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Insignificant Change to Federal Home Loan Bank Membership by U.S. Insurers but an Increase in Advances in 2023

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Executive Summary

- The total number of U.S. insurers that were Federal Home Loan Bank (FHLB) members at year-end 2023 was relatively consistent year-over-year (YOY) at 12% of total U.S. insurers in 2023.
- FHLB capital stock held by U.S. insurers—which is required for FHLB membership—totaled $7.7 billion at year-end 2023, up slightly from $7.4 billion at year-end 2022.
- U.S. insurers reported about $142.5 billion in book/adjusted carrying value (BACV) of FHLB outstanding advances at year-end 2023, up from $138.5 billion at year-end 2022.
- Funding agreements continue to comprise the majority of U.S. insurers' total FHLB advances at 84%, the highest percentage over at least the last six years, and an increase from 76% in 2021.
- U.S. insurers pledged a total of $275 billion in collateral to the FHLB system at year-end 2023, which was a 15% increase from about $240 billion at year-end 2022.
- Similar to years prior, the majority of FHLB pledged collateral was agency residential mortgage-backed securities (RMBS).
- Total U.S. insurers' investment in FHLB bonds decreased slightly to $8.5 billion in 2023, from $8.8 billion in 2022, mostly held by large life companies.

According to annual statement filings with the NAIC, at year-end 2023, the number of U.S. insurers that were Federal Home Loan Bank (FHLB) members was 559, compared to 560 at year-end 2022. Property/Casualty (P/C) companies accounted for the majority, or 48% of the total, followed by life companies at 41%. About 12% of U.S. insurers were FHLB members at year-end 2023, relatively consistent with year-end 2022. U.S. insurers may borrow from the 11 FHLB regional banks (i.e., advances) if they become members by purchasing FHLB capital stock. According to the FHLB's Combined Financial Report for year-end 2023, U.S. insurers accounted for 6% of its total membership, with the largest percentage of its members—almost 61%—comprising commercial banks. U.S. insurers may also invest in FHLB bonds, but they do not have to be members to do so. More discussion on the FHLB system and U.S. insurers as FHLB members may be found in the NAIC Capital Markets Bureau's Primer on FHLBs.

Slight Increase in Exposure to FHLB Capital Stock

FHLB capital stock is not traded on the open market. Therefore, it is not subject to market value risk. It is reported at par value in the statutory financial statements and only redeemable with the FHLB at par. Total FHLB capital stock exposure reported by U.S. insurers at year-end 2023 increased slightly to $7.7 billion from $7.4 billion at year-end 2022. (Refer to Table 1.) Life companies accounted for most of the industry's total FHLB capital stock, increasing to 90% at year-end 2023 from 87% in 2022. A corresponding decrease in FHLB capital stock occurred among P/C companies. This accounted for 7% of the total at year-end 2023, down from 10% at year-end 2022.

Table 1: U.S. Insurers' Exposure to FHLB Capital Stock, Year-End 2023 and 2022 ($par value in millions)

Statement Type	2023	% of 2023 Total	2022	% of 2022 Total
Life	6,964.1	90%	6,595.1	87%
P/C	553.5	7%	549.6	10%
Heatlh	194.4	3%	229.0	3%
Total	**7,712.1**	**100%**	**7,373.7**	**100%**

The amount of activity-based stock held determines the number of advances an FHLB member may receive. At year-end 2023, U.S. insurers' capital stock holdings consisted of activity-based stock totaling $5.9 billion, Class A stock totaling $137 million, Class B stock totaling $1.5 billion, and excess capital stock totaling $218 million. Excess capital stock is any amount held greater than required under the district bank capital requirement. The increase in FHLB capital stock reported by U.S. insurers from 2022 to 2023 also corresponds to an increase in reported advances for the same time frame.

About 82% of all FHLB capital stock, or $6.3 billion, was held by large life companies—i.e., those with more than $10 billion in total cash and invested assets. (Refer to Table 2.) Large insurers across all insurer types accounted for 85% of total U.S. insurer exposure to FHLB capital stock.

