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 web page and the NAIC archives (for reports published prior to 2016).

U.S. Insurer Investments in Private-Label Commercial Mortgage-Backed Securities Decline at Year-End 2023

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Executive Summary

- U.S. insurance companies reported a 3.1% year-over-year (YOY) decline in commercial mortgage-backed securities (CMBS) to $284 billion at year-end 2023, driven by private-label.
- CMBS represented 28.6% of the U.S. insurance industry's total commercial real estate (CRE) exposure, declining from 29.9% as of year-end 2022.
- Private-label CMBS accounted for approximately three-quarters of U.S. insurers' CMBS exposure at year-end 2023, and agency CMBS accounted for one-quarter.
- The credit quality of the CMBS portfolio marginally weakened YOY, with investments carrying an NAIC 1 designation and NAIC 2 designation falling to 97.5% of total exposure at year-end 2023 from 98.1%.
- Delinquency rates were the highest for office and retail properties at 8.2% and 6.6%, respectively, as of September 2024, according to S&P Global Ratings (S&P Global) data.

Commercial mortgage-backed securities (CMBS) have historically accounted for the U.S. insurance industry's second-largest commercial real estate (CRE) exposure. As of year-end 2023, CMBS reported by U.S. insurance companies totaled $284 billion or 28.6% of the industry's total CRE exposure.[1] The share of CMBS declined from 29.9% of the industry's total CRE exposure at year-end 2022. While it accounted for the second-largest CRE exposure for life insurance companies, CMBS represented property/casualty (P/C) companies' largest CRE exposure. U.S. insurance companies are also exposed to CRE through other investments, including direct commercial mortgage loans (CMLs), owned real estate, and unsecured bonds issued by real estate investment trusts (REITs).

[1] NAIC Capital Markets Bureau Special Report, "U.S. Insurance Industry's Commercial Real Estate Investments Near $1 Trillion as of Year-End 2023, Led by Mortgage Loans," October 2024, p. 3.

The distribution of investments between private-label and agency CMBS has been relatively consistent for several years. Private-label CMBS accounted for approximately three-quarters of U.S. insurers' CMBS exposure at year-end 2023, with agency CMBS accounting for one-quarter. (Refer to Table 1.)

Table 1: Total U.S. Insurance Industry CMBS by Type, Year-End 2023 (BACV$ in Millions)

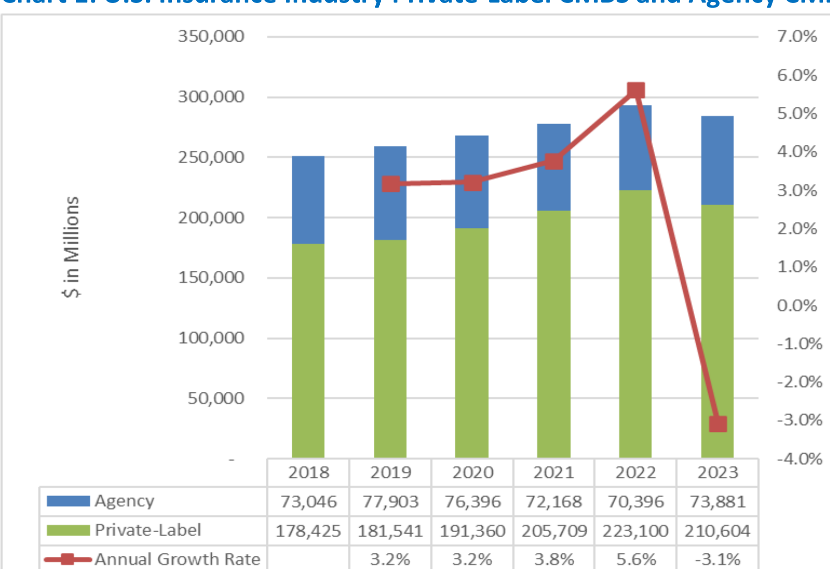
CMBS Type	Life	P/C	Health	Title	Total	% of Total
Private-Label	154,870	46,173	9,551	10	210,604	74.0%
Agency	41,957	29,632	2,173	118	73,881	26.0%
Total	**196,827**	**75,805**	**11,725**	**129**	**284,485**	**100.0%**
% of Total	69.2%	26.6%	4.1%	0.0%	100.0%	

Note: Numbers in the table have been rounded.

