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Update on the U.S. Insurance Industry’s Exposure to Securities Lending and Repurchase Agreements at Year-End 2022

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Executive Summary

- Pursuant to collateral disclosures held under securities lending agreements, U.S. insurers’ exposure to securities associated with securities lent totaled approximately $51.6 billion in book/adjusted carrying value (BACV) at year-end 2022 and represented an 11% decrease from $58.2 billion at year-end 2021.
- Coinciding with the decrease in securities lent, securities lending collateral held by U.S. insurers totaled $53.7 billion in BACV, representing a decrease of almost 18% from year-end 2021.
- The majority of U.S. insurers’ securities lending reinvested collateral, or 60%, was in liquid assets, or specifically, short-term investments and cash and cash equivalents, which was similar to the year prior.
- To raise short-term cash, U.S. insurers engage in repurchase agreements (repos) and reverse repos and reported approximately $49 billion in BACV in repo and reverse repo activity at year-end 2022, which was a 55% year-over-year (YOY) increase; most of the increase occurred among a few large life companies.
- As in years prior, securities lending and repo activity together continue to account for about 1% of U.S. insurers’ total cash and invested assets.

When engaging in securities lending activity, U.S. insurers earn a modest income on fees charged to the borrowers (or counterparties) of the lent securities. In addition, they earn yield income on the cash or securities received from the counterparties in exchange for the loaned securities (also known as the collateral). Securities lending has historically represented a low-risk asset management strategy for U.S. insurers. U.S. insurers also engage in repurchase agreements (repos), which are another form of short-term financing to raise cash and access short-term liquidity. Reverse repos are repos from the
counterparty’s perspective. Repos can be bilateral, where there is a direct agreement between two counterparties, or tri-lateral, where there is a third-party custodian bank settling the trade between two counterparties. For U.S. insurers, exposure to securities lending reinvested collateral, repos, and reverse repos combined has been small over the past several years, totaling only about 1% of total cash and invested assets.

Securities Lent

In the annual statement filings with the NAIC, U.S. insurers do not identify the specific amount of securities lent to borrowers with regard to securities lending activity; rather, they identify the full amount of the investment. As such, the total amount attributed to securities lending activity reported in the investment schedules is greater than the amount of securities lent. U.S. insurers report exposure to securities associated with securities lent in Schedule D, Part 1 (Bonds); Schedule D, Part 2 (Common Stock); and Schedule DA (Short-Term Investments) in the annual statement filings. However, the year-end exposure for securities lent identified in this special report was obtained from data reported by insurers in Note 5L(1)b – Restricted Assets (Including Pledged) – Collateral Held Under Security Lending Agreements (Note 5L(1)b) to the Financial Statements, as it contains details of assets pledged as collateral.

U.S. insurers’ reported exposure to securities associated with securities lent totaling approximately $51.6 billion in book/adjusted carrying value (BACV), based on Note 5L(1)b at year-end 2022. This compares to $58.2 billion at year-end 2021, or an 11% decrease. Consistent with historical trends, the majority of securities lent activity, or about 80%, was with life companies at year-end 2022, followed by 15% with property/casualty (P/C) companies. The most recent five years’ exposure to securities associated with securities lent for U.S. insurers is shown in Chart 1; it was relatively flat and in the low $40 billion range until 2021. Over the five-year time frame between 2018 and 2022, securities lent activity increased 27% for U.S. insurers.

Chart 1: U.S. Insurers’ Exposure to Securities Associated with Securities Lent, 2018–2022 ($Bil BACV)
Analysis of securities that made up securities lent by U.S. insurers, as reported in Schedules D, Part 1 and Part 2 and Schedule DA, showed that similar to the prior year, they were almost all (94%) corporate bonds and U.S. government bonds at year-end 2022.

**Reinvested Collateral**

In exchange for securities lent to borrowers, U.S. insurers receive cash and/or securities as collateral. In securities lending agreements where the insurer can sell or repledge the collateral, the cash and securities received are recognized in the financial statements and are referred to as “reinvested collateral,” even though the insurer may not actually sell or repledge the collateral. Since insurers can earn investment income on reinvested collateral, they must consider not only the credit risk of the reinvested collateral, but also the asset/liability management risk relative to the lent securities.

Based on data reported in Schedule DL, Part 1 and Part 2, reinvested collateral held by U.S. insurers totaled $53.7 billion in BACV at year-end 2022, a 17.6% decrease from $55.2 billion at year-end 2021. For at least the past five years, U.S. insurers’ exposure to securities lending reinvested collateral had been increasing until the decline at year-end 2022. (Refer to Chart 2.)

