



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 Special Reports are available via the [Capital Markets Bureau web page](#) and the [NAIC archives](#) (for reports published prior to 2016).

Growth in U.S. Insurers' Schedule BA Assets Slows at Year-End 2022

Analyst: Michele Wong

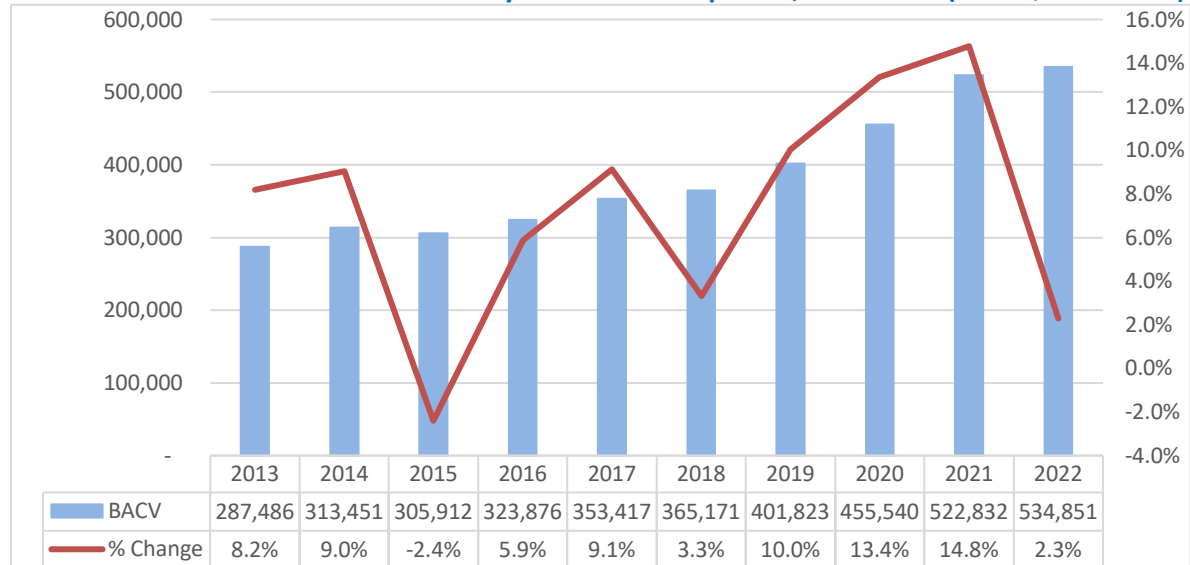
Executive Summary

- At year-end 2022, U.S. insurance companies reported \$534 billion in book/adjusted carrying value (BACV) of other long-term invested assets on Schedule BA, an increase of 2.3% compared to the prior year.
- The growth of Schedule BA assets decelerated following several years of strong double-digit year-over-year (YOY) growth, including a rise of nearly 15% at year-end 2021.
- Private equity, hedge fund, and real estate investments continued to represent the majority of the industry's Schedule BA exposure, accounting for 76% of total exposure.
- U.S. insurers reported \$11.7 billion in residual tranches, with fixed income residual tranches representing approximately three-fourths of the total.
- Life insurance companies' share of Schedule BA assets has been increasing, while property/casualty's (P/C's) share has been declining over the last few years.
- The share of unaffiliated Schedule BA investments has been rising since hitting a low of 40% in 2019 and was 50.5% of total Schedule BA exposure as of year-end 2022.

After experiencing strong expansion for several years, the growth of Schedule BA assets reported by U.S. insurers has decelerated. Their exposure increased only 2.3% at year-end 2022 compared to the prior year, following several years of strong double-digit year-over-year (YOY) growth, including a rise of nearly 15% at year-end 2021. (Refer to Chart 1.) Despite the significant decline in growth, however, exposure to Schedule BA assets continued to grow faster than the 1.3% YOY growth in total cash and invested assets at year-end 2022. Furthermore, other long-term invested assets reported on Schedule BA have doubled in terms of book/adjusted carrying value (BACV) over the 10-year period ending in 2022. Schedule BA assets have historically offered higher yields than traditional assets like corporate or municipal bonds because of their complexity and illiquidity.



Chart 1: Historical U.S. Insurance Industry Schedule BA Exposure, 2013–2022 (BACV \$ in millions)



The U.S. insurance industry reported \$534 billion in BACV of other long-term invested assets on Schedule BA as of year-end 2022. (Refer to Table 1.) Total Schedule BA exposure represented 6.6% of the industry’s total cash and invested assets, relatively unchanged from 6.5% as of year-end 2021.

Private equity, hedge fund, and real estate investments continued to represent the majority of the industry’s Schedule BA exposure. Together, they accounted for 76% of total exposure at year-end 2022, which is relatively unchanged from 75% at year-end 2021. (Refer to Table 2.) However, while the share of private equity and real estate investments individually increased in 2022 to 35% and 15.1%, respectively, the share of hedge fund investments declined to 25.7% in 2022 from 28.3% in 2021.