Similar to previous years, life and P/C companies accounted for the majority of the industry's CMBS investments. While life companies held the largest share of the industry's CMBS exposure in 2023, their share declined to 69.2% from 70.1% the prior year. On the other hand, P/C companies' share increased to 26.6% from 25.7%. Health and title companies together represented approximately 4% of the industry's CMBS exposure. Note that life, P/C, and health companies invested proportionately more in private-label CMBS, while title companies invested more in agency CMBS.

After annual growth between 2018 and 2022, total U.S. insurer investments in CMBS decreased by 3.1% at year-end 2023. Private-label CMBS contributed to the overall decline, with a 5.6% year-over-year (YOY) drop, offset by 4.9% growth in agency CMBS. All four insurer types reported lower investments in private-label CMBS, but only life and health insurance companies recorded declines in total CMBS investments. (Refer to Chart 1.) The exposure decline was partly due to lower available inventory of CMBS with new issuance in 2023 down because of higher interest rates and general concerns in the CRE market.

Chart 1: U.S. Insurance Industry Private-Label CMBS and Agency CMBS, Year-End 2018–2023

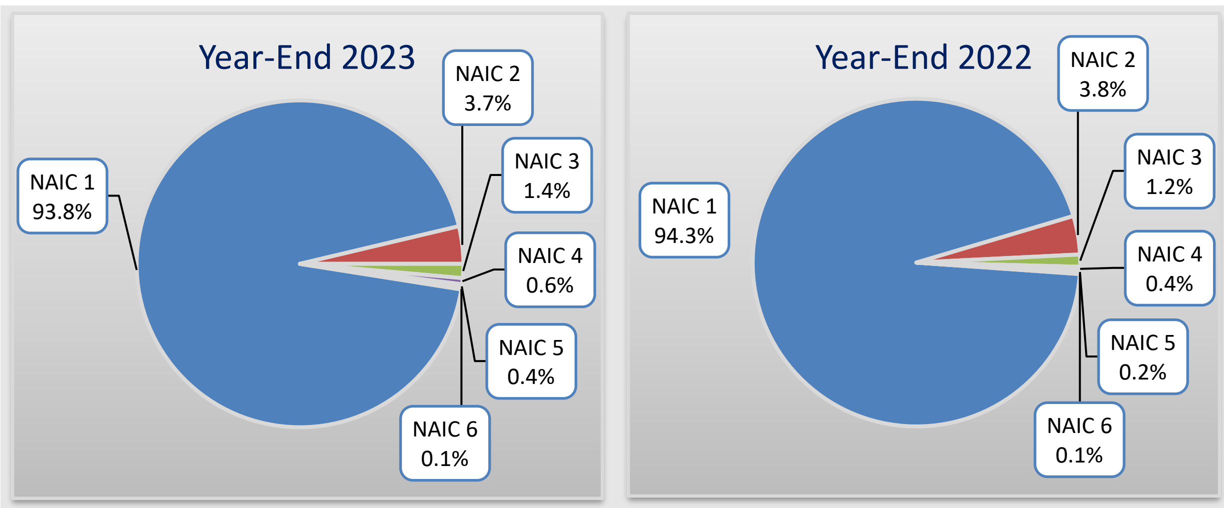


Credit Quality Deteriorates Marginally, But AAA Still Dominates

The U.S. insurance industry's CMBS investments are primarily high credit quality, specifically in the most senior triple-A rated tranches, which are typically structured with considerable credit enhancement. At year-end 2023, 93.8% of U.S. insurers' CMBS investments carried an NAIC 1 designation, a half percentage point decline compared to the previous year. Furthermore, investments carrying an NAIC 1 designation and an NAIC 2 designation, which are considered investment-grade credit quality, totaled 97.5% of CMBS exposure at year-end 2023, a marginal decline from 98.1% at year-end 2022. Meanwhile, investments carrying an NAIC 3 designation and lower, which are considered high-yield credit quality or at the lower end of the credit quality spectrum, increased to 2.5% of CMBS exposure from 1.9% over the one-year period. (Refer to Chart 2 and Chart 3.)

