CAPITAL MARKETS
Special Report

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U.S. Insurers' Collateralized Loan Obligation Exposure Continues to Climb in 2023 but at a Slower Pace

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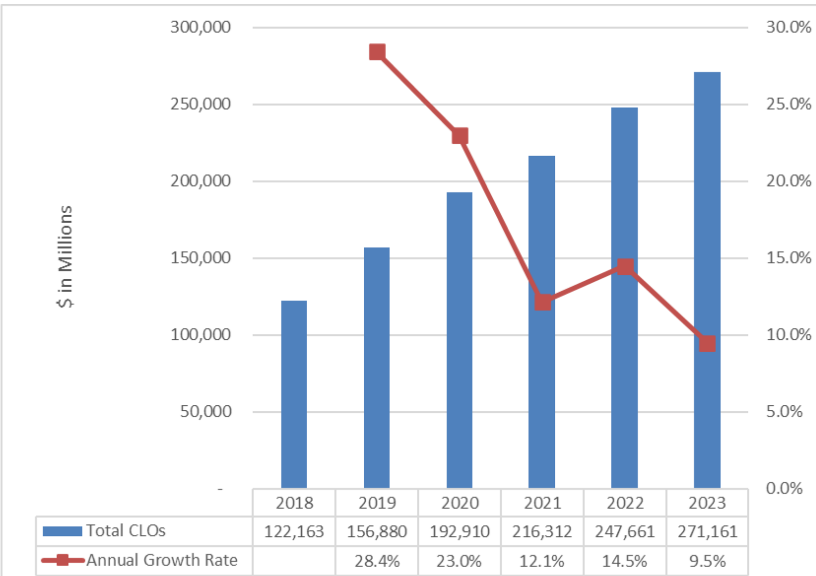
Executive Summary

- U.S. insurers' exposure to collateralized loan obligations (CLOs), collateralized by broadly syndicated loans (BSL) and middle market (MM) loans, increased to $271.2 billion in book/adjusted carrying value (BACV) at year-end 2023, representing a 9.5% increase from $247.7 billion at year-end 2022.
- CLO investments increased slightly to 3.2% of U.S. insurers' total cash and invested assets at year-end 2023 from 3% the year prior.
- The pace of growth in insurers' CLO investments, however, continued to slow in 2023, down from almost 15% in 2022 and the 20% range between 2019 and 2021.
- The credit quality of U.S. insurers' CLO investments remained predominantly investment grade, with tranches rated BBB and higher accounting for 82% of total CLO investments and those rated AAA increasing one percentage point to 41%.
- Large life companies—i.e., those with at least $10 billion in invested assets and many of which have CLO asset manager subsidiaries—continue to account for the majority of U.S. insurers' CLO investments at about 80% of the total.
- The top 14 U.S. insurance groups accounted for half of the U.S. insurance industry's total CLO exposure at year-end 2023.

At year-end 2023, U.S. insurers' exposure to collateralized loan obligations (CLOs) continued to increase albeit at a slower pace, or 9.5%, compared to 14.5% at year-end 2022 and the mid-to-high 20% range from 2019 to 2021. (Refer to Chart 1.) High inflation and increasing interest rates may have contributed to the slowdown in growth in 2023. In addition, according to PitchBook's Leveraged Commentary & Data (LCD) 2024 Outlook, new issue spreads for bank loans were at multiyear lows in 2023, and the par amount of outstanding bank loans shrunk for the first time since 2010, thereby limiting available collateral for CLOs.

U.S. insurers' exposure to CLOs, collateralized predominantly by broadly syndicated bank loans (BSLs) and middle market (MM) loans, increased to a total of $271.2 billion in book/adjusted carrying value (BACV) at year-end 2023. Within this total, about $58 billion represented MM CLOs.[1] U.S. insurers reported a total of $267.4 billion in Schedule D, Part 1—Bonds, and the remaining $3.8 billion was reported in Schedule BA—Other Long-Term Investments. Total BACV of CLOs reported in Schedule BA was relatively unchanged year over year (YOY). Note that U.S. insurers' exposure to CLOs has more than doubled over the last five years, as they have provided attractive yield opportunities compared to more traditional investments.

