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## U.S. Insurers' Exposure to Unaffiliated Common Stock at Year-End 2019 – Volatility Prevails

Analyst: Jennifer Johnson

### Executive Summary

- As soon as COVID-19 appeared, the longest economic expansion in U.S. history ended almost abruptly. Stock market declines were so sharp at times that they required trading halts, on more than one occasion.
- While the Standard & Poor's 500 Index (S&P 500) continues to be volatile in reaction to daily updates regarding the spread of COVID-19, as well as containment efforts, markets outside the U.S. have also shown volatility.
- As of year-end 2019, U.S. insurers had about \$414 billion in book/adjusted carrying value (BACV) of unaffiliated common stock exposure, with the majority held by property/casualty (P/C) companies at about 90% of the total unaffiliated common stock exposure, followed by 7% held by life companies.
- Most of the exposure was with large companies; i.e., those with more than \$10 billion of assets under management held almost 79% of the total unaffiliated common stock exposure.
- The market value of U.S. insurer exposure to unaffiliated publicly traded common stock decreased by almost 25% from year-end 2019 to March 31, 2020, as shown by analysis completed by the NAIC.

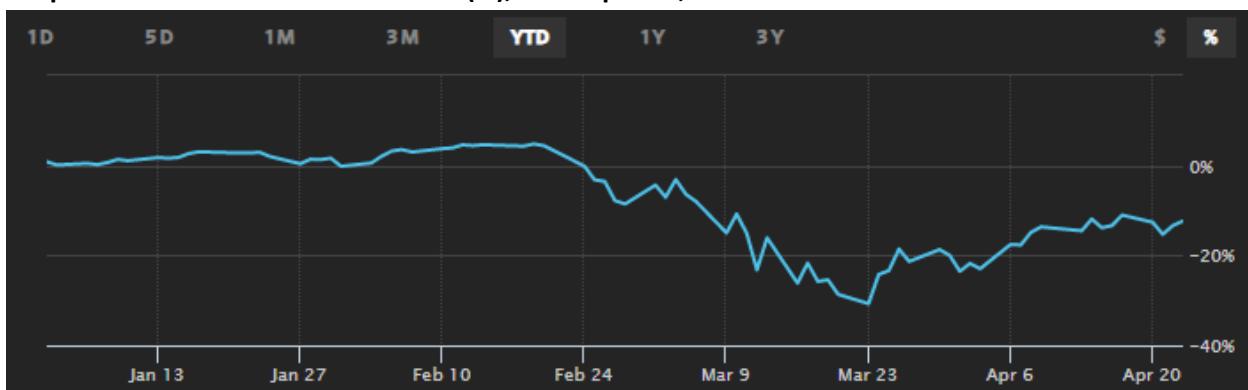
### Global Equity Market Trends

As soon as COVID-19 appeared, the longest economic expansion in U.S. history ended almost abruptly. Stock market declines were so sharp at times that they required trading halts, on more than one

occasion. Exacerbating the impact of COVID-19 was the oil price war between Saudi Arabia and Russia, which resulted in oil prices declining to an 18-year low.

Global markets worldwide experienced extreme volatility, with indices dipping to levels not seen since the 2008 financial crisis. The S&P 500 began the second quarter of 2020 with its worst start on record, under pressure that COVID-19 was rapidly spreading throughout the U.S. with “large scale shutdowns [to] remain in place for longer periods than anticipated, forcing widespread layoffs and rekindling concern that the worst of the stock rout is not over.”<sup>1</sup> As of April 23, the S&P 500 had returned about -12.33% year-to-date (YTD) (as shown in Graph 1), and -3.19% year-over-year (YOY). This is not the performance asset managers and other market participants had predicted or expected when the year began, as geopolitical events such as the U.S.-China trade agreement seemed to be headed in a positive direction.

