



The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published [NAIC Capital Markets Bureau Special Reports](#) are available via its webpage and the NAIC archives (for reports published prior to 2016).

U.S. Insurance Industry Outsourcing to Unaffiliated Investment Managers Unchanged From 2019 to 2020

Analysts: Jennifer Johnson and Jean-Baptiste Carelus

Executive Summary

- The percentage of U.S. insurers that reported outsourcing investment management to an unaffiliated firm has remained relatively unchanged at year-end 2020, compared to the last several years; it was about half of all U.S. insurers, dating back to at least 2016.
- Consistent with prior years, small insurers, or those with less than \$250 million in assets under management (AUM), accounted for the largest percentage, or 63% of the total number of U.S. insurers, that outsourced investment management.
- Property/casualty (P/C) companies continue to account for almost 60% of the total number of U.S. insurers that outsource to unaffiliated investment managers.
- 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.

Over the past few years, U.S. insurers have been seeking yield pick-up in nontraditional investments due to the continued low yields on fixed income investments. The NAIC Capital Markets Bureau has published several special reports on these alternative asset types and U.S. insurers' relative exposure. The complexity of these nontraditional investments has caused some U.S. insurers to consider outsourcing all or some of their investment management capabilities; and the need for expertise and, in turn, 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 not required to be reported by U.S. insurers. Note that not all U.S. insurers included investment management firm names in their annual reporting.

The total number of U.S. insurers outsourcing investment management at year-end 2020 was relatively consistent with that of year-end 2019, having only increased by less than 1% (see Table 1). In percentage terms, 50% of the total number of U.S. insurers that filed annual statements with the NAIC at year-end 2020 reported outsourcing investment management, which for the most part was consistent with that



of year-end 2019. Based on numbers reported in previous years, there has been evidence of a small, steady increase in the number of insurers outsourcing to unaffiliated investment managers (e.g., in 2017, there were 2,137); however, the percentage of total insurers that outsource to unaffiliated managers has been relatively stable at around half.

Table 1: U.S. Insurers Outsourcing to Unaffiliated Investment Managers: 2020 versus 2019

Insurer Type	2020			2019		
	Number of Insurers Outsourcing	% of Total Insurers Outsourcing	% of All Insurers	Number of Insurers Outsourcing	% of Total Insurers Outsourcing	% of All Insurers
P/C	1,323	58%	29%	1,323	58%	30%
Health	533	23%	12%	509	22%	11%
Life*	405	18%	9%	414	18%	9%
Title	20	1%	0%	23	1%	1%
Total Outsourcing	2,281	100%	50%	2,269	100%	51%

*Life also includes fraternal companies' data.

Note: Total number of U.S. insurers filing annual statements was reported to be 4,537 in 2020 and 4,482 in 2019.

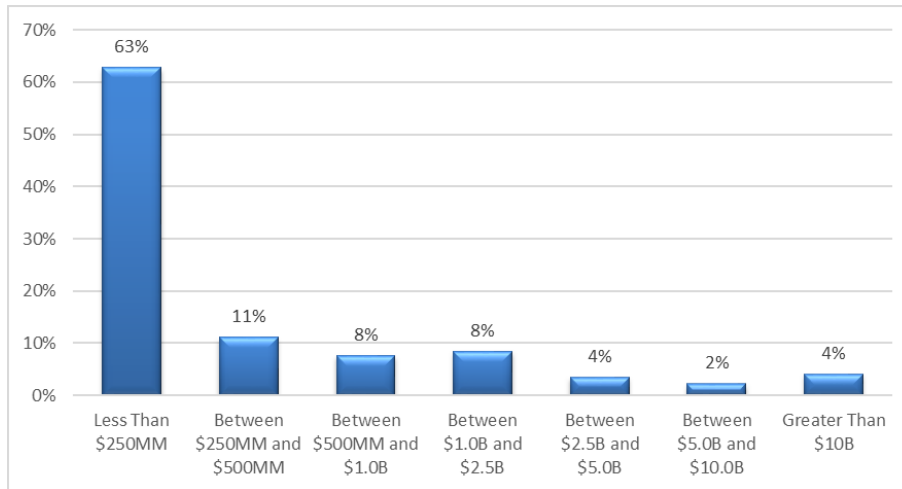
Like 2019, P/C companies represented almost 30% (1,323) of all reporting insurers and almost 60% of the total number of U.S. insurers that reported outsourcing investment management. Health companies were the second largest insurer type that outsourced investment management at 12% of all U.S. insurers, or 23% of only those U.S. insurers that reported outsourcing investment management to a nonaffiliate.