Chart 1: U.S. Insurance Industry's Historical CLO Exposure, 2018–2023



As in prior years, the majority of total CLO exposure was held by life companies at 80% of the total, a small increase from 78% at year-end 2022. This was followed by property/casualty (P/C) companies at 17% at year-end 2023, a decrease from 19% at year-end 2022. (Refer to Table 1.)

Table 1: U.S. Insurers' Exposure to CLOs by Industry Type, 2022–2023 ($BACV bil.)

Industry Type	YE 2023	Pct of Total 2023	YE 2022	Pct of Total 2022
Life	217.1	80%	192.3	78%
P/C	46.3	17%	47.4	19%
Health and Title	7.61	3%	8.0	3%
Total	271.0	100%	247.7	100%

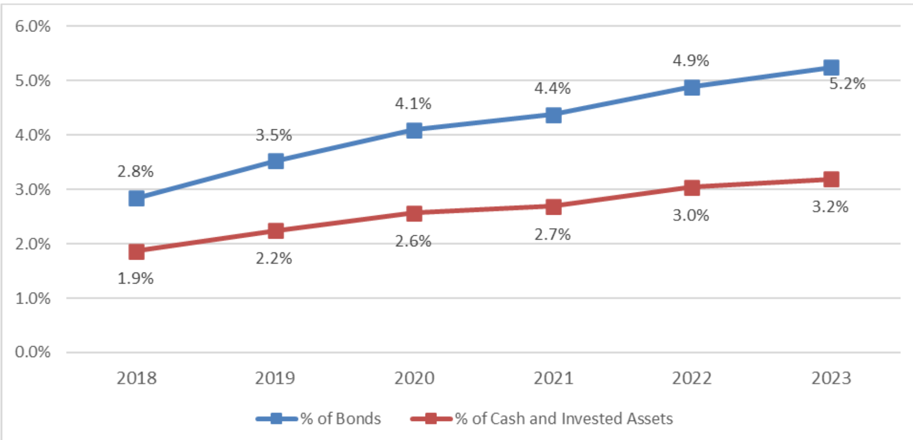
Note: Numbers in the table have been rounded.

CLOs, as a percentage of the U.S. insurance industry's total cash and invested assets, as well as a percentage of overall bond investments, have been on the rise over the last few years. (Refer to Chart 2.) At year-end 2023, CLOs accounted for 3.2% of total cash and invested assets, up from 3% at year-end

[1]Since 2018, U.S. insurers' CLO exposure has been determined via data reported in the annual statement filings, as well as through additional analysis that was completed with third-party data sources, allowing for a more granular and thorough review. In addition, effective year-end 2022, U.S. insurers' CLO exposure includes CLOs that were reported in Schedule BA—Other Long-Term Investments and Schedule D, Part 1—Bonds.

2022, and they were more than one percentage point higher than 1.9% at year-end 2018. As a percentage of total bonds, CLOs increased to 5.2% at year-end 2023, compared to 4.9% at year-end 2022, and almost double the 2.8% in 2018.

Chart 2: CLO Exposure as a Percentage of Cash and Invested Assets and Bond Investments, 2018–2023



Large insurers accounted for about 81% of the U.S. insurance industry's CLO exposure at year-end 2023, similar to prior years. U.S. insurers with assets between $2.5 billion and $10 billion accounted for an additional 10% of the industry's exposure. (Refer to Table 2.)

Table 2: CLO Exposure by Insurer Size, Year-End 2023 ($BACV bil.)

Assets Under Management	Life	P/C	Health and Title	Total	% of Total
Less Than $250M	0.3	1.3	0.3	1.8	1%
Between $250M and $500M	0.6	1.3	0.7	2.6	1%
Between $500M and $1B	1.0	2.1	1.4	4.5	2%
Between $1B and $2.5B	4.1	6.9	2.6	13.7	5%
Between $2.5B and $5B	8.4	4.9	1.3	14.6	5%
Between $5B and $10B	7.7	6.5	0.6	14.8	5%
Greater Than $10B	194.5	23.6	0.8	219.0	81%
Grand Total	**216.7**	**46.5**	**7.7**	**271.0**	100%

Note: Numbers in the table have been rounded.

