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. Insurers' Bank Loan Exposure Rises at a Decelerated Pace in 2023

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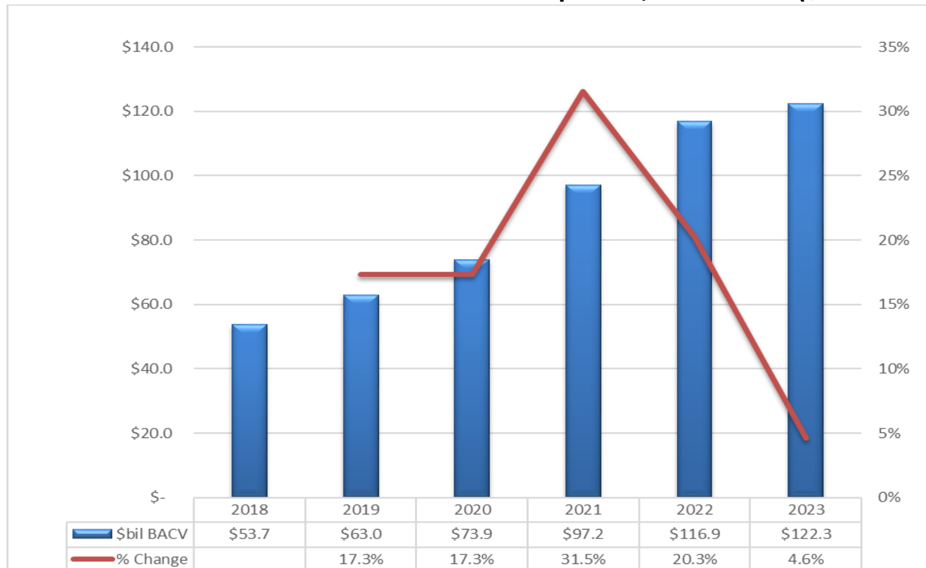
## Executive Summary


- Bank loan investments increased to about $122 billion in book/adjusted carrying value (BACV) at year-end 2023 from $117 billion at year-end 2022.
- Despite the 4.6% growth, bank loans remained at 1.4% of U.S. insurers' total cash and invested assets at year-end 2023—the same as year-end 2022.
- Approximately 70% of U.S. insurers' bank loan investments were acquired, and 85% were held by life companies.
- In particular, large life companies, or those with more than $10 billion in assets under management, accounted for 82% of U.S. insurers' bank loan exposure, up from nearly 80% in 2022.
- The top 25 insurance companies accounted for 75% of U.S. insurers' total bank loan investments at year-end 2023; the top 10 accounted for about 60%.
- Improvement in credit quality for U.S. insurer-bank loans continued, evidenced by a four-percentage-point increase in those carrying NAIC 1 and NAIC 2 designations and a corresponding four-percentage-point decrease in bank loans carrying NAIC 3 and NAIC 4 designations.


Nearly all U.S. insurers' bank loan exposure was reported in Schedule D, Part 1, with lesser amounts (under 1% in aggregate) in Schedule DA and Schedule E, Part 2. U.S. insurers' bank loan exposure increased by nearly 5% from 2022 to 2023, after being one of the fastest-growing bond types in 2022. At year-end 2023, U.S. insurers' investments in bank loans totaled about $122 billion in book/adjusted carrying value (BACV), compared to $117 billion at year-end 2022. (Refer to Chart 1.) In addition, bank loans were 1.4% of U.S. insurers' total cash and invested assets at year-end 2023, which was the same as the year prior. Unaffiliated bank loans accounted for 94% of U.S. insurers' bank loan investments at year-end 2023, and about 73% of U.S. insurers' bank loan investments were acquired, with the remaining 27% issued by the reporting entities (i.e., the insurers themselves).

**Chart 1: U.S. Insurers' Historical Bank Loan Exposure, 2018–2023 ($ bil. BACV)**




The Federal Reserve has kept interest rates at a 23-year high after increasing the federal funds rate by five percentage points between March 2022 and May 2023 to combat high inflation. Consequently, there was a decrease in U.S. insurers' bank loan investment growth rates from 2022 to 2023 due in part to a slowdown of bank loan new issuance and, in turn, inventory. Before the interest rate increases, not only was there a new-issuance bank loan growth spurt between 2021 and 2022 but also a double-digit percentage increase in U.S. insurers' bank loan investments. Over the five years ending in 2023, U.S. insurers' bank loan investments increased about 128%.

## Majority of Bank Loans Mature in Less than 10 Years, Mostly with Life Companies

U.S. insurers reported that about 93% of their bank loans had maturities of 10 years or less as of year-end 2023 (refer to Table 1), which was relatively consistent with the prior two years. About 85% of U.S. insurers' bank loan investments were held by life companies, an increase from 82% at year-end 2022 and 76% at year-end 2021.