Table 2: U.S. Insurers' Exposure to FHLB Capital Stock by Total Cash and Invested Assets, Year-End 2023 ($BACV in millions)

Statement Type	Less Than $250M	Between $250M and $500M	Between $500M and $1.0B	Between $1.0B and $2.5B	Between $2.5B and $5.0B	Between $5.0B and $10.0B	Greater Than $10B	Total	% of Total
Life	7.8	7.6	22.4	54.6	211.3	336.1	6,324.3	6,964.1	90%
P/C	11.5	12.0	37.3	97.8	95.8	64.7	234.5	553.5	7%
Health	1.0	1.3	19.4	69.1	33.9	64.7	5.0	194.4	3%
Title	0.0	-	-	-	-	-	-	0.0	0%
Total	**20.3**	**20.8**	**79.1**	**221.5**	**341.0**	**465.6**	**6,563.8**	**7,712.1**	**100%**
% of Total	0%	0%	1%	3%	4%	6%	85%	100%	

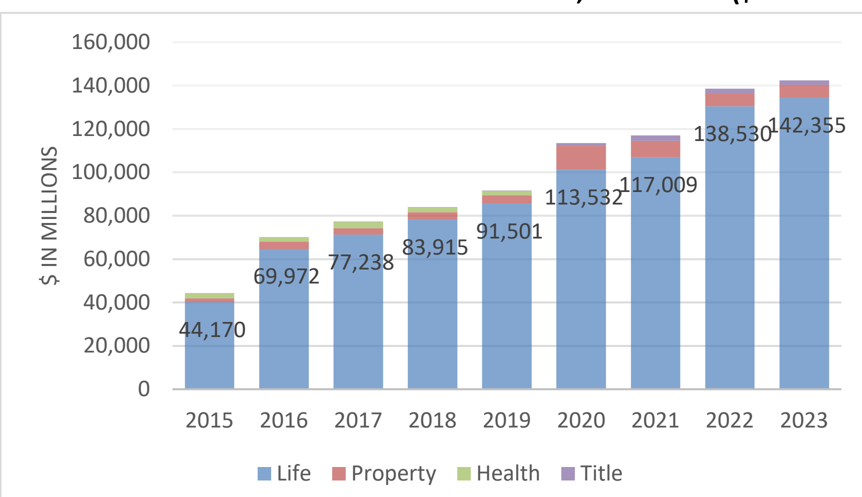
Decrease in Number of FHLB Advances but Increase in Total FHLB Advances Outstanding

FHLB advances represent a stable source of low-cost funding, with maturities that can vary from short-term to 30 years based on the needs of the U.S. insurer. Prior to applying for an FHLB advance, and in addition to owning FHLB capital stock, insurers must acquire activity-based FHLB stock in an amount equal to a specified percentage of the outstanding principal balance of the extended advance.[1] In the annual financial statements, U.S. insurers must disclose not only the aggregate amount of their FHLB borrowings but also identify whether the advances are categorized as debt, funding agreements (i.e., for life companies licensed to issue deposit-type contracts), or "other."

Annual statement filings with the NAIC showed 207 U.S. insurers having outstanding FHLB advances at year-end 2023, down from 268 at year-end 2022. This is about half of the total number of U.S. insurers that were FHLB members based on capital stock owned at year-end 2023. Most U.S. insurers, or 56% that reported having FHLB advances in 2023, were life companies, followed by 27% with P/C companies and the remaining 9% with health companies.

At year-end 2023, total FHLB advances *outstanding* increased about 3% to $142.5 billion from $138.5 billion at year-end 2022—a much slower pace than the 18% year-over-year (YOY) increase from $117 billion in 2021. Over the nine years ending 2023, U.S. insurers' FHLB advances have steadily increased. (Refer to Chart 1.) Because FHLB advances have represented an inexpensive source of funding, U.S. insurers have been increasingly using them for financial leverage—i.e., a spread investment—whereby they borrow funds at a relatively low rate from an FHLB and invest in higher-yielding assets, thus generating income from the spread differential. The increase in FHLB advances from 2015 to 2023 was almost 223%.

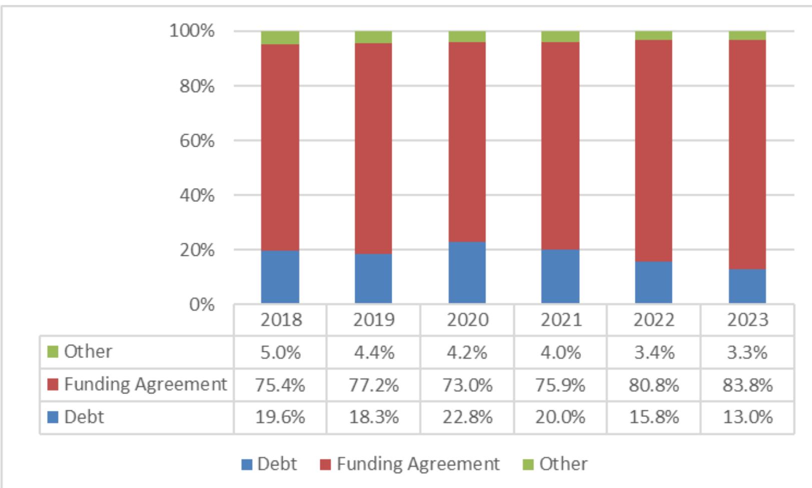
Chart 1: U.S. Insurers' Historical FHLB Advances, 2015–2023 ($BACV in millions)