At year-end 2023, 10 U.S. insurer groups accounted for 42% of all CLO investments, with the top 25 insurers accounting for almost 70%. In comparison, the top 10 U.S. insurance groups with CLO exposure made up 40% of the total at year-end 2022. The top 10 were large life companies, many of which have CLO management subsidiaries. As such, these insurers benefit from having internal CLO infrastructure and knowledge.

Approximately $59 billion in CLO investments were held by private equity (PE)-owned U.S. insurers at year-end 2023, of which there were 137 as of July 2024. This includes $57.2 billion reported in Schedule D, Part 1—Bonds and $1.6 billion reported by insurers in Schedule BA—Other Long-Term Investments. In comparison, total CLO investments held by PE-owned U.S. insurers at year-end 2022 was approximately $53 billion. At least 68% of CLO investments held by PE-owned insurers were rated investment grade or higher, with 25% rated AAA. (Refer to the NAIC Capital Markets Bureau special report titled *Number of Private Equity-Owned U.S. Insurers Remains Constant, But Total Investments Increase by Double Digits in 2023* published in August 2024 for more detail on PE-owned U.S. insurers.)

As reported by insurers in Schedule D, Part 1, there was a slight improvement in credit quality from 2022 to 2023. The proportion of CLO investments rated AAA increased by one percentage point to 41% of total CLO investments at year-end 2023. Investment grade (BBB and higher) remained at 82% of the total; this excludes CLO investments rated BBB- which were about 10% of total CLO investments at both year-end 2023 and year-end 2022. (Refer to Chart 3 and Chart 4.) CLOs in the AA and A rating categories combined remained at about 40% of the total in 2023. The 5% non-rated category includes CLO debt tranches that were reported without a rating, as well as CLO equity tranches that are not rated by nationally recognized statistical rating organizations (NRSROs).

Chart 3: U.S. Insurers' CLO Credit Quality as of Year-End 2023

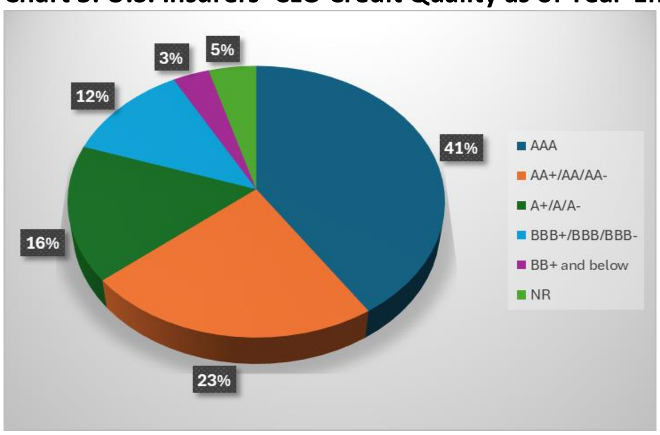
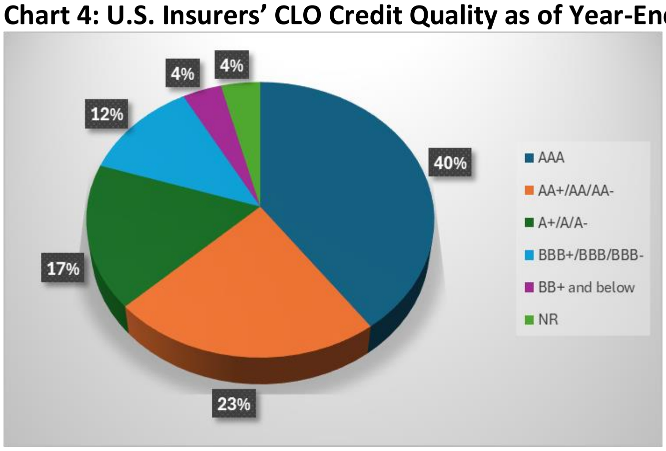