**Chart 2: U.S. Insurers’ Reinvested Collateral, 2018–2022 ($Bil BACV)**

As in previous years, the largest proportion of collateral held by U.S. insurers for securities lent consisted of cash and cash equivalents at about 42% of the total. (Refer to Chart 3.) Short-term investments decreased to 10% of total reinvested collateral at year-end 2022 from 14% at year-end 2021. However, together with cash and cash equivalents, these two highly liquid asset types comprised almost 60% of total reinvested collateral at year-end 2022. Countering the decrease in short-term investments as reinvested collateral, corporate bonds increased to 16% of the total in 2022 from 10% in 2021. Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS) combined also increased slightly to 17% of total collateral at year-end 2022 (from 16% in 2021), representing a potential small decrease in liquidity. Municipal bonds and U.S. government bonds remained at 3% and 4% of total collateral, respectively, in 2022, as they had been in 2021.
Life companies continue to account for the majority of U.S. insurers’ exposure to reinvested collateral, representing 81% of the total at year-end 2022. However, it decreased from 84% of the total at year-end 2021. Offsetting this decrease, P/C companies’ exposure increased to 16% of U.S. insurers’ reinvested collateral at year-end 2022, up from 12% the prior year. In addition, large U.S. insurers, or those with more than $10 billion in assets under management, accounted for about 90% of the industry’s total securities lending reinvested collateral at year-end 2022. Similar to prior years, more than 70% of U.S. insurers’ reinvested collateral were high credit quality, evidenced by NAIC 1 and NAIC 2 designations, and about 80% were scheduled to mature in 10 years or less.

Repos and Reverse Repos

Similar to securities lent, U.S. insurers report the total amount of securities associated with repo and reverse repo activity (and not the actual amount) in the investment schedules; that is, Schedule D, Part 1; Schedule D, Part 2, Section 2; and Schedule DA. In addition, more detailed reporting on U.S. insurers’ repo and reverse repo activity is reported in Notes 5L(1)c through 5L(1)f in the Notes to the Financial Statements, which is the source of repo and reverse repo exposure for U.S. insurers for the purpose of this special report and based on accounting guidance.

At year-end 2022, the total amount of securities associated with repo and reverse repo activity was $49.2 billion in BACV, with about $7.5 billion, or 15% of this total, in reverse repos. This represents a 55% year-over-year (Y.O.Y) increase from $31.8 billion of securities associated with repo and reverse repo activity at year-end 2021, which included $3.6 billion in reverse repos. U.S. insurers’ exposure to repos and reverse repos has traditionally been less than 1% of total cash and invested assets on an aggregate basis. However, it has been on an increasing trend as a form of short-term secured financing. The most recent five years’ exposure to securities associated with repos and reverse repo activity for U.S. insurers shows an approximately 150% increase from 2018 to 2022. (Refer to Chart 4.) Note that three large insurer groups were primary contributors to the relatively large Y.O.Y increase in U.S. insurers’ repo activity from 2021 to 2022.
Securities that were associated with repos and reverse repos held by U.S. insurers, as reported in Schedules D, Part 1 and Part 2 and Schedule DA at year-end 2022, were all investment grade based on their NAIC 1 and NAIC 2 designations. Similar to the prior year, the majority of lent securities associated with repos and reverse repos were corporate bonds. Note that the ability of the counterparty to source the same or substantially the same securities to return to the insurer at the end of the repo agreement poses a potential risk despite the relative liquidity of corporate bonds. Life companies accounted for the majority of the U.S. insurance industry’s exposure to repos and reverse repos, at about 95%, compared to 5% with P/C companies. This represents a small increase for life companies from 93% at year-end 2021, perhaps due to the aforementioned relatively large YOY increase in exposure among a few large insurers.

**Securities Lending and Repo Market Trends and Disclosures**

In October 2023, the U.S. Securities and Exchange Commission (SEC) adopted a new reporting rule stemming from the role of securities lending in the 2008 financial crisis. The new rule requires information about securities lent to be reported to a Registered National Securities Association (RNSA) to increase transparency and efficiency of the securities lending market. Currently, the only RNSA is the Financial Industry Regulatory Authority (FINRA). The estimated size of the global securities lending market was approximately $2.18 trillion as of September 2023, according to the International Securities Lending Association (ISLA), compared to $3.1 trillion as of September 2021 (according to the Financial Stability Oversight Council [FSOC] 2021 annual report).

In addition, according to the FSOC 2023 annual report, “[t]he repurchase agreement (repo) market is an important source of collateralized short-term funding, and repo markets play a critical role in Treasury market liquidity and monetary policy implementation.” As of the second quarter of 2023, total repo borrowing totaled $6.8 trillion, up from $4.8 trillion in the second quarter of 2021. Since the 2008 financial crisis, the FSOC annual report states that the repo market, particularly the tri-party segment,
has experienced structural changes that have not only streamlined operations, but also reduced counterparty risk.

NAIC disclosures—i.e., the reporting requirements and Statement of Statutory Accounting Principles (SSAP)—are intended to help monitor the solvency of individual insurance entities. U.S insurers are required to provide disclosures on maturity information of collateral received, as well as collateral reinvested, to address any mismatch in the maturity of the reinvested collateral and when a borrower can demand a return of the cash it posted, as indicated in the applicable securities lending agreement. The statutory accounting guidance also has collateral requirements that must be maintained for continued admittance of loaned assets.

The NAIC Capital Markets Bureau will continue to monitor trends in the securities lending and repo markets and report as deemed appropriate.

Useful Links:

NAIC Capital Markets Primer – Securities Lending, June 2018

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

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