Size of U.S. Insurers Outsourcing Investment Management

Small insurers accounted for 63% of the total number of U.S. insurers that reported outsourcing to an unaffiliated investment manager as of year-end 2020, compared to 64% at year-end 2019. This was also relatively unchanged in percentage terms from at least the last few years. That said, the number of small insurers that outsourced to unaffiliated investment managers increased year-over-year (YOY) to 1,439 at year-end 2020 from 1,375 at year-end 2019. As shown in Chart 1, the percentage of insurers that outsourced investment management decreases significantly as total AUM increases.



Chart 1: U.S. Insurers' Outsourcing to Unaffiliated Investment Managers by AUM (%), Year-End 2020

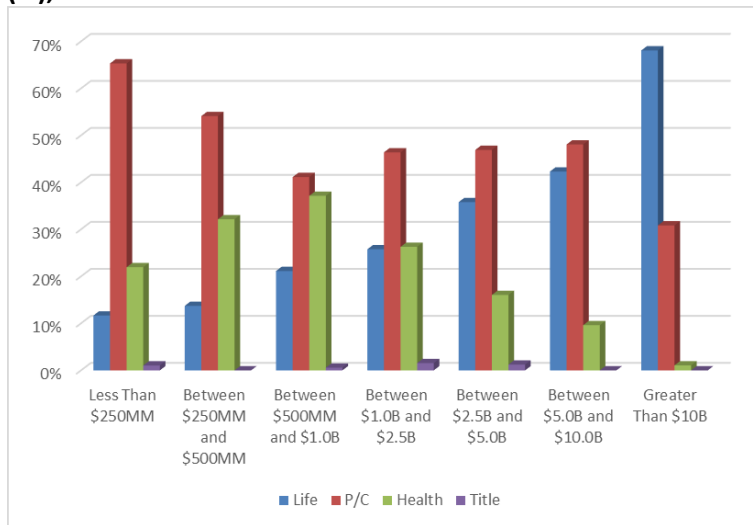


The reasons that small insurers outsource to unaffiliated investment managers have not changed from years past, as it tends to represent a more cost-effective way to invest some or all of their assets. For example, small insurers with limited resources may gain access to greater resources, such as investment expertise and capabilities, at a lower cost by hiring an unaffiliated manager. In addition, insurers with small asset bases may not be able to cost-effectively replicate the skills or experience of an unaffiliated investment manager, particularly for specialty asset classes, such as alternative investments.

P/C companies represented the majority, or 65%, of total small insurers that outsourced investment management in 2020 (see Chart 2). Whereas 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 at 70% of the total. This trend is a function of the insurer type 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 greater 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 2020

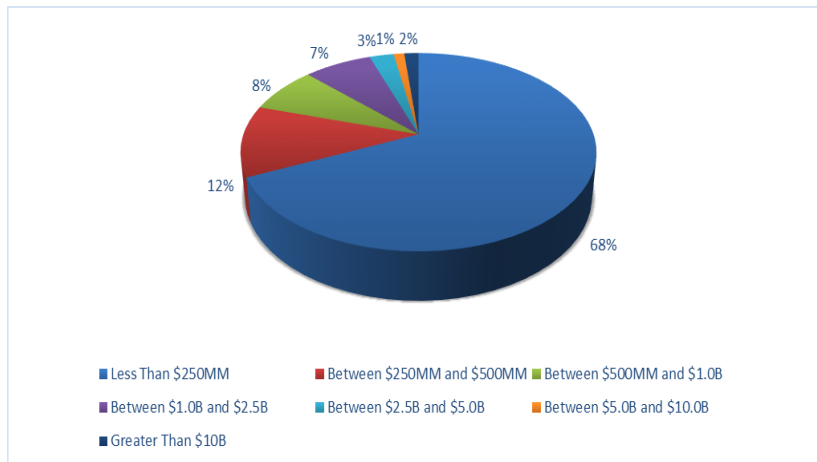


Percentage of Assets Outsourced to a Single Manager and Total Assets Outsourced

As of year-end 2020, 88% 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, which was slightly more than 86% at year-end 2019. Further, small insurers accounted for 68% of all U.S. insurers that reported more than 10% of their assets managed by a single unaffiliated investment manager (see Chart 3); i.e., slightly less than the 70% reported at year-end 2019. Insurers with less than \$500 million in AUM accounted for 80% of U.S. insurers that reported more than 10% of their assets managed by a single unaffiliated investment manager, which was also slightly less than 82% at year-end 2019. Offsetting these YOY decreases, insurers with more than \$1 billion in AUM that reported more than 10% of their assets managed by a single unaffiliated investment managers increased to 13% at year-end 2020 from 10% at year-end 2019. This may be due in part to life companies’ increased affiliation with and/or acquisitions by private equity firms, which has been increasing over the last few years, as analyzed in special reports published by the NAIC Capital Markets Bureau.