Chart 4: U.S. Insurers' CLO Credit Quality as of Year-End 2022

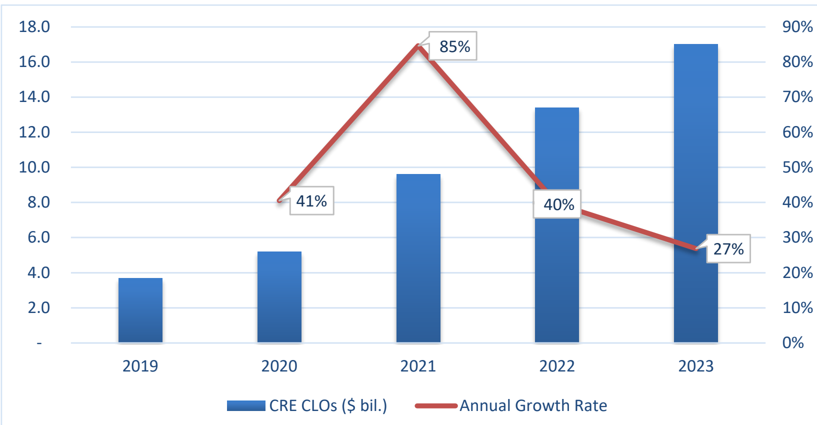


CLO investment risk is dependent, in part, on the credit quality of the CLO collateral, which, for the most part, is mitigated by the relatively high percentage of AAA-rated tranches held by insurers. In addition, risk is also dependent on the concentration of exposure within each insurer's investment portfolio, particularly as a percentage of a company's total capital and surplus.

Commercial Real Estate Collateralized Loan Obligation Investments

U.S. insurers' exposure to commercial real estate (CRE) CLOs has also been increasing over the last few years. (Refer to Chart 5.) While similar in structure to other CLO types, the underlying collateral in CRE CLOs includes shorter-term loans on transitional CRE properties.

Chart 5: U.S. Insurers' CRE CLO Investments, 2019–2023



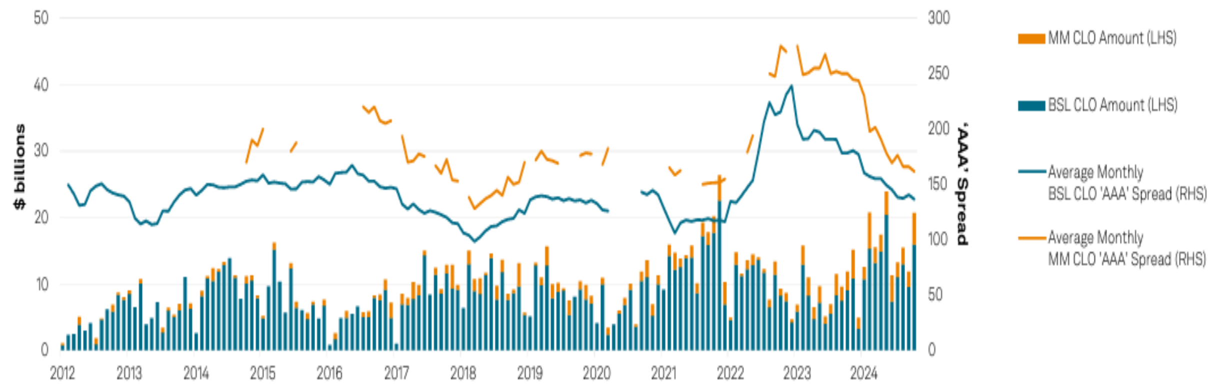
U.S. insurers held approximately $17 billion in CRE CLOs at year-end 2023, representing a 27% increase from $13.4 billion at year-end 2022; however, the YOY growth in BACV decreased from growth rates in prior years. This may be due in part to the scarcity of CRE loans in an unattractive, high-interest-rate environment. About 84% of U.S. insurers' CRE CLO exposure was held by life companies, which was an increase from 76% at year-end 2022, while exposure among P/C companies decreased to about 14% from 19% at year-end 2022. About 95% of U.S. insurers' exposure to CRE CLOs was rated at least BBB, with 56% rated AAA, the highest credit quality.

Collateralized Loan Obligation Market Trends

CLO new issuance at year-end 2023 was about $115.8 billion according to S&P Global, of which $89 billion was in BSL CLOs and the remainder with MM CLOs. (Refer to Chart 6.) MM CLOs are most often collateralized by bank loans made to companies with less than or equal to $500 million in gross revenues and less than or equal to $50 million in earnings before interest, tax, depreciation, and amortization (EBITDA). In comparison, in 2022, new U.S. CLO issuance was $129 billion ($117 in BSL CLOs and $12 billion in MM CLOs), the second highest full-year total after $185.2 billion in 2021. Tightening spreads over the last two years have, in part, been impacting CLO activity, resulting in an increase in issuance. In addition, expected rate cuts by the Federal Reserve and lower market volatility have also influenced new issuance activity. Through October 2024, new CLO issuance (including BSL and MM CLOs) was approximately $162.6 billion, compared to $94.5 billion for the 10 months ending October 2023.

