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).

Total U.S. Insurers' Emerging Markets Investments as of Year-End 2021 Are Minimal

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Executive Summary

- At year-end 2021, U.S. insurers' investment in emerging markets (EM) bonds and stocks totaled $42.1 billion in book/adjusted carrying value (BACV), which was less than 1% of total cash and invested assets and a small decrease from $43 billion at year-end 2020.
- Bonds accounted for the majority of EM investments at year-end 2021, at $40.3 billion; the largest country exposure for EM bonds was Mexico, at 27% of total EM bonds.
- Corporate EM bonds accounted for more than half of U.S. insurers total EM bond investments at $22.8 billion; the largest EM corporate bond country exposure for U.S. insurers was Mexico at $10.9 billion.
- Almost 90% of U.S. insurers' exposure to EM bonds was investment grade at year-end 2021, evidenced by NAIC 1 and NAIC 2 designations.
- EM stocks accounted for about $1.9 billion of total EM investments; the largest EM country stock exposure was China, at 29% of total EM stocks.
- According to the International Monetary Fund's World Economic Outlook (IMF WEO) dated April 2022, global growth—including in emerging market economies—is expected to be 3.6% in 2022; for EM economies only, growth is expected to be 3.8%.

In this special report, the NAIC Capital Markets Bureau has analyzed the U.S. insurance industry's exposure to EM countries based on the IMF definition. While there is no universal definition for what constitutes emerging market countries, the IMF defines non-advanced economies as "emerging market and developing economies" (EM).[1] The countries that comprise emerging markets shift with changes in economic conditions; as such, emerging market economies can include those that might have been

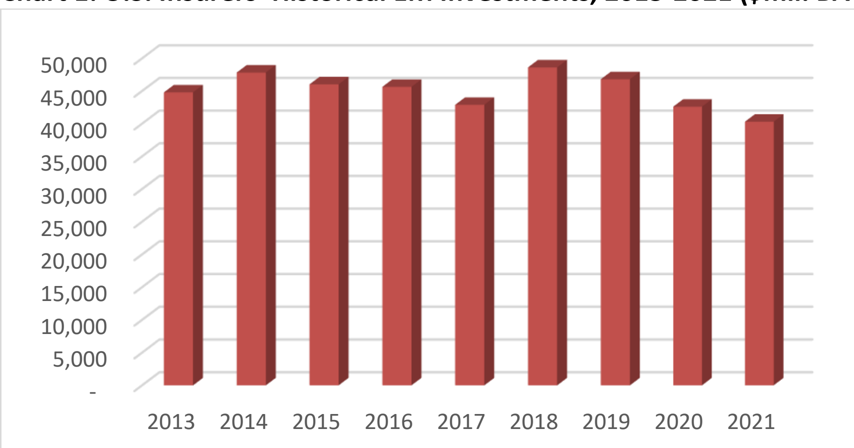
[1] IMF, *World Economic Outlook Update,* April 2022.

considered developed markets in the past. EM countries are included among five regions: Asia; Europe; Latin America and the Caribbean; Middle East and North Africa; and Sub-Saharan Africa.

U.S. Insurers' Exposure to EM Investments

At year-end 2021, U.S. insurers' EM investments totaled $42.1 billion in bonds and stocks, representing an approximate 2.5% decrease from $43.2 billion at year-end 2020 and a decreasing trend in total exposure since 2018. Almost all EM exposure (96% of the total), has been in bonds, which have been in the $40 billion range since 2013. For the U.S. insurance industry, EM investments have historically accounted for less than 1% of total cash and invested assets (see Chart 1).

Chart 1: U.S. Insurers' Historical EM Investments, 2013-2021 ($mil. BACV)



At year-end 2021, similar to years prior, life companies accounted for the majority of U.S. insurers' EM investments, at 87% of the total, or $36.5 billion, followed by property/casualty (P/C) companies, at 12% of the total, or $5.0 billion (see Table 1).

Table 1: U.S. Insurers' EM Investments by Industry Type, Year-End 2021 ($mil BACV)

Asset Type	Life	P/C	Title	Health	Total	Pct of Total
Bonds	36,193.3	3,550.4	44.4	516.4	40,304.4	96%
Common and Preferred Stock	327.8	1,471.7	4.0	64.5	1,868.0	4%
Total	**36,521.1**	**5,022.1**	**48.4**	**580.9**	**42,172.4**	**100%**
Pct of Total	87%	12%	0%	1%	100%	

More Than Half of EM Bonds Consist of Corporate Debt

For total EM bond investments, the largest three countries were Mexico, at approximately $10.9 billion, followed by Chile, at $6.1 billion and Indonesia at $4.6 billion (see Table 2). In aggregate, the three countries accounted for about half of U.S. insurers' total EM bond exposure.