[1] FHLB New York, FHLB System Debt and Capital Stock Overview.

Over the last few years, the largest proportion of U.S. insurers' FHLB advances has consistently been in the form of funding agreements. (Refer to Chart 2.) These are deposit-type contracts that pay a guaranteed rate of return over a specified time period; debt comprises most of the remainder. Funding agreements increased to almost 84% of total FHLB advances in 2023 from a low of 73% in 2020. Conversely, the proportion of debt has decreased over the same time period to 13% of U.S. insurers' FHLB advances in 2023 from a high of almost 23% in 2020. Other types of borrowings have been less than or equal to 5% of total FHLB advances for U.S. insurers over the six years ending 2023.

Chart 2: U.S. Insurers' FHLB Advances by Debt Type, 2018–2023 ($BACV in millions)



Maximum advances are the total amount borrowed by U.S. insurers at any point of time during a given calendar year. Maximum advances reported by U.S. insurers totaled about $162.5 billion at year-end 2023, representing a 5% increase from $154.7 billion at year-end 2022. (Refer to Table 3 and Table 4.) Life companies accounted for 92% of U.S. insurers' total FHLB maximum advances. Consistent with previous years, large U.S. insurers accounted for the largest proportion or 88% of total FHLB maximum advances at year-end 2023.

Table 3: U.S. Insurers' FHLB Maximum Advances by Total Cash and Invested Assets, Year-End 2023 ($BACV in millions)

Industry Type	Less Than $250M	Between $250M and $500M	Between $500M and $1.0B	Between $1.0B and $2.5B	Between $2.5B and $5.0B	Between $5.0B and $10.0B	Greater Than $10B	Total	Pct of Total
Life	124.3	63.5	296.0	921.1	3,701.7	7,438.2	136,850.5	149,395.2	92%
P/C	81.7	247.5	538.1	1,080.2	1,080.7	583.8	4,258.8	7,870.8	5%
Health	5.0	15.0	320.8	1,618.7	900.9	1,074.3	1,250.0	5,184.7	3%
Total	**211.1**	**326.0**	**1,154.8**	**3,620.1**	**5,683.3**	**9,096.3**	**142,359.2**	**162,450.7**	100%
% of Total	0%	0%	1%	2%	3%	6%	88%	100%	

Table 4: U.S. Insurers' Maximum Advances by Total Cash and Invested Assets, Year-End 2022 ($BACV in millions)

Statement Type	Less Than $250M	Between $250M and $500M	Between $500M and $1B	Between $1B and $2.5B	Between $2.5B and $5B	Between $5B and $10B	Greater than $10B	Total	Pct of Total
Life	$ 158.8	$ 45.0	$ 316.5	$ 1,073.7	$ 3,324.7	$ 6,776.5	$ 128,105.7	$ 139,801.0	90%
P/C	$ 114.6	$ 223.6	$ 634.7	$ 1,076.3	$ 1,160.2	$ 851.5	$ 5,466.8	$ 9,527.6	6%
Health	$ -	$ 15.0	$ 294.1	$ 1,395.0	$ 1,113.3	$ 1,086.8	$ 1,500.0	$ 5,404.3	3%
Total	**$ 273.5**	**$ 283.6**	**$ 1,245.3**	**$ 3,545.0**	**$ 5,598.1**	**$ 8,714.9**	**$ 135,072.5**	**$ 154,732.9**	**100%**
Pct of Total	0%	0%	1%	2%	4%	6%	87%	100%	

Among U.S. insurers that were FHLB members, 29 were private equity (PE)-owned, 21 of which were life companies. At year-end 2023, 13 PE-owned life companies had $15.4 billion in FHLB advances and maximum FHLB advances of $16.6 billion throughout 2023.