Chart 6:

U.S. BSL and MM CLO issuance by month, along with benchmark CLO 'AAA' tranche spreads



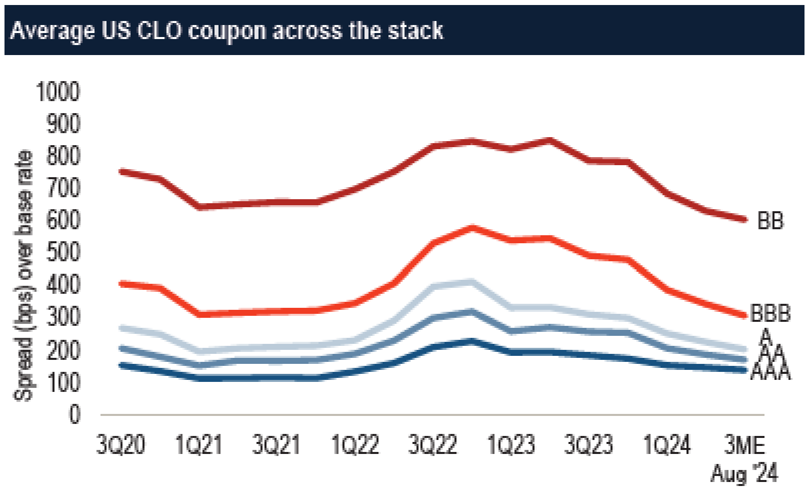
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023 through Oct.	2024 through Oct.	Change
New issue	BSL CLOs (bil. $)	50.11	78.12	117.78	93.76	64.01	103.58	112.88	103.65	82.21	164.97	116.99	88.71	73.39	131.47	79.2%
	MM CLOs (bil. $)	4.15	4.31	6.32	5.15	8.28	14.49	15.97	14.82	11.33	22.53	11.98	27.10	21.12	31.10	47.3%
	Total new issue (bil. $)	**54.26**	**82.43**	**124.10**	**98.91**	**72.30**	**118.07**	**128.86**	**118.47**	**93.54**	**187.49**	**128.97**	**115.81**	**94.50**	**162.57**	**72.0%**
	MM CLO (%)	7.6	5.2	5.1	5.2	11.5	12.3	12.4	12.5	12.1	12.0	9.3	23.4	22.34	19.13	-3.21
Reset/Refi	BSL CLOs (bil. $)	0.00	0.00	0.00	0.00	39.73	161.53	151.97	41.33	30.39	237.61	17.35	21.55	11.52	220.73	**1,816%**
	MM CLOs (bil. $)	0.00	0.00	0.00	0.00	0.00	5.48	3.92	2.46	1.09	13.70	7.42	3.05	0.81	14.52	**1,690%**
	Total resets/refis (bil. $)	**0.00**	**0.00**	**0.00**	**0.00**	**39.73**	**167.01**	**155.89**	**43.79**	**31.48**	**251.31**	**24.77**	**24.60**	**12.33**	**235.24**	**1,808%**

BSL--Broadly syndicated loan. MM--Middle market. Sources: S&P Global Ratings and Pitchbook LCD.

Source: S&P Global, *U.S. BSL CLO And Leveraged Finance Quarterly: Cautious Optimism, But Still A Credit Pickers' Market*, November 2024.

U.S. insurers' exposure to CLOs has continued to increase due in part to their attractive yield compared to more traditional asset types, particularly given their floating rate nature as interest rates were rising. Spreads on new-issue AAA-rated CLOs, which are the most commonly held tranches by U.S. insurers, averaged approximately 180 basis points (bps) over term Secured Overnight Financing Rate (SOFR) at year-end 2023, but the spread has since narrowed to an average of about 141 bps over term SOFR as of August 2024, according to PitchBook's LCD. (Refer to Chart 7.) Spreads tend to narrow with a presumed decrease in risk, and they may also move based on other factors, such as supply and demand. Spreads for lower rated tranches, such as AA, A, and BBB, have also narrowed, decreasing by a range of 100 bps to 230 bps as of August 2024 from August 2023.