About 57% of the industry's EM bond investments were in corporate bonds, or $22.8 billion, at year-end 2021, which were diversified across several sectors. The top two sectors within the industry's EM corporate bond exposure were utilities and energy, respectively. A potential risk for some energy bonds is oil price fluctuations. After oil prices collapsed in early 2020 – dipping to their lowest level in more than 20 years – they reached a high of $139 per barrel in February 2022 based on Brent crude, which was the highest level since 2008. This is due in part to Russia's invasion of Ukraine along with continued inflationary pressures. Note that U.S. insurers' investments in oil companies benefit from high oil prices. While U.S. insurers' overall exposure to EM energy bonds is relatively low, exposure—and, in turn, credit risk—may vary among individual insurers.

Table 2: U.S. Insurers' EM Bond Exposure by Sector, Year-End 2021 ($mil. BACV)

Country	Corporate	Foreign Government	Other	Total	Pct of Total
Argentina	34.2	3.6	-	37.8	0%
Brazil	383.5	449.5	81.5	914.5	2%
Chile	4,789.8	1,040.3	244.0	6,074.0	15%
China	148.4	88.4	5.6	242.4	1%
Colombia	703.6	1,210.6	-	1,914.2	5%
Czech Republic	73.8	2.8	-	76.6	0%
Egypt	1.8	160.9	-	162.7	0%
Greece	0.0	0.2	-	0.2	0%
Hungary	168.2	617.7	-	785.9	2%
India	809.3	374.7	40.9	1,225.0	3%
Indonesia	1,873.4	2,723.2	27.0	4,623.6	11%
Malaysia	498.9	162.5	-	661.4	2%
Mexico	8,770.2	1,885.7	240.9	10,896.8	27%
Pakistan	0.0	10.3	4.0	14.3	0%
Peru	1,485.6	933.0	2.9	2,421.4	6%
Philippines	26.4	702.6	-	729.0	2%
Poland	0.5	671.4	36.2	708.1	2%
Qatar	267.5	857.6	14.3	1,139.4	3%
Russia	1.5	757.6	-	759.1	2%
Saudi Arabia	6.5	2,076.5	-	2,083.0	5%
South Africa	111.0	487.2	-	598.2	1%
Thailand	325.2	0.1	-	325.3	1%
Turkey	421.5	369.4	33.2	824.1	2%
United Arab Emirates	1,885.2	1,191.9	10.2	3,087.4	8%
Total	**22,786.2**	**16,777.6**	**740.7**	**40,304.4**	**100%**
Pct of Total	57%	42%	2%	100%	

The largest EM corporate bond exposure was with Mexico at $8.8 billion at year-end 2021. The largest two Mexico corporate issuers held were Grupo Televisa S.A.B. (rated BBB+/Baa2 by S&P/Moody's) and America Movil S.A.B. de C.V. (rated BBB+/A3 by S&P/Moody's), totaling about $1.0 billion each.

About 80% of U.S. insurers' EM corporate bonds were senior unsecured. In addition, corporate EM bonds were mostly investment grade, evidenced by NAIC 1 and NAIC 2 designations, accounting for 89% of total corporate EM bonds.

Sovereign EM Bonds Were Less Than Half of Total EM Bond Investments

Within the industry's $16.8 billion sovereign EM bond exposure, which represented 42% of total EM bond investments, the majority was with Indonesia at $2.7 billion, followed by Saudi Arabia at $2.0 billion (see Table 3). The top five sovereign EM bond exposures totaled about $9 billion. Each of the top five EM sovereign bond exposures were rated at least investment grade by S&P and Moody's, mitigating sovereign credit risk concerns.

