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U.S. Insurance Industry Outsourcing to Unaffiliated Investment Managers at Year-End 2019

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Executive Summary

- About half of all U.S. insurers reported outsourcing to an unaffiliated investment manager as of year-end 2019, consistent with the percentage of U.S. insurers that outsourced investment management over at least the last few years; i.e., dating back to 2016.
- Small insurers, or those with less than \$250 million in assets under management (AUM), accounted for 64% of the total number of U.S. insurers that outsourced investment management, which is also consistent with at least the last few years, due in part to the lack of a specialized skill set deemed necessary to manage all or portions of an insurer's investment portfolio.
- For U.S. insurers that named the unaffiliated investment management firms that they utilize, BlackRock, Conning and New England Asset Management Inc. (NEAM) have been the top three most-named investment managers over the last few years. [Note that not all U.S. insurers included investment management firm names in their annual reporting.]
- Property/casualty (P/C) companies accounted for almost 60% of the total number of U.S. insurers that outsource to unaffiliated investment managers.

U.S. insurers have been seeking yield pick-up in nontraditional investments due to the continued low yields on fixed income investments. The complexity of these nontraditional investments has caused some U.S. insurers to consider outsourcing all or some of their investment management capabilities. For example, over the past few years, U.S. insurers have moved into private assets, such as secured loans, structured products and private debt, and the need for expertise and access to new or higher yielding asset classes has driven the growth of U.S. insurers' outsourcing to unaffiliated investment managers. The NAIC *Annual Statement Instructions* requires that U.S. insurers disclose data on unaffiliated investment managers; however, the actual book/adjusted carrying value (BACV) of outsourced assets is currently not required to be reported by U.S. insurers.

While the number of U.S. insurers outsourcing investment management has increased over at least the last four years, in percentage terms, it has remained relatively stable. As of year-end 2019, 51% (2,269)

of the total number of U.S. insurers (4,482) that filed annual statements with the NAIC reported outsourcing investment management. P/C companies represented 30% (1,323) of all reporting insurers and almost 60% of the total number of U.S. insurers that reported outsourcing investment management (see Table 1). Health companies were the second largest insurer type that outsourced investment management at 11% of all U.S. insurers, or 22% of U.S. insurers that reported outsourcing investment management to a nonaffiliate.

Table 1: U.S. Insurers Outsourcing to Unaffiliated Investment Managers as of Year-End 2019

Insurer Type	Number of Insurers Outsourcing	% of Total Insurers Outsourcing	% of All Insurers
P/C	1,323	58%	30%
Health	509	22%	11%
Life*	414	18%	9%
Title	23	1%	1%
Total Outsourcing	2,269	100.0%	51%
Tota Number of U.S. Insurers Filing Annual Statements	4,482		

*Life also includes fraternal companies' data as of year-end 2019.

Size of U.S. Insurers Outsourcing Investment Management

Small insurers, those with less than \$250 million in AUM, accounted for 64% of the total number of U.S. insurers that reported outsourcing to an unaffiliated investment manager as of year-end 2019. This was relatively unchanged from at least the last few years. As shown in Chart 1, the percentage of insurers that outsource investment management decreases significantly, as total AUM increases.

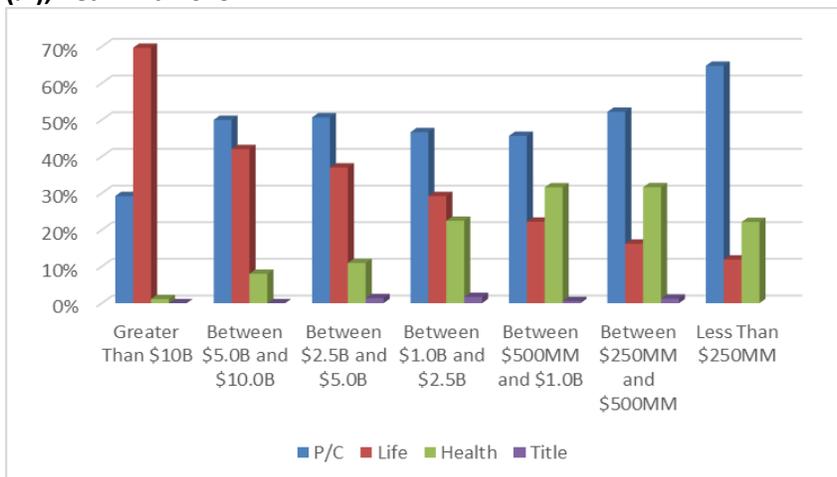
Chart 1: U.S. Insurers' Outsourcing to Unaffiliated Investment Managers by AUM (%), Year-End 2019



Small insurers outsource to unaffiliated investment managers, as it may represent a more cost-effective way to invest some or all of their assets. For example, an insurer with limited resources—i.e., staff or otherwise—may gain access to greater resources, such as investment expertise and capabilities, at a lower cost by hiring an unaffiliated manager. In addition, an insurer with a small asset base may not be able to cost-effectively replicate the skills or experience of an unaffiliated investment manager, particularly for specialty asset classes such as high-yield, real estate or private equity.

