaffiliated common stock was held by title companies at 9.5% of total cash and invested assets. The life industry held only 0.7% of total cash and invested assets in unaffiliated common stock at year-end 2015.

**Table 5: U.S. Insurer Exposure in *Unaffiliated* Common Stock by Insurer Size, Year-End 2015 (\$mil BACV)**

Insurer Type	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
Fraternal	86	21	26	27	94	445	2,241	2,940
Life	359	321	367	808	1,467	3,236	18,408	24,968
P/C	5,725	5,819	6,154	21,995	12,178	23,966	159,820	235,657
Title	58	-	312	452	-	-	-	823
Health	742	824	1,278	3,205	348	907	301	7,605
<b>Total</b>	<b>6,971</b>	<b>6,985</b>	<b>8,138</b>	<b>26,488</b>	<b>14,086</b>	<b>28,554</b>	<b>180,770</b>	<b>271,992</b>

*Note: The slight difference in unaffiliated common stock totals in Table 3, Table 5, and Table 6 is due to the date difference of data-gathering.*

Also with regard to unaffiliated common stock, the largest five P/C insurers accounted for \$103.5 billion of the respective industry's unaffiliated common stock, or 38% of the total. While unaffiliated common stock represented 13.6% of the P/C industry's total cash and invested assets, not including the largest five insurers in this calculation results in the P/C industry having 9.8% of total cash and invested assets in unaffiliated common stock.

### **Common Stock Exposure by Sector**

Unaffiliated common stock, as of year-end 2015 U.S. insurer exposure, was diversified across nine sectors, with financials being the largest at 29%. In comparison, about 16% of the S&P 500 included financials. In addition, insurers' exposure to energy and utilities' unaffiliated common stock was 6% and 1%, respectively. Life companies have the largest exposure among the five insurer types to energy and utilities, at 11% of total life companies' unaffiliated common stock exposure (see Table 6).

**Table 6: U.S. Insurer Sector Exposure Within Unaffiliated Common Stock, Year-End 2015 (\$mil BACV)**

Sector	P/C	Life	Health	Fraternal	Title	Sector Total	Sector Total/Total (%)
Financial	68,970.66	5,811.12	2,039.95	805.20	248.81	77,875.74	29%
Consumer, Non-cyclical	59,703.74	3,627.10	1,328.78	532.99	155.81	65,348.42	24%
Technology	22,529.84	1,444.61	655.46	315.41	95.00	25,040.32	9%
Industrial	17,541.81	2,138.20	729.75	258.34	87.40	20,755.50	8%
Communications	17,294.60	1,547.13	621.34	257.76	18.78	19,739.61	7%
Energy	15,535.34	2,139.47	388.75	163.39	79.35	18,306.31	7%
Consumer, Cyclical	14,661.95	1,513.13	687.21	341.81	34.16	17,238.26	6%
Other	9,101.97	5,396.58	683.33	176.50	11.96	15,370.32	6%
Basic Materials	7,322.71	577.88	177.77	40.42	43.92	8,162.69	3%
Utilities	2,671.05	366.79	283.40	40.14	47.83	3,409.21	1%
Diversified	380.32	9.72	16.151932	7.63	0.01	413.83	0%
<b>Total</b>	<b>235,713.97</b>	<b>24,571.74</b>	<b>7,611.89</b>	<b>2,939.58</b>	<b>823.03</b>	<b>271,660.21</b>	<b>100%</b>

*Note: The slight difference in unaffiliated common stock totals in Table 3, Table 5, and Table 6 is due to the date difference of data-gathering.*

Common stock under statutory accounting principles is held at fair value. An other-than-temporary impairment (OTTI) on common stock may increase due to market turmoil. In accordance with SSAP No. 30, fair value declines determined to be an OTTI must be written down and accounted for as a realized loss.

### **Summary**

Unaffiliated common stock exposure as a percentage of total cash and invested assets has fluctuated between a low of 2% in 2008 and a high of 5% in 2013. At 5% of total cash and invested assets, unaffiliated common stock exposure was higher than its 10-year average of 4% as of year-end 2015 for the U.S. insurance industry. Affiliated common stock accounted for the largest portion of the U.S. insurance industry's common stock exposure in 2015, at 55%, with unaffiliated common stock representing 40%. The three largest unaffiliated common stock sector exposures at year-end 2015 were: financials (29%); consumer, non-cyclical (24%); and technology (10%). In addition, about 67% of total unaffiliated common stock exposure was held by large insurers.