Table 3: Top Five Sovereign EM Bond Exposure for U.S. Insurers, Year-End 2021

Country	$mil BACV	% of Total Sovereign Bonds	Credit Ratings (S&P/Moody's)
Indonesia	2,723.2	16%	BBB/Baa2
Saudi Arabia	2,076.5	12%	A-/A1
Mexico	1,885.7	11%	BBB+/Baa1
Colombia	1,210.6	7%	BBB-/Baa2
United Arab Emirates	1,191.9	7%	AA*/Aa2
Top 5 Total	9,087.9	54%	

*Credit rating for Abu Dhabi, a member of the United Arab Emirates

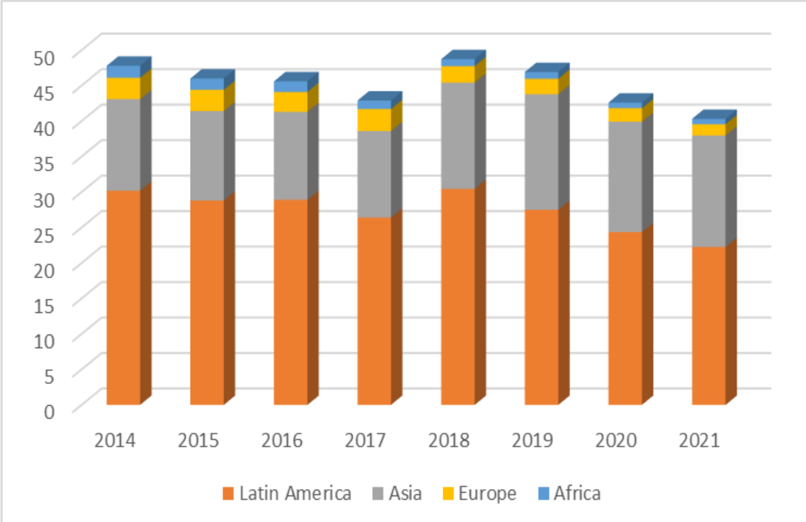
Total U.S. Insurer EM Bond Investments by Region – Latin America Dominates

Despite a declining trend in BACV totals, Latin America has historically accounted for the largest proportion of U.S. insurers' EM bond investments (see Chart 2) since at least 2014, followed by investments in Asia. Latin America includes investments in EM countries domiciled in North America, South America and Central America and accounted for 55% of U.S. insurers' EM bond investments at year-end 2021. Asian EM bonds accounted for 39%.

According to S&P, the Russia-Ukraine conflict has had a mild impact on gross domestic product (GDP) in Latin America due to its "low trade and financial linkages with both countries." [2] However, an increase in inflation and interest rates, along with lower fiscal stimulus and continued supply chain disruptions are expected to negatively impact economic growth in Latin America through the first half of 2022. Also according to S&P, Asia had experienced strong recovery in 4Q2021, and growth is expected to slow in this region for the first half of 2022 as well due to a slower rise in global demand along with the impact of the Russia-Ukraine conflict. "These factors will lower the expansion of exports and manufacturing, which were main growth drivers in 2021, while greater uncertainty and higher energy prices will weigh on domestic consumer sentiment."[3]

[2] S&P Global, *Credit Conditions Emerging Markets Q2 2022: Conflict Exacerbates Risks*, March 29, 2022
[3] Ibid.

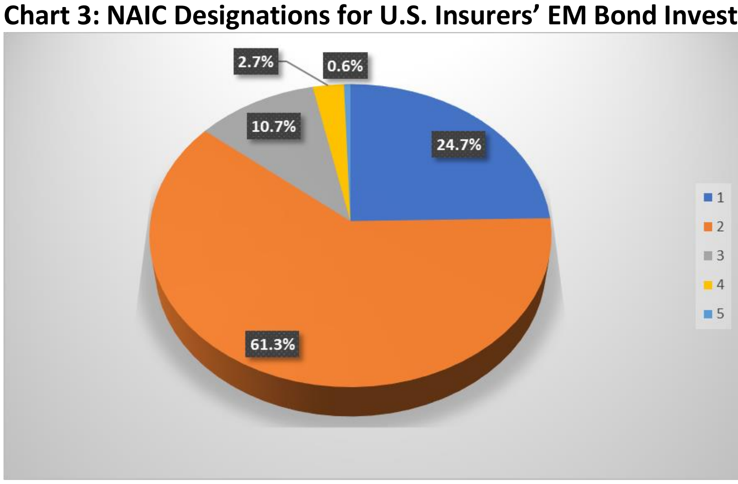
Chart 2: U.S. Insurers' Historical EM Bond Investments by Region, 2014–2021 ($bil BACV)



EM Bond Credit Quality is Mostly Investment Grade

U.S. insurers' exposure to all EM bonds was mostly investment grade or higher, with 86%, or $34.6 billion, carrying NAIC 1 and NAIC 2 designations at year-end 2021 (see Chart 3), mitigating any potential concerns regarding credit risk. The remainder consisted of bonds mostly carrying NAIC 3 and NAIC 4 designations.