Collateral Pledged to FHLB Increases with Outstanding Advances

In addition to purchasing activity-based stock in an amount equal to a certain percentage of a requested FHLB advance, U.S. insurers must also pledge high-credit-quality eligible collateral to the FHLB to obtain the advance. Eligible collateral includes mortgages, government securities, or other real estate-related loan types (i.e., commercial real estate). The fair value of pledged collateral must exceed the amount of the FHLB advance, and the amount of pledged collateral required varies depending on the quality and liquidity of the asset. Pledged collateral must be identified as a restricted asset in the statutory financial statements because they are pledged as collateral or not under the exclusive control of the insurer.

In the Notes to the Financial Statements (Note 11 – Debt), U.S. insurers reported that $275 billion was pledged as collateral to FHLB at year-end 2023, up 15% from $239.6 billion at year-end 2022. (Refer to Table 5.) The *maximum* collateral pledged by U.S. insurers throughout 2023 was $308.7 billion, representing an 18% increase from about $261 billion at year-end 2022.

Table 5: U.S. Insurers' Pledged Collateral, Year-End 2022 and 2023 ($BACV in millions)

Industry Type	2023 Maximum Collateral	2023 Total Pledged Collateral	Pct of 2023 Total Pledged Collateral	2022 Maximum Collateral	2022 Total Pledged Collateral	Pct of 2022 Total Pledged Collateral
Life	279,698.1	252,468.6	92%	232,487.3	219,178.5	91%
P/C	20,762.6	18,268.3	7%	19,957.9	15,896.4	7%
Health	8,241.1	4,340.8	2%	8,353.8	4,578.1	2%
Total	**308,701.8**	**275,077.7**	**100%**	**260,799.0**	**239,653.0**	**100%**

The excess of collateral over advances, or overcollateralization, provides the FHLB with additional cushion in the event of a member default. The approximately $35 billion increase in pledged collateral from 2022 to 2023 was not only for existing advances but also for the intention of maintaining an open but undrawn liquidity source, which includes any potential overall overcollateralization. In addition, FHLB members may pledge collateral in anticipation of FHLB advances to minimize any delay in accessing the liquidity.

Consistent with prior years, the most-named collateral type posted to the FHLB by U.S. insurers at year-end 2023 consisted of agency residential mortgage-backed securities (RMBS).

U.S. Insurers' Exposure to FHLB Bonds is Down Slightly

U.S. insurers reported a total BACV of $8.5 billion in FHLB bonds at year-end 2023, down slightly from $8.8 billion at year-end 2022. (Refer to Table 6.) The proportion of FHLB bonds for life companies decreased to 44% of the total at year-end 2023, from 49% of the total at year-end 2022. Conversely, the proportion of FHLB bonds held by P/C companies increased to 43% of the total at year-end 2023, from 38% of the total at year-end 2022. Similar to prior years, life and P/C insurers together held almost 90% of the industry's total FHLB bonds at year-end 2023.

Table 6: U.S. Insurers' Year-End 2023 and 2022 Exposure to FHLB Bonds ($BACV in millions)

Statement Type	2023	Pct of Total	2022	Pct of Total
Life	3,756.5	44%	4,341.2	49%
P/C	3,685.7	43%	3,311.8	38%
Health	1,067.8	13%	1,151.8	13%
Title	11.7	0%	9.8	0%
Total	**8,521.7**	**100%**	**8,814.6**	**100%**

Similar to year-end 2022, large U.S. insurers comprised the most, or 37%, of FHLB bond exposure at year-end 2023. (Refer to Table 7.) The majority were large life companies, which accounted for $2.6 billion of the $3.2 billion (82%) FHLB bonds held by all large U.S. insurers.

Table 7: U.S. Insurers' Exposure to FHLB Bonds by Total Assets Under Management, Year-End 2023 ($BACV in millions)