**Table 1: U.S Insurer Bank Loan Maturities, Year-End 2023 ($ bil. BACV)**

| Statement Type | Less Than 1 Year | Between 1 Year and 5 Years | Between 6 Years and 10 Years | Between 11 Years and 20 Years | Greater Than 20 Years | Total | % of Total |
|---|---|---|---|---|---|---|---|
| Life | 10.0 | 69.3 | 15.7 | 6.5 | 2.3 | 103.8 | 85% |
| P/C | 0.9 | 13.8 | 1.5 | - | - | 16.1 | 13% |
| Title | - | 0.2 | - | - | - | 0.2 | 0% |
| Health | 0.1 | 1.7 | 0.2 | - | - | 2.0 | 2% |
| **Total** | **10.9** | **85.0** | **17.4** | **6.5** | **2.3** | **122.1** | 100% |
| % of Total | 9% | 70% | 14% | 5% | 2% | 100% | |

Countering the increase in life companies' bank loan investments was a decrease in property/casualty (P/C) companies' investments. These investments decreased to 13% of the total from 16% of the total at year-end 2022 and 21% at year-end 2021.

## Large Life Companies Account for Almost All Exposure

Large insurers accounted for the majority, or 92%, of industry exposure to bank loans at year-end 2023, particularly large life companies. (Refer to Table 2.) Companies with assets under management between $1 billion and $10 billion accounted for the remaining 7% for the most part.

**Table 2: Bank Loan Exposure by Assets Under Management, Year-End 2023 ($ bil. BACV)**

| Assets Under Management | Life | P/C | Title and Health | Total | % of Total |
|---|---|---|---|---|---|
| Less Than $250M | 0.1 | 0.0 | 0.0 | 0.1 | 0% |
| Between $250M and $500M | 0.0 | 0.2 | 0.0 | 0.2 | 0% |
| Between $500M and $1.0B | 0.1 | 0.1 | 0.2 | 0.4 | 0% |
| Between $1.0B and $2.5B | 0.6 | 1.3 | 0.4 | 2.2 | 2% |
| Between $2.5B and $5.0B | 1.8 | 0.8 | 0.4 | 3.0 | 2% |
| Between $5.0B and $10.0B | 1.6 | 1.6 | 0.4 | 3.7 | 3% |
| Greater Than $10B | 99.6 | 12.1 | 0.9 | 112.6 | 92% |
| **Total** | **103.8** | **16.2** | **2.2** | **122.2** | 100% |
| % of Total | 85% | 13% | 2% | 100% | |

The top 25 U.S. insurers accounted for 75% of U.S. insurers' bank loan investments at year-end 2023. Similar to the year prior, the top 10 accounted for about 60% of the total. All the top 10 insurers were large life companies, and one company accounted for 29% of U.S. insurers' total bank loan exposure, an increase from 27% the prior year.

## Continued Improvement in Credit Quality

The credit quality of U.S. insurers' bank loan investments shifted from speculative grade to a heavier concentration in investment grade. The percentage of bank loans carrying NAIC 1 and NAIC 2 Designations increased to 49% of total bank loans at year-end 2023 from 45% at year-end 2022. (Refer to Charts 2 and 3.) Conversely, about 42% of bank loans held by U.S. insurers at year-end 2023 carried NAIC 3 and NAIC 4 Designations (implying below investment grade credit quality or the BB-rating and B-rating categories), which was a decrease from 46% at year-end 2022.