Chart 3: U.S. Insurers Outsourcing at Least 10% of Their Assets to a Single Investment Manager (%), Year-End 2020



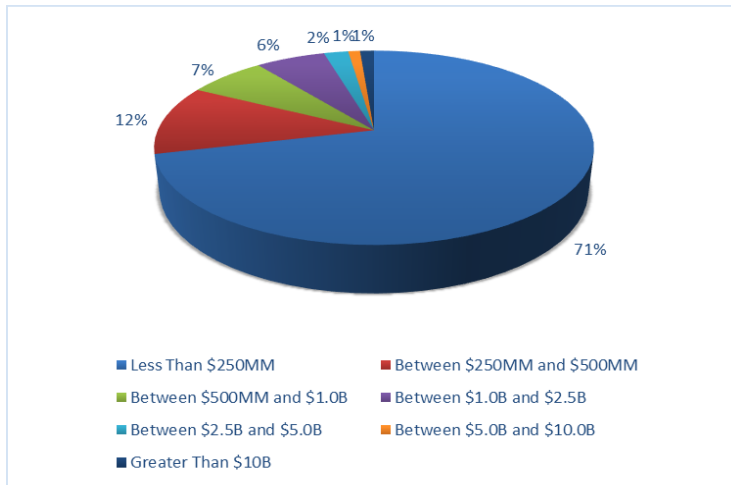
Within the small companies that outsourced at least 10% of their assets to a single investment manager, P/C companies accounted for the largest industry type, or 67% of small insurers, which is consistent with year-end 2019. This was followed by health companies at 21%, also consistent with year-end 2019.

About 36% of all U.S. insurers reported outsourcing more than 50% of their assets to unaffiliated investment managers, compared to 35% at year-end 2019 and 32% at year-end 2018, demonstrating an increasing trend over the last few years. Among only the insurers that outsource, the percentage that did so for more than 50% of their assets increased to 72% at year-end 2020, from 68% of the total at year-end 2019 and 65% 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 2020. An increase in alternative and higher-yielding investments under management in the lower-for-longer interest rate environment was likely a contributing factor.

Small insurers accounted for the largest number of insurers that outsourced investment management for more than 50% of their assets, at 71% of the total (see Chart 4) at year-end 2020, which was relatively consistent with year-end 2019 and the three years prior. Moreover, like year-end 2019 and year-end 2018, 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 2020.



Chart 4: U.S. Insurers by Total AUM Outsourcing at Least 50% of Their Total Assets, Year-End 2020



Within small insurers, P/C companies accounted for 64% of those that outsourced more than 50% of their assets to unaffiliated investment managers at year-end 2020, representing a small decrease from 69% at year-end 2019. This decrease was offset by an increase in health companies, at 20% of total small insurers outsourcing more than 50% of assets to unaffiliated investment managers at year-end 2020, compared to 18% in 2019, and life companies at 15% as of year-end 2020, compared to 12% in 2019. This change may be due in part to an increase in higher-yielding, less traditional investments with small life and health companies.

Most-Named U.S. Insurer Unaffiliated Investment Managers

The top three unaffiliated investment managers reported by U.S. insurers in 2020 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 10 names since at least year-end 2018 (see Table 2).

Table 2: Investment Managers Most Often Listed by U.S. Insurers, 2018 – 2020

Most Listed Investment Firms	2020 Rank	2019 Rank	2018 Rank
Black Rock Financial Management, Inc.	1	1	1
New England Asset Management, Inc. (NEAM)	2	2	3
Conning Asset Management	3	3	2
Asset Allocation & Management Co. LLC (AAM)	4	5	4
J.P. Morgan Asset Management Inc.	5	4	6
Wellington Management Co.	6	6	7
DWS Investment Management Americas	7	8	5
Goldman Sachs Asset Management	8	10	9
Wells Capital Management, Inc.	9	7	10
BNY Mellon	10	9	8



According to the Insurance Asset Outsourcing Exchange’s¹ survey of 49 investment managers, at year-end 2020, insurers globally outsourced about \$2.9 trillion to unaffiliated investment managers, up from \$2.6 trillion at year-end 2019 and \$2.2 trillion at year-end 2018. According to the same survey, “[i]nsurers have significantly increased outsourcing to specialized investment mandate solutions over the past several years, particularly in private placements (both debt and equity), structured products, specialized fixed income strategies, and public equities.” In addition, the survey states, “inorganic growth” among insurers occurred throughout 2020 due to divestitures, whereby assets formerly managed for affiliated insurers are now reported as non-affiliated, and due to merger/acquisition activity between investment management firms and/or insurance companies.

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.

The views expressed in this publication do not necessarily represent the views of the NAIC, its officers or members. NO WARRANTY IS MADE, EXPRESSED OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

© 1990 – 2022 National Association of Insurance Commissioners. All rights reserved.

¹ Insurance Asset Outsourcing Exchange, *Insurance Investment Outsourcing Report – 2021 Edition*, June 2021.