Table 1: Total U.S. Insurance Industry Schedule BA Exposure, Year-End 2022 (BACV \$ in Millions)

Asset Type	Life	P/C	Health	Title	Total	% of Total
Private Equity	147,270	33,530	6,526	-	187,325	35.0%
Hedge Funds	39,658	89,680	7,782	193	137,312	25.7%
Real Estate	52,923	25,751	2,296	3	80,973	15.1%
Surplus Debentures	19,967	2,675	709	6	23,357	4.4%
Mortgage Loans	19,243	500	144	62	19,950	3.7%
Collateral Loans	16,974	1,128	432	9	18,542	3.5%
Bonds/Fixed Income Instruments	10,986	6,528	378	-	17,892	3.3%
Any Other Class of Assets	5,211	8,601	1,984	6	15,802	3.0%
Residual Tranches	5,665	5,582	411	3	11,661	2.2%
Low Income Housing Tax Credits	4,673	4,053	215	-	8,941	1.7%
Non-Collateral Loans	126	7,928	278	101	8,433	1.6%
Other*	1,867	2,269	155	-	4,291	0.8%
Total	324,563	188,224	21,309	384	534,481	100%
% of Total	60.7%	35.2%	4.0%	0.1%	100%	

*The “Other” asset type includes capital notes, mineral rights, oil and gas production, other fixed income instruments (non-registered private funds), transportation equipment, and working capital finance investments (WCFIs).

**Table 2: Total U.S. Insurance Industry Schedule BA Exposure, Year-End 2021 (BACV \$ in Millions)**

Asset Type	Life	P/C	Health	Title	Total	% of Total
Private Equity	134,116	32,371	6,061	20	172,568	33.0%
Hedge Funds	42,531	97,367	7,937	183	148,018	28.3%
Real Estate	45,896	23,209	1,901	2	71,008	13.6%
Any Other Class of Assets	6,260	20,577	2,401	9	29,248	5.6%
Surplus Debentures	19,720	2,816	634	6	23,177	4.4%
Bonds/Fixed Income Instruments	11,777	5,469	456	-	17,703	3.4%
Collateral Loans	14,990	1,567	605	6	17,168	3.3%
Non-Collateral Loans	60	15,692	332	1	16,085	3.1%
Mortgage Loans	15,028	408	129	8	15,572	3.0%
Low Income Housing Tax Credits	4,517	4,140	192	-	8,848	1.7%
Other*	1,392	1,979	67	-	3,438	0.7%
Total	296,288	205,593	20,715	236	522,832	100%
% of Total	56.7%	39.3%	4.0%	0.0%	100%	

*The "Other" asset type includes capital notes, mineral rights, oil and gas production, other fixed income instruments (non-registered private funds), transportation equipment, and working capital finance investments (WCFIs).

Beginning with year-end 2022 reporting, Schedule BA provides improved transparency into U.S. insurers' investments in residual tranches, as they are required to be disclosed on dedicated reporting lines. They reported \$11.7 billion in residual tranches, which accounted for 2.2% of total Schedule BA assets. Approximately three-fourths of the residual tranche investments were fixed income residual tranches, and the remaining balance was common stock, mortgage loans, and other residual tranches.

Life insurance companies continued to account for the majority of the industry's Schedule BA exposure at just over 60%, while property/casualty (P/C) companies represented 35% at year-end 2022. Life companies' share has increased, while P/C's share has declined over the last few years. Life insurers' share increased 4 percentage points from 56.7% at year-end 2021, whereas P/C insurers' share fell 4.1 percentage points for the same period. Health and title companies accounted for less than 5% of industry exposure.

Life insurers' Schedule BA investments in terms of BACV increased 9.5% at year-end 2022 compared to the previous year, and that of health and title insurance companies also increased modestly. Meanwhile, P/C companies reduced their Schedule BA investments by 8.4% during the same period, with the largest decreases evident in hedge fund investments and "any other class of assets" category. This reduction likely contributed to the slowdown in growth in the U.S. insurance industry's overall investments in Schedule BA assets.

While Schedule BA exposure has generally been skewed toward affiliated investments, the share of unaffiliated investments has been growing since hitting a low of 40% in 2019. At year-end 2022, unaffiliated investments totaled \$270 billion and accounted for 50.5% of total Schedule BA exposure. This is the first year unaffiliated Schedule BA investments are greater than affiliated Schedule BA investments (\$264 billion), as well as the first time the share of unaffiliated investments exceeds 50% of total Schedule BA assets.



The recent rise in interest rates is expected to alleviate the pressure on U.S. insurers to take on additional risk in exchange for higher yields. Nevertheless, many U.S. insurers will likely continue to maintain their investments in Schedule BA assets.

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

Questions and comments are always welcome. Please contact the NAIC Capital Markets Bureau at CapitalMarkets@naic.org.

The views expressed in this publication do not necessarily represent the views of the NAIC, its officers, or its members. NO WARRANTY IS MADE, EXPRESSED OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY, OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

© 1990–2024 National Association of Insurance Commissioners. All rights reserved.