Chart 3: NAIC Designations for U.S. Insurers' EM Bond Investments, Year-End 2021



U.S. Insurers' EM Stock Exposure

As of year-end 2021, U.S. insurer common and preferred unaffiliated stock investments totaled about $1.9 billion (see Table 4), which was an increase of about 11.8% from $1.7 billion at year-end 2020. EM stocks were about 4% of the U.S. insurance industry's exposure to EM investments at both year-end 2021 and year-end 2020. The largest EM country stock exposure was with China, at $548.3 million, or 29% of total EM stock exposure at year-end 2021. The top three EM country stock investments accounted for almost 70% of the U.S. insurance industry's total EM stock exposure at year-end 2021. P/C companies accounted for the majority of U.S. insurers' EM stock exposure at year-end 2021, at 79% of total EM stocks. The top two industry sectors within the EM stock exposure were financials and technology, respectively.

Table 4: U.S. Insurers' EM Common and Preferred Unaffiliated Stocks ($mil BACV), Year-End 2021

Country	Life	P/C	Title	Health	Total	% of Total
China	187.4	353.0	-	7.8	548.3	29%
Greece	0.1	498.6	-	-	498.7	27%
India	124.5	74.6	-	6.1	205.2	11%
Taiwan	5.9	177.1	-	19.5	202.4	11%
Mexico	1.5	119.3	4.0	22.7	147.6	8%
Egypt	-	136.9	-	-	136.9	7%
Russia	0.7	27.5	-	-	28.3	2%
Indonesia	0.2	20.1	-	2.8	23.1	1%
Thailand	0.7	17.7	-	-	18.4	1%
Brazil	4.4	11.7	-	0.6	16.8	1%
Colombia	0.1	15.9	-	-	15.9	1%
South Africa	1.2	13.5	-	-	14.7	1%
Other	1.0	5.9	-	4.9	11.8	1%
Total	**327.8**	**1,471.7**	**4.0**	**64.5**	**1,868.0**	**100%**
	18%	79%	0%	3%		

EM Economic Trends

Global growth reached 6.1% in 2021; however, for 2022, growth projections are grim due in part to Russia's invasion of Ukraine following on the slow economic recovery from the COVID-19 pandemic, including among EM countries. According to the IMF Global Financial Report dated April 2022, "Rising risks to the inflation outlook and rapidly changing views about the likely pace of monetary policy tightening have been dominant themes affecting financial stability."[4] As such, 2022 began economically weaker than expected. Increasing energy prices and persistent supply disruptions have led to higher and more broad-based inflation than previously anticipated, not only in the U.S., but also in EM countries. According to the IMF, in EM countries, inflation is projected to be 8.7% in 2022 (compared to 5.5% in 2021). Price pressures, reflecting higher commodity and food prices among other factors, have resulted in some EM central banks, such as in Brazil, raising interest rates in an attempt to manage inflation. Note that some EM countries, particularly those in Latin America, have benefited from higher commodity prices as energy exporters.

[4] IMF World Economic Outlook Update, April 2022.

For EM countries, aggregate economic growth was estimated at 6.8% in 2021, (see Table 5). EM countries in Asia demonstrated stronger growth than other EM areas, at 7.3%. China's growth in 2021, 8.1%, exceeded both the U.S. and overall global growth. China's economy benefits, in part, from its role as a vital global supply chain source. As such, China is the only country that demonstrated economic growth in 2020, during the peak of the COVID-19 pandemic. However, in recent times, China's economy has been negatively impacted by financial stress within its housing sector, along with COVID-19 pandemic-related disruptions.

Saudi Arabia – U.S. insurers' second largest sovereign EM bond exposure at year-end 2021 – is expected to achieve 7.6% growth in 2022 by the IMF, due likely to its role in oil production, compared to 3.2% growth in 2021; and in Indonesia, U.S. insurers' largest EM sovereign bond exposure, growth is expected to increase to 5.4% in 2022 from 3.7% in 2021. In contrast, for Mexico, U.S. insurers' third largest sovereign EM bond exposure, growth is projected to decrease to 2% in 2022 from 4.8% in 2021. Note that Russia's economy is expected to contract 8.5% in 2022 compared to 4.7% growth in 2021.