Among large U.S. insurers, or those with up to \$10 billion in AUM, life companies accounted for the majority of those that outsource to unaffiliated investment managers, as shown in Chart 2, at 70% of the total. This trend is a function of the number of insurers within each AUM category, as well as the percentage of the total insurer population that outsources. The number of P/C companies in the U.S. insurance industry is larger than the number of life companies; this is also true among small insurers, but the number of life companies is greater than the number of P/C companies as AUM increases.

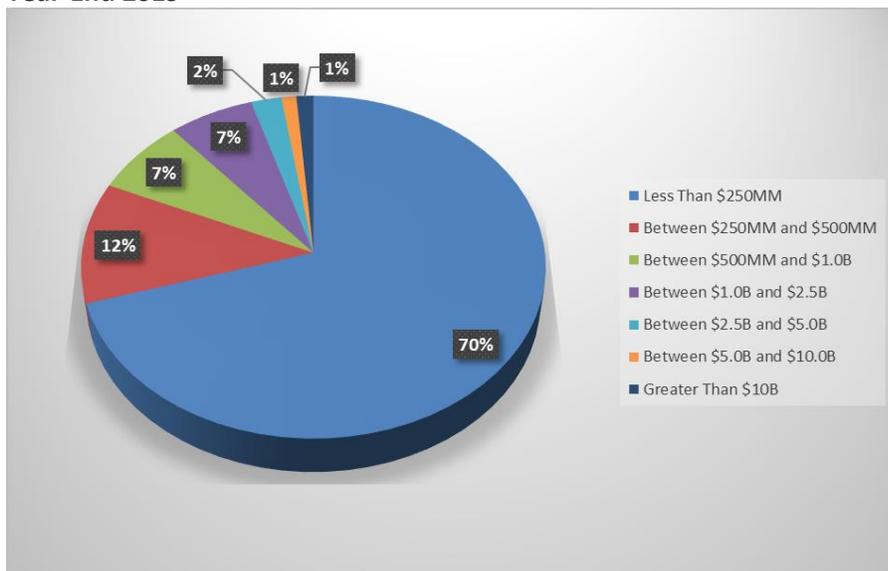
Chart 2: U.S. Insurers by Company Type Outsourcing to Unaffiliated Investment Managers by AUM (%), Year-End 2019



Percentage of Assets Outsourced to a Single Manager and Total Assets Outsourced

As of year-end 2019, 86% of U.S. insurers that outsourced to an unaffiliated investment manager did so with a *single* investment manager for more than 10% of their assets (consistent with year-end 2018). Further, small insurers accounted for 70% of all U.S. insurers that reported more than 10% of their assets managed by a single unaffiliated investment manager (see Chart 3). Insurers with less than \$500 million in AUM accounted for 82% of U.S. insurers that reported more than 10% of their assets managed by a single unaffiliated investment manager.

Chart 3: U.S. Insurers Outsourcing at Least 10% of Their Assets to a Single Investment Manager (%), Year-End 2019



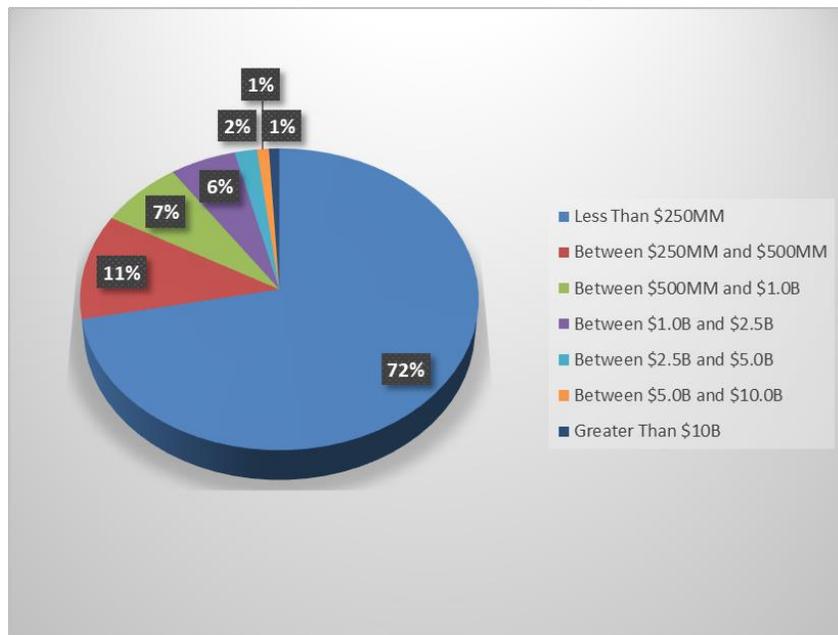
Within the small companies that outsourced at least 10% of their assets to a single investment manager, P/C companies accounted for the largest industry type, or 67% of small insurers—i.e., 924 out of 1,375—followed by health companies at 21%; i.e., 284 out of 1,375.