**Graph 1: S&P 500 Index – YTD Return (%), as of April 23, 2020**



Source: Wall Street Journal

While the S&P 500 continues to be volatile in reaction to daily updates regarding the spread of COVID-19, as well as containment efforts, markets outside the U.S. have also shown volatility. For example, the STOXX Europe 600 Index (STOXX 600) had a YTD return of -19.86% as of April 23, with the YOY return at about -14.85%. The STOXX 600 experienced its worst quarterly loss since 2002. The Nikkei 225 returned -17.87% YTD and -12.71% YOY for the same date; it has also experienced its largest quarterly decline since 2008. That said, there have been periods of advances among global stock market indices, particularly in the first week of April (e.g., the S&P 500 Index and STOXX 600 advanced 2.3% and 2.9% on April 7). However, global market volatility will continue even with early signs that lockdowns in the U.S. and Europe appear to be slowing the spread of the COVID-19 pandemic.

<sup>1</sup> Hajric, V. and C. Ballantine, 2020. “U.S. Stock Futures Rise After S&P 500’s Worst Drop in Two Weeks,” *Bloomberg*.

## *Industry/Sector Impact*

Within the 11 sectors of the S&P 500, energy and industrials had the largest YOY percent change through April 3; industrials include airlines, construction, road and rails (see Table 1). The decline in energy, oil and gas is not only a result of lower demand stemming from widespread “stay at home” directives, but also due in part to the supply-demand imbalance as a result of the price conflict between the Saudis and Russians. The “stay at home” plea has resulted in double digit declines within the travel sector, such as with airlines and hotels, as trips are being cancelled or postponed. Retail—part of consumer discretionary—has also been grossly affected with the closing of retail stores causing a significant loss of sales.

**Table 1: S&P 500’s 11 Sectors, as of April 23, 2020**

Sector	Market Cap	1-Year % Change
Communication Services	\$4.30T	-2.54%
Consumer Discretionary	\$5.07T	-4.01%
Consumer Staples	\$3.56T	2.80%
Energy	\$1.85T	-48.43%
Financials	\$4.98T	-21.20%
Health Care	\$5.94T	15.36%
Industrials	\$3.24T	-22.34%
Information Technology	\$8.45T	12.56%
Materials	\$1.52T	-15.19%
Real Estate	\$1.03T	-5.87%
Utilities	\$1.33T	3.12%
<b>S&amp;P 500® Index</b>	--	<b>-3.64%</b>

Source: Fidelity Investments

## **U.S. Insurers’ Investment Exposure**

As of year-end 2019, U.S. insurers reported about \$414 billion in BACV of unaffiliated common stock, with the majority held by P/C companies at about 90% of the total unaffiliated common stock exposure (as shown in Table 2), followed by 7% held by life companies. This represents about 6% of the industry’s total \$6.9 trillion in BACV of cash and invested assets. In addition, unaffiliated publicly traded common stock accounted for almost all total unaffiliate common stock exposure for U.S. insurers at year-end 2019. The value of common stock—unaffiliated or affiliated—changes year over year based in part on market valuations; i.e., when stock markets experience positive returns, U.S. insurer common stock exposure increases, and the inverse is also true.

**Table 2: U.S. Insurer Exposure to Unaffiliated Common Stocks, Year-End 2019 (\$BACV)**

Category	P/C	Life	Health	Fraternal	Title	Total	Pct of Total
Unaffiliated Publicly Traded Common Stocks	365,826,035,572	24,291,910,937	8,284,137,331	3,339,101,582	1,307,828,206	403,049,013,628	97.3%
Unaffiliated Other Common Stocks	4,353,434,648	6,002,108,345	699,399,765	122,466,686	1,164,334	11,178,573,778	2.7%
<b>Total</b>	<b>370,179,470,220</b>	<b>30,294,019,282</b>	<b>8,983,537,096</b>	<b>3,461,568,268</b>	<b>1,308,992,540</b>	<b>414,227,587,406</b>	<b>100.0%</b>
Pct of Total	89.4%	7.3%	2.2%	0.8%	0.3%	100.0%	

In comparison, at year-end 2018, U.S. insurer exposure to unaffiliated common stock was \$328.4 billion in BACV (see Table 3), representing a YOY increase of 26.1%. This is in line with (higher than) the overall December 2018 to December 2019 returns for stock markets (e.g., at year-end 2019, the S&P 500 increased almost 29% on a YOY basis). An increase in U.S. insurer 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 3: Historical U.S. Insurer Exposure to Unaffiliated Common Stock**

Year	\$BACV Bil	% YOY Change
2019	\$414.2	26.1%
2018	\$328.4	-5.3%
2017	\$346.6	18.6%
2016	\$292.3	7.4%
2015	\$272.1	-5.3%
2014	\$287.3	-

Table 4 shows U.S. insurer exposure to unaffiliated common stock by assets under management at year-end 2019. Most of the exposure was with large companies; i.e., those with more than \$10 billion of assets under management held almost 79% of the total unaffiliated common stock exposure. Companies with between \$1 billion and \$10 billion in assets under management accounted for approximately 15% of the total exposure, while relatively small companies, or those with \$1 billion or less in assets under management, accounted for almost 8% of the total exposure.