**Chart 2: U.S. Insurer Bank Loan Credit Quality, Year-End 2023**

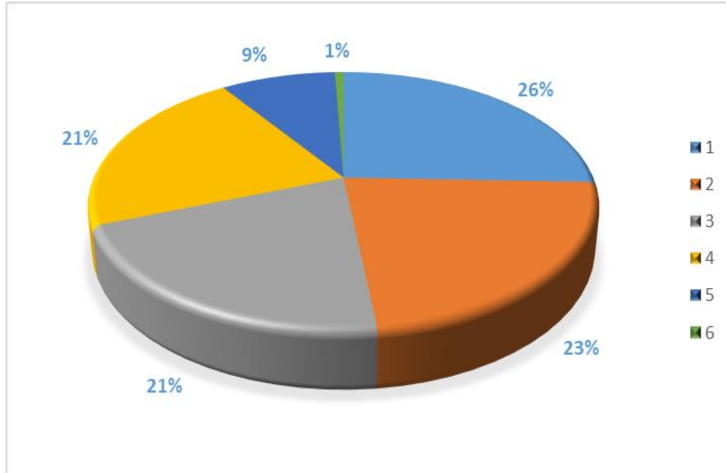
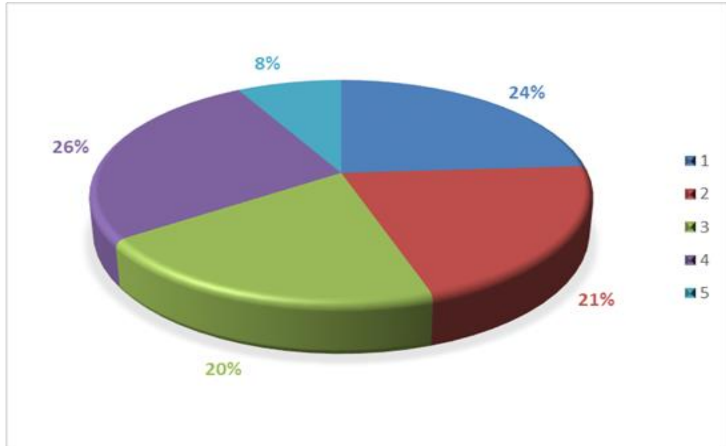



**Chart 3: U.S. Insurer Bank Loan Credit Quality, Year-End 2022**



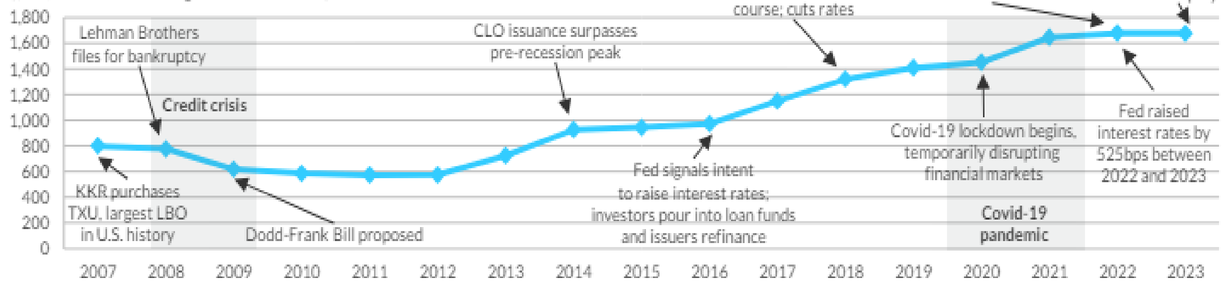

Senior unsecured bank loans comprised 56% of total bank loan investments, an increase from 52% in 2022. Senior secured bank loans accounted for 38% of total bank loan investments at year-end 2023, a decrease from 40% at year-end 2022. The proportion of senior secured and senior unsecured bank loans held by U.S. insurers may be a reflection of the market's bank loan inventory.

## Leveraged Bank Loan Yields Above Historical Average

About half of U.S. insurers' bank loans were considered leveraged bank loans at year-end 2023 based on the assigned NAIC designations. Leveraged bank loans are considered senior secured credit, or the highest in terms of payment priority. Generally, they are loans to companies with speculative-grade or high-yield credit quality (i.e., rated BB+ or lower) by a group of lenders. Institutional investors of leveraged bank loans are not only insurers but also finance companies, pension funds, and collateralized loan obligations (CLOs).

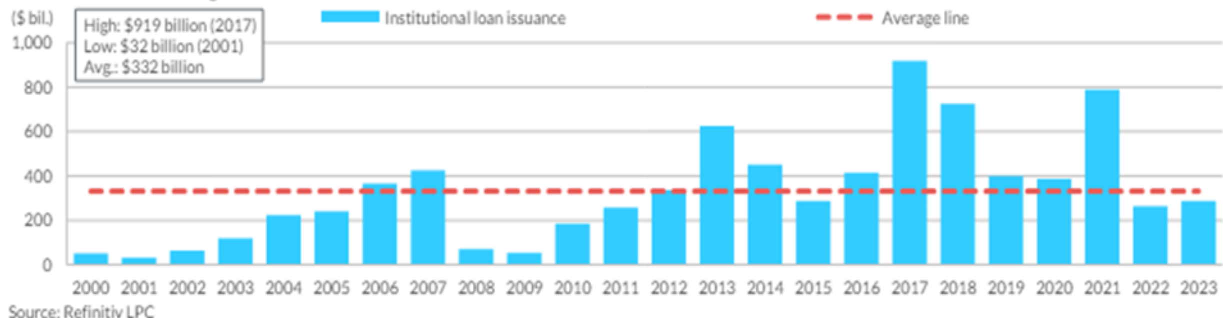
Outstanding U.S. institutional leveraged loans totaled about $1.7 trillion across 1,700 issuers at year-end 2023, according to Fitch Ratings.[1] (Refer to Chart 4.) After a 13.4% growth spurt from 2020 to 2021, the U.S. leveraged loan market experienced a slowdown in new issuance volume in 2022 and 2023 due in part to the Federal Reserve's several interest rate hikes to combat high inflation, which resulted in higher borrowing costs. Market participants also factored in an expected economic slowdown relative to participating in new issuance.