On June 24, 2016, the S&P 500 fell 3.6% from the previous close (but was down 0.3% year-to-date) on Brexit fears. Although the economic impact of Brexit is not yet completely known, long-term negative impact on U.S. insurers' equity holdings may be minimal, as unaffiliated common stock was only 5.3% of total cash and invested assets.

The Capital Markets Bureau will continue to monitor trends within the U.S. common stock market and report on any developments as deemed appropriate.

July 15, 2016								
Major Insurer Share Prices			Change %			Prior		
		Close	Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	\$73.36	1.2	1.4	22.5	\$72.50	\$72.37	\$59.90
	Ameriprise	96.24	7.2	7.2	(9.6)	89.77	89.81	106.42
	Genworth	2.76	7.0	7.6	(26.0)	2.58	2.57	3.73
	Lincoln	42.69	10.2	10.1	(15.1)	38.75	38.76	50.26
	MetLife	42.61	7.9	8.0	(11.6)	39.49	39.47	48.21
	Principal	44.26	7.6	7.7	(1.6)	41.13	41.10	44.98
	Prudential	75.11	5.8	5.9	(7.7)	71.00	70.93	81.41
	UNUM	32.40	2.3	2.5	(2.7)	31.67	31.61	33.29
PC	Axis Capital	53.57	(1.6)	(1.4)	(4.7)	54.46	54.31	56.22
	Allstate	69.49	(0.1)	(0.2)	11.9	69.56	69.60	62.09
	Arch Capital	69.97	(2.2)	(2.1)	0.3	71.52	71.44	69.75
	Cincinnati	75.96	1.8	1.9	28.4	74.65	74.55	59.17
	Chubb	129.57	(0.6)	(0.4)	(2.3)	130.32	130.15	132.64
	Everest Re	179.76	(1.0)	(0.8)	(1.8)	181.52	181.16	183.09
	Progressive	33.10	(0.4)	(0.3)	4.1	33.24	33.21	31.80
	Travelers	118.64	(0.2)	(0.0)	5.1	118.85	118.68	112.86
	WR Berkley	59.26	(0.5)	(0.1)	8.2	59.54	59.32	54.75
	XL	32.41	(2.1)	(2.4)	(17.3)	33.11	33.21	39.18
Other	AON	\$110.84	1.0	0.9	20.2	\$109.77	\$109.90	\$92.21
	AIG	54.44	3.0	3.1	(12.2)	52.87	52.81	61.97
	Assurant	87.93	(0.0)	0.1	9.2	87.95	87.80	80.54
	Fidelity National	37.30	0.7	0.4	7.6	37.05	37.14	34.67
	Hartford	43.75	(1.2)	(1.0)	0.7	44.26	44.19	43.46
	Marsh	66.52	(2.3)	(2.5)	20.0	68.11	68.20	55.45
Health	Aetna	\$118.63	(1.1)	(1.2)	9.7	\$119.95	\$120.02	\$108.12
	Cigna	131.67	2.7	1.4	(10.0)	128.27	129.82	146.33
	Humana	158.89	(8.7)	(8.7)	(11.0)	174.00	174.10	178.51
	United	141.33	0.3	0.2	20.1	140.86	141.07	117.64
Monoline	Assured	\$26.00	1.1	1.5	(1.6)	\$25.72	\$25.61	\$26.43
	MBIA	7.72	10.3	12.4	19.1	7.00	6.87	6.48
	MGIC	6.40	6.5	6.4	(27.5)	6.01	6.02	8.83
	Radian	12.02	14.9	15.1	(10.2)	10.46	10.44	13.39
	XL Capital	32.41	(2.1)	(2.4)	(17.3)	33.11	33.21	39.18