**Table 4: U.S. Insurer Exposure to Unaffiliated Common Stock, By Assets Under Management, Year-End 2019 (\$BACV)**

Industry Type	LESS THAN EQUAL TO \$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	Pct of Total
P/C	4,913,686,806	5,404,516,470	9,811,401,445	18,602,164,317	20,139,623,313	11,597,752,475	299,710,325,394	370,179,470,220	89.4%
Life	373,866,417	441,186,920	251,437,052	966,628,641	1,473,367,307	2,613,130,025	24,174,402,920	30,294,019,282	7.3%
Health	488,631,513	839,363,981	1,179,820,427	3,164,451,159	1,686,799,800	1,552,544,922	71,925,294	8,983,537,096	2.2%
Fraternal	85,305,567	29,961,316	130,275	49,160,549	110,780,945		3,186,229,616	3,461,568,268	0.8%
Title	98,180,079		162,244,354	1,048,568,107				1,308,992,540	0.3%
<b>Total</b>	<b>5,959,670,382</b>	<b>6,715,028,687</b>	<b>11,405,033,553</b>	<b>23,830,972,773</b>	<b>23,410,571,365</b>	<b>15,763,427,422</b>	<b>327,142,883,224</b>	<b>414,227,587,406</b>	<b>100.0%</b>
Pct of Total	1.4%	1.6%	2.8%	5.8%	5.7%	3.8%	79.0%	100.0%	

### Market Value Analysis of U.S. Insurer Exposure to Unaffiliated Common Stock

Given ongoing stock market volatility since the beginning of 2020, the NAIC Capital Markets Bureau completed a market value analysis of the \$403 billion in unaffiliated *publicly traded* common stock reported by U.S. insurers at year-end 2019. Using third-party stock market data, the analysis narrowed its focus to those common stocks with reliable pricing information, totaling \$380 billion (or 94%) of this subset. The analysis showed that, in the first quarter of 2020, the market value had decreased by almost 25% to \$286.2 billion; in comparison, the S&P 500 was down 20% over the same period. Table 5 shows the analyzed unaffiliated publicly traded common stock at year-end 2019 and the market value changes as of the end of the first quarter of 2020.

**Table 5: Market Value of U.S. Insurer Unaffiliated Publicly Traded Common Stocks (\$BACV)**

Industry Type	Market Value at Year-End 2019	Market Value at Mar. 31, 2020	Pct Change
P/C	351,358,727,291	264,352,187,158	-24.8%
Life	18,666,589,021	13,901,852,345	-25.6%
Health	6,347,446,231	4,882,172,313	-23.1%
Fraternal	2,655,045,848	2,048,201,369	-22.9%
Title	1,300,794,440	1,043,208,102	-19.8%
<b>Total</b>	<b>380,328,602,831</b>	<b>286,227,621,288</b>	<b>-24.7%</b>

### Accounting Guidance for U.S. Insurer Investments in Unaffiliated Common Stock

U.S. insurers follow the accounting guidance of the *Statement of Statutory Accounting Principles (SSAP) No. 30R—Unaffiliated Common Stock* for unaffiliated common stock investments. SSAP No. 30R states that common stocks are to be reported at cost upon acquisition and subsequently reported at fair value. Changes in fair value are reported as unrealized gains or losses. If a decline in the fair value of common stock is determined to be other than temporary impairment (OTTI), the unrealized loss is accounted for as a realized loss, with the current fair value becoming the new cost basis for the investment.

Subsequent changes in fair value are then reported as unrealized gains or losses until the investment is sold or there is another recognized OTTI.

The NAIC Capital Markets Bureau will continue to monitor financial market trends with U.S. insurer investments and report as deemed appropriate.