As of April 2022, the IMF forecasted growth in 2022 for all EM countries to be 3.8%. In emerging Europe, a contraction of 2.9% is expected in 2022, compared to 6.7% growth in 2021. Latin America/Caribbean is expected to achieve 2.5% growth in 2022, compared to 6.8% in 2021. According to the IMF's April 2022 WEO, employment and growth are likely to remain below pre-pandemic levels for a longer period of time in EM economies compared to advanced economies, due in part to limited policy support among other factors. The COVID-19 pandemic also resulted in an unprecedented increase in sovereign debt among EM countries, making them more vulnerable to interest rate increases.

Table 5:

Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	2021	Projections 2022	Projections 2023	Difference from January 2022 WEO *Update*[1] 2022	Difference from January 2022 WEO *Update*[1] 2023	Difference from October 2021 WEO[1] 2022	Difference from October 2021 WEO[1] 2023
World Output	**6.1**	**3.6**	**3.6**	**–0.8**	**–0.2**	**–1.3**	**0.0**
Advanced Economies	**5.2**	**3.3**	**2.4**	**–0.6**	**–0.2**	**–1.2**	**0.2**
United States	5.7	3.7	2.3	–0.3	–0.3	–1.5	0.1
Euro Area	5.3	2.8	2.3	–1.1	–0.2	–1.5	0.3
Germany	2.8	2.1	2.7	–1.7	0.2	–2.5	1.1
France	7.0	2.9	1.4	–0.6	–0.4	–1.0	–0.4
Italy	6.6	2.3	1.7	–1.5	–0.5	–1.9	0.1
Spain	5.1	4.8	3.3	–1.0	–0.5	–1.6	0.7
Japan	1.6	2.4	2.3	–0.9	0.5	–0.8	0.9
United Kingdom	7.4	3.7	1.2	–1.0	–1.1	–1.3	–0.7
Canada	4.6	3.9	2.8	–0.2	0.0	–1.0	0.2
Other Advanced Economies[2]	5.0	3.1	3.0	–0.5	0.1	–0.6	0.1
Emerging Market and Developing Economies	**6.8**	**3.8**	**4.4**	**–1.0**	**–0.3**	**–1.3**	**–0.2**
Emerging and Developing Asia	7.3	5.4	5.6	–0.5	–0.2	–0.9	–0.1
China	8.1	4.4	5.1	–0.4	–0.1	–1.2	–0.2
India[3]	8.9	8.2	6.9	–0.8	–0.2	–0.3	0.3
ASEAN-5[4]	3.4	5.3	5.9	–0.3	–0.1	–0.5	–0.1
Emerging and Developing Europe	6.7	–2.9	1.3	–6.4	–1.6	–6.5	–1.6
Russia	4.7	–8.5	–2.3	–11.3	–4.4	–11.4	–4.3
Latin America and the Caribbean	6.8	2.5	2.5	0.1	–0.1	–0.5	0.0
Brazil	4.6	0.8	1.4	0.5	–0.2	–0.7	–0.6
Mexico	4.8	2.0	2.5	–0.8	–0.2	–2.0	0.3
Middle East and Central Asia	5.7	4.6	3.7	0.3	0.1	0.5	–0.1
Saudi Arabia	3.2	7.6	3.6	2.8	0.8	2.8	0.8
Sub-Saharan Africa	4.5	3.8	4.0	0.1	0.0	0.0	–0.1
Nigeria	3.6	3.4	3.1	0.7	0.4	0.7	0.5
South Africa	4.9	1.9	1.4	0.0	0.0	–0.3	0.0

Source: IMF *World Economic Outlook Update*, April 2022.

The lower expected growth in 2022 for the EM region is due mostly to negative economic impact of the Russia-Ukraine conflict. According to The World Bank, sanctions placed on Russia have hurt EM countries in Europe and Central Asia the most, as they were already projected to experience economic contraction this year due in part to slow recovery from the COVID-19 pandemic. The impact of the continued geopolitical turmoil has not only hurt commodity and financial markets but also trade. Russia and Ukraine account for about 40% of wheat imports in Europe and more than 75% in Central Asia, according to The World Bank.

The NAIC Capital Markets Bureau will continue to monitor the U.S. insurance industry's EM exposure, as well as economic and geopolitical developments that could affect these exposures; we will provide updates as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org.](mailto:CapitalMarkets@naic.org)