While the credit quality of the CMBS portfolio has deteriorated modestly, a significant majority, or almost 90%, of investments carrying an NAIC 1 designation corresponds to a AAA credit rating.

Chart 2 and Chart 3: Reported Credit Quality of the U.S. Insurance Industry's CMBS Portfolio at Year-End 2023 (Left) and Year-End 2022 (Right)



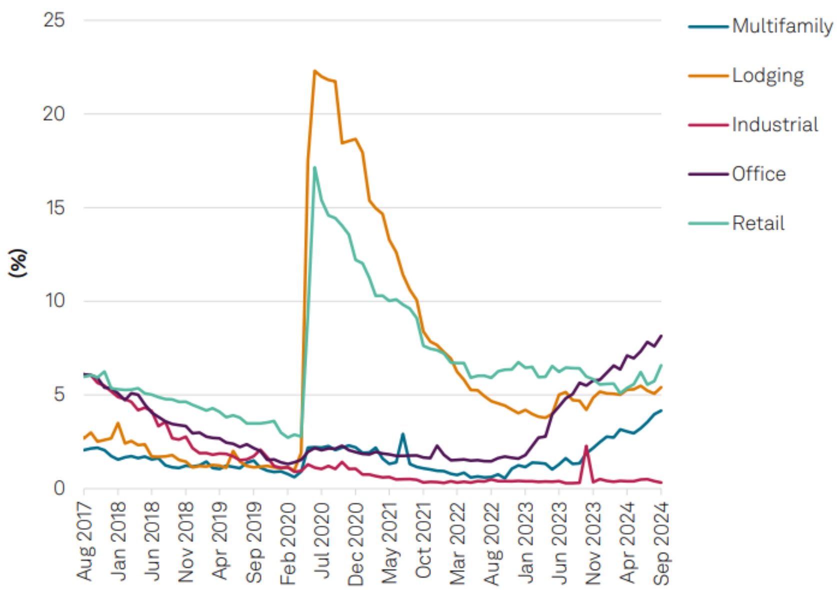
U.S. Commercial Mortgage-Backed Securities Market and New Issuance Trends

Challenges in the CRE sector are largely concentrated in the office sector, given the paradigm shift of workers resisting the return to the office full-time and a hybrid work environment becoming the accepted norm. Office properties' financial performance did not immediately suffer, as long-term leases supported leased space calculations and rental payments. However, CMBS fundamentals and valuations are likely to come under pressure as those leases begin to expire. In addition, high interest rates have created a challenge for existing commercial mortgages that are due for refinancing, as well as the financing of new projects.

The lodging and retail sectors have experienced improvements from prior pandemic-related difficulties, and supply dynamics in the multifamily and industrial sectors are well-balanced. For additional details related to CRE market trends, please refer to the NAIC Capital Markets Bureau Special Report, *U.S. Insurance Industry's Commercial Real Estate Investments Near $1 Trillion as of Year-End 2023, Led by Mortgage Loans*, published in October 2024.

S&P Global Ratings (S&P Global) data shows that the 30-plus day delinquency rate for U.S. CMBS transactions was 5.2% as of September 2024. The office delinquency rate has been rising since early 2023, and it climbed to 8.2%, the highest rate among the five major property types. The delinquency rate for multifamily properties, at 4.2%, also increased in recent quarters. (Refer to Chart 4.) While retail represented the second-highest delinquency rate, it has declined significantly and stabilized at approximately 6.6%.

Chart 4: CMBS Delinquency Rate by Property Type, August 2017 to September 2024



Source: S&P Global Ratings, U.S. Structured Finance Chart Book: September 2024.

Following weak origination in 2023 due to high interest rates and office sector uncertainty, CMBS new issuance in the U.S. has rebounded in 2024 and totaled $74 billion through September 2024, according to S&P Global data. New issuance has almost doubled the full-year 2023 total, as financing conditions have improved with market expectations of additional interest rate cuts and a resilient economy. S&P Global estimates new issuance to total $90 billion for full-year 2024.[2]

The NAIC Capital Markets Bureau will continue to monitor trends in the U.S. insurance industry's CMBS investments and report as deemed appropriate.

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[2] S&P Global Ratings, U.S. CMBS Update Q3 2024: Issuance Remains Robust Despite Accelerated Office Downgrades, Oct. 11, 2024.

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