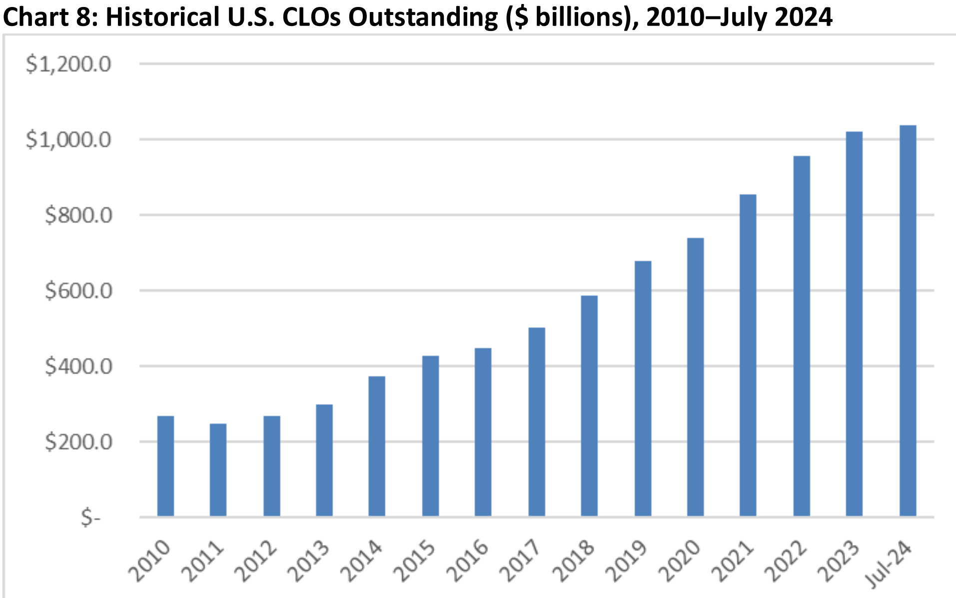
Chart 7:



Source: PitchBook | LCD • Excludes middle-market CLOs

CLOs outstanding surpassed $1 trillion as of 2023, reaching $1.02 trillion at year-end. (Refer to Chart 8.) Based on exposure as reported by U.S. insurers, and similar to a few years prior, U.S. insurers held approximately 27% of total outstanding CLOs at year-end 2023. As of July 2024, total CLOs outstanding increased slightly to $1.04 trillion, according to Bank of America (BofA) Securities.

Chart 8: Historical U.S. CLOs Outstanding ($ billions), 2010–July 2024



Source: BofA Global Research

For more background on CLOs, please refer to the NAIC CMB's primer published in August 2018.

Slowdown in Leveraged Bank Loan Issuance

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. New leveraged loan issuance in 2023 totaled approximately $300 billion, a significant decline from about $850 billion in 2021. According to PitchBook's LCD, the volume of leveraged loans as of August 2024 was $94.5 billion, an increase of about 63% from August 2023.

More background on leveraged bank loans can be found in the NAIC CMB's primer on Leveraged Bank Loans, and more information on U.S. insurers' bank loan exposure at year-end 2023 may be found in an NAIC CMB special report titled *U.S. Insurers' Bank Loan Exposure Rises At A Decelerated Pace in 2023*, published in July 2024.

CRE CLO Market Trends

After experiencing peak issuance in 2021 and 2022, according to the Commercial Real Estate Finance Council (CREFC), total annual CRE CLO issuance dropped almost 80% to $6.7 billion in 2023 from about $30 billion in 2022. Year-to-date through early September 2024, CREFC cites $5.8 billion in new CRE CLO issuance, which is slightly lower than $5.9 billion for the same period in 2023. The significant decrease in CRE CLO new issuance compared to years prior is mostly attributed to high interest rates and low CRE investment sales, according to Morningstar DBRS. While U.S. insurers continue to participate in this market, exposure continues to be less than 1% of total cash and invested assets. The NAIC CMB published a CRE CLO primer in July 2021.

The NAIC CMB will continue to monitor trends with CLOs and report as appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at
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