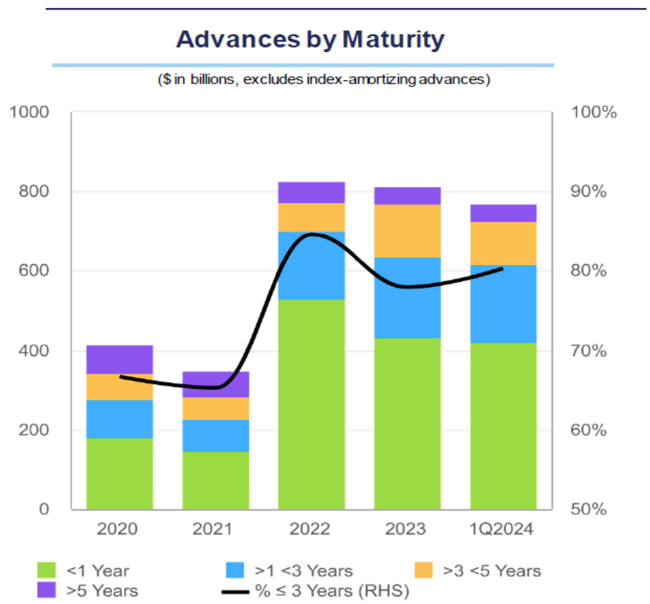
Assets Under Management	Total	Pct of Total
Less Than $250M	993.2	12%
Between $250M and $500M	597.9	7%
Between $500M and $1.0B	856.9	10%
Between $1.0B and $2.5B	1,212.7	14%
Between $2.5B and $5.0B	1,001.6	12%
Between $5.0B and $10.0B	666.0	8%
Greater Than $10B	3,193.4	37%
Grand Total	**8,521.7**	**100%**

Similar to year-end 2022, FHLB bonds held by U.S. insurers with maturities of five years or less comprised 53% of total FHLB bonds at year-end 2023. In addition, almost 50% of FHLB bonds held by life insurers had maturities of 11 years or more at year-end 2023, whereas about 60% of FHLB bonds held by P/C companies had maturities of five years or less. The difference in the concentration of maturities across insurer types is typically a function of asset-liability matching.

FHLB System – Advances, Pledged Collateral, and Debt at Year-End 2023

At year-end 2023, total assets for the FHLB system, which includes 11 government-sponsored enterprises, was almost $1.3 trillion, increasing from $1.25 trillion at year-end 2022. Among total assets, $810 billion (refer to Chart 3) represented advances, or lent funds, to *all* 6,500 members, representing a small decrease from $819 billion in 2022. In addition, as of 1Q2024, advances decreased further to $763 billion. Even though FHLB tends to offer a cheaper funding source than other institutional lenders, resulting in attractive borrowing opportunities, the decrease in borrowings may, in part, be attributed to high inflation and uncertainties regarding the status of interest rates and the economy in general. At year-end 2023 and as of first-quarter 2024, under 80% of FHLB advances had a term of three years or less, down from about 85% in 2022.

Chart 3:

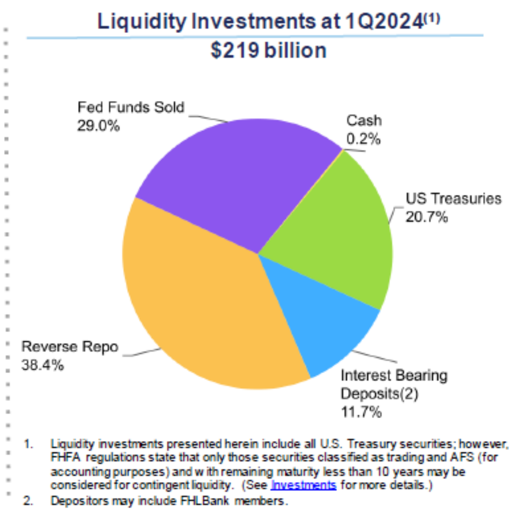


Source: FHLB Investor Presentation, July 2024.

The FHLB issues senior unsecured bonds through its Office of Finance, and all 11 regional banks are responsible for the full and timely payment of principal and interest on the bonds regardless of which FHLB bank issued the bonds (i.e., they are "joint and several" obligations). The FHLB's senior unsecured bonds are the primary funding source used by the FHLB to not only make advances but also to purchase mortgage loans and investments. The bonds are of high credit quality, rated AA+ and AAA by S&P Global and Moody's, respectively. As of year-end 2023, the FHLB had about $1.2 trillion in outstanding consolidated obligations according to the FHLB Combined Financial Report dated Dec. 31, 2023, which was consistent with that of year-end 2022, and almost double the amount as of Dec. 31, 2021 ($651.9 billion).

The FHLB maintains a liquidity portfolio of cash and short-term investments in the event of a market disruption that could result in its inability to access the capital markets. As of 1Q2024, the liquidity portfolio increased to $219 billion (from $207 billion at year-end 2022) and was about 17% of the FHLB's total assets. As with year-end 2022, the largest short-term asset was reverse repos, which was 38.4% of the total. (Refer to Chart 4.)

Chart 4:



Source: FHLB Investor Presentation, July 2024.

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

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