**Chart 4:**




New leveraged loan issuance in 2023 totaled approximately $300 billion, up from about $250 billion in 2022 but down significantly from about $850 billion in 2021. (Refer to Chart 5.) According to Pitchbook/Leveraged Commentary and Data (LCD), the volume of leveraged loans as of April 2024 was $94.5 billion.

**Chart 5:**

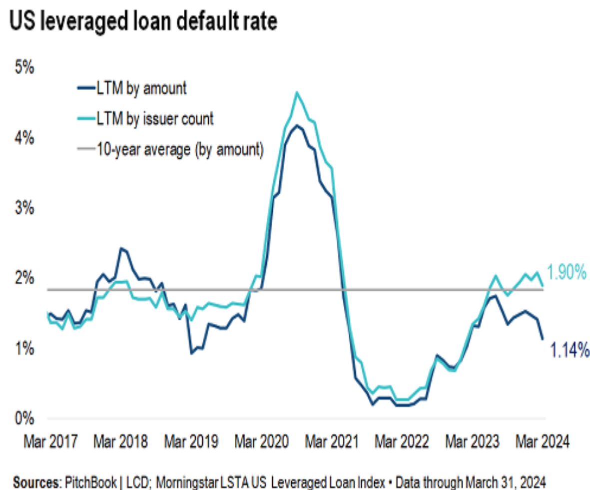



[1] FitchRatings, *The 2024 Annual Manual – A Primer on the U.S. Leveraged Finance Market*, April 2024.

## Default Rates Expected to Increase

According to the Morningstar LSTA U.S. Leveraged Loan Index (Morningstar LSTA Index), the trailing 12-month leveraged loan default rate rose slightly from 1.1% (by issuer count) as of February 2023 to 1.9% as of March 2024. (Refer to Chart 6.) The default rate is also above its 10-year historical average of 1.6%.

**Chart 6:**

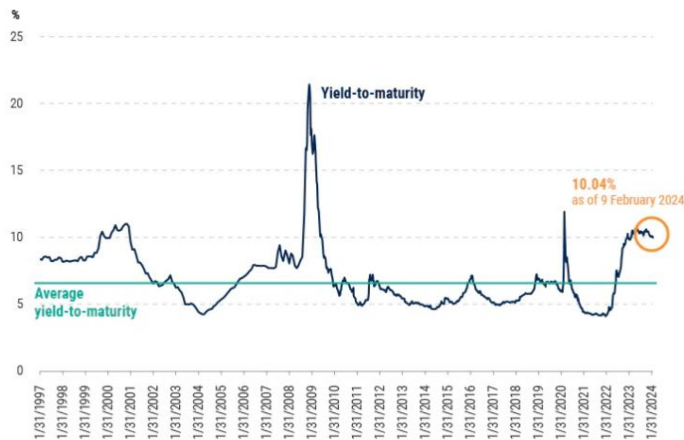



As of May 31, 2024, the composition of the Morningstar LSTA Index shows a lower credit quality profile than its high-yield bond index. That is, about 63% of the leveraged loan index consists of B-rated assets compared to just 36% for the high-yield bond index. BB-rated leveraged loans comprised 22% of the leveraged loan index, and CCC-rated leverage loans represented 6%—double a year prior. In comparison, as implied by the assigned NAIC designations, about 9% of U.S. insurers' bank loan investments were B-rated, and 21% were BB-rated.

With higher yields come higher returns. As the Federal Reserve raised interest rates, leveraged bank loans experienced double-digit returns. According to Morningstar LSTA, between 1999 and June 2024, its leveraged loan index only experienced negative annual returns three times.[2] Yield to maturity was 10.4% in February 2024. (Refer to Chart 7.)

[2] Morningstar, *The Morningstar LSTA US Leveraged Loan Index Highlights a Growing Asset Class Popular With Credit Investors*, June 2024.

**Chart 7:**




The NAIC Capital Market Bureau's primer on leveraged bank loans, published in November 2018, provides a background on these loans.

The NAIC Capital Markets Bureau will continue to monitor U.S. insurers' bank loan exposure trends and report as deemed appropriate.

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