About 35% of all U.S. insurers reported outsourcing more than 50% of their assets to unaffiliated investment managers, compared to 32% at year-end 2018. Among the insurers that outsource, the percentage that did so for more than 50% of their assets increased to 68% of the total at year-end 2019, from 65% of total insurers that outsourced at year-end 2018. This means that while there was no change in the percentage of insurers that outsourced more than 10% of their investment management to a single nonaffiliate, there was an increase in the percentage of insurers that outsourced more than 50% of their investment management to nonaffiliates in general, from 2018 to 2019. Perhaps, an increase in alternative investments under management in a lower-for-longer interest rate environment was a contributing factor.

Small insurers accounted for the largest number of insurers that outsourced investment management for more than 50% of their assets, at 72% of the total (see Chart 4) at year-end 2019, which was relatively consistent with year-end 2018 and the two years prior. Moreover, insurers with less than \$500

million in AUM accounted for 83% of U.S. insurers that outsourced more than 50% of their assets to unaffiliated investment managers at year-end 2019, which was relatively consistent with year-end 2018.

Chart 4: U.S. Insurers by Total AUM Outsourcing at Least 50% of Their Total Assets, Year-End 2019



Within small insurers, P/C companies accounted for 69% of those that outsourced more than 50% of their assets to unaffiliated investment managers, followed by life companies at 12%.

Most-Named U.S. Insurer Unaffiliated Investment Managers

The top three unaffiliated investment managers reported by U.S. insurers in 2019 were unchanged from at least the last three years. BlackRock maintains the top listing, followed by NEAM and Conning. In general, there have not been many changes among the top ten names since year-end 2018 (see Table 3) or over at least the last few years.

Table 2: Investment Managers Most Often Listed by U.S. Insurers, Year-End 2019

	Most Listed Investment Firms	Number of Insurance Companies
1	BlackRock	237
2	New England Asset Management, Inc. (NEAM)	186
3	Conning	180
4	J.P. Morgan Asset Management Inc.	129
5	Asset Allocation and Management Co. LLC (AAM)	119
6	Wellington Management Co. LLP	113
7	Wells Capital Management Inc.	86
8	DWS Investment Management Americas	86
9	BNY Mellon	82
10	Goldman Sachs Asset Management LP	74

Table 3: Investment Managers Most Often Listed by U.S. Insurers, Year-End 2018

	Most Listed Investment Firms	Number of Insurance Companies
1	BlackRock	280
2	Conning	198
3	New England Asset Management, Inc. (NEAM)	189
4	Asset Allocation and Management Co. LLC (AAM)	172
5	DWS Investment Management Americas	142
6	J.P. Morgan Asset Management Inc.	140
7	Wellington Management Co. LLP	124
8	BNY Mellon	103
9	Goldman Sachs Asset Management LP	95
10	Wells Capital Management, Inc.	87

According to the Insurance Asset Outsourcing Exchange’s¹ survey of 46 investment managers, at year-end 2019, insurers globally outsourced about \$2.6 trillion to unaffiliated investment managers, up from \$2.2 trillion at year-end 2018. According to the same survey, “insurers have significantly increased outsourcing to specialized investment mandate solutions over the past several years, particularly in specialized fixed income strategies and alternative investments...” The move towards outsourcing to unaffiliated investment managers for U.S. insurers began as a result of the financial crisis, in which according to the survey, new global mandates in 2010 doubled the amount in 2008. Outsourcing investment management for U.S. insurers continues, due in part to the lower-for-longer interest rate environment as U.S. insurers increase investments in alternative assets, such as private equity and structured finance investments.

Conclusion

In 2019, 50% of U.S. insurers that filed an annual statement with the NAIC reported outsourcing to unaffiliated investment managers. About 86% of U.S. insurers that outsourced reported that at least 10% of their invested assets were managed by a single unaffiliated investment manager, while about 35% reported outsourcing more than 50% of their aggregate assets to unaffiliated investment managers at year-end 2019. While the percentage of U.S. insurers that outsourced investment management for more than 10% of their assets to a single investment manager remained relatively stable year-over-year from 2018 to 2019, the percentage of U.S. insurers that outsourced more than 50% of their assets to unaffiliated investment managers increased for the same time period.

As of year-end 2019, 64% (1,455) of U.S. insurers that outsourced to unaffiliated investment managers were small insurers, with P/C companies accounting for 64% (942) of those small insurers. The firms that were more often listed by U.S. insurers as unaffiliated investment managers represented large global investment management firms (in terms of total AUM), such as BlackRock, NEAM and Conning.

¹ Insurance Asset Outsourcing Exchange, *Insurance Investment Outsourcing Report – 2020 Edition*, June 2020.

The NAIC Capital Markets Bureau will continue to monitor trends in unaffiliated investment management of U.S. insurer assets 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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