July 15, 2016								
Major Market Variables		Close	Change %			Prior		
			Week	QTD	YTD	Week	Quarter	Year
Dow Jones Ind		18,516.55	3.2	3.2	6.3	17,949.37	17,950.09	17,425.03
S&P 500		2,161.74	2.8	2.8	5.8	2,102.95	2,102.47	2,043.94
S&P Financial		317.02	3.3	3.3	(1.5)	306.76	306.85	321.73
S&P Insurance		314.85	1.8	1.8	2.3	309.38	309.31	307.71
US Dollar \$			Change %			Prior		
/ Euro			\$1.11	(0.8)	(0.7)	1.7	\$1.11	\$1.11
/ Crude Oil bbl		45.93	(6.2)	(5.6)	23.8	48.99	48.64	37.09
/ Gold oz		1,331.40	(0.6)	(0.6)	25.7	1,339.00	1,339.30	1,059.60
Treasury Ylds %		%	Change bp			%	%	%
1 Year		0.50	0.05	0.05	(0.10)	0.45	0.45	0.60
10 Year		1.56	0.11	0.11	(0.71)	1.45	1.45	2.27
30 Year		2.27	0.04	0.04	(0.75)	2.23	2.23	3.02
Corp Credit Spreads -bp		CDX.IG	Change %			Prior		
			72.19	(6.7)	(6.7)	(18.2)	77.42	77.42

July 15, 2016									
Major Insurer Bond Yields				Weekly Change					YTD
				Price			Spread over UST		Spread
Company	Coupon	Maturity	Current	Change	Yield	B.P.	Change	Change	
Life	Ameriprise	5.300%	3/15/2020	\$111.92	(\$0.93)	1.91%	89	4	(6)
	Genworth	6.515%	5/15/2018	\$99.56	\$1.19	6.77%	599	(73)	(12)
	Lincoln National	8.750%	7/15/2019	\$118.37	(\$0.38)	2.27%	130	(2)	13
	MassMutual	8.875%	6/15/2039	\$153.34	(\$1.98)	4.95%	288	(12)	32
	MetLife	4.750%	2/15/2021	\$111.81	(\$0.73)	2.02%	89	(2)	1
	New York Life	6.750%	11/15/2039	\$139.15	(\$1.24)	4.12%	204	(15)	11
	Northwestern Mutual	6.063%	3/15/2040	\$130.34	\$0.05	4.06%	199	(19)	18
	Pacific Life	9.250%	6/15/2039	\$154.27	\$0.15	5.18%	314	(17)	26
	Principal	6.050%	10/15/2036	\$125.40	(\$3.04)	4.18%	222	(1)	13
	Prudential	4.500%	11/15/2020	\$109.85	(\$0.90)	2.10%	99	8	(10)
TIAA	6.850%	12/15/2039	\$136.93	(\$0.45)	4.33%	227	(14)	(0)	
P&C	ACE INA	5.900%	6/15/2019	\$111.85	(\$0.56)	1.70%	79	5	(3)
	Allstate	7.450%	5/15/2019	\$115.06	(\$0.49)	1.94%	96	(1)	(2)
	American Financial	9.875%	6/15/2019	\$120.19	(\$0.32)	2.61%	164	3	(14)
	Berkshire Hathaway	5.400%	5/15/2018	\$107.80	(\$0.29)	1.06%	36	4	(7)
	Travelers	3.900%	11/15/2020	\$109.01	(\$0.87)	1.71%	62	6	(10)
	XL Group	6.250%	5/15/2027	\$119.17	(\$1.83)	4.04%	228	(2)	32
Other	AON	5.000%	9/15/2020	\$111.29	(\$0.59)	2.17%	104	(0)	0
	AIG	5.850%	1/15/2018	\$106.36	(\$0.28)	1.51%	89	8	3
	Hartford	5.500%	3/15/2020	\$112.44	(\$0.09)	1.99%	102	(4)	(14)
	Nationwide	9.375%	8/15/2039	\$157.59	\$1.22	5.10%	306	(19)	25
Health	Aetna	3.950%	9/15/2020	\$107.26	(\$0.64)	2.10%	98	(2)	2
	CIGNA	5.125%	6/15/2020	\$111.15	(\$0.29)	2.13%	109	(8)	(12)
	United Healthcare	3.875%	10/15/2020	\$108.86	(\$0.46)	1.70%	51	(4)	(19)
	Wellpoint	4.350%	8/15/2020	\$109.23	(\$0.50)	1.98%	94	(7)	(27)

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

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