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U.S. Insurance Industry’s Exposure to Securities Lending and Repurchase Agreements at Year-End 2021

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Executive Summary

- U.S. insurers’ securities lending activity, albeit a small portion of their investment strategy, generates additional yield income by engaging in short-term financing.
- Pursuant to collateral disclosures held under securities lending agreements, securities associated with securities lent totaled approximately $58 billion in book/adjusted carrying value (BACV) at year-end 2021 and represented a 36% increase from the prior year.
- At year-end 2021, securities lending collateral held by U.S. insurers totaled $65.2 billion in BACV, and most of the collateral, or 60%, was in liquid assets, or specifically, short-term investments and cash and cash equivalents.
- U.S. insurers engage in repurchase agreements (repos) and reverse repos to raise short-term cash, and they reported approximately $32 billion in BACV in repo and reverse repo activity at year-end 2021, which was a 16% year-over-year (Y0Y) increase.
- Together, securities lending and repo activity continues to account for about 1% of U.S. insurers’ total cash and invested assets.

Securities lending has historically represented a low-risk asset management strategy for U.S. insurers. 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, as well as additional yield income on the cash or securities received from the counterparties in exchange for the loaned securities (also known as the collateral). U.S. insurers also engage in another form of short-term financing—repos—to raise short-term cash and to access short-term liquidity. Reverse repos are repos but 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.
Together, securities lending reinvested collateral, repos, and reverse repos have totaled only about 1% of U.S. insurers’ total cash and invested assets over the past several years.

Securities Lent

U.S. insurers report investments involved with securities lending activity in the annual statement filings, but they do not identify the specific amount of securities lent to borrowers; 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 that are 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 focuses on the exposure as 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.

As of year-end 2021, U.S. insurers’ reported exposure to securities associated with securities lent totaled approximately $58.2 billion in BACV (based on Note 5L(1)b), which was about 36% more than the $42.9 billion reported at year-end 2020. Chart 1 shows the most recent five years’ exposure to securities associated with securities lent for U.S. insurers. Consistent with historical trends, the majority of securities lent activity, or about 80%, was with life companies at year-end 2021.

Chart 1: U.S. Insurers’ Exposure to Securities Associated with Securities Lent, 2017–2021 ($Bil BACV)

![Chart showing U.S. Insurers’ Exposure to Securities Associated with Securities Lent, 2017–2021 ($Bil BACV)](chart1)

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 mostly included corporate bonds and U.S. government bonds at year-end 2021.

Reinvested Collateral

U.S. insurers receive cash and/or securities as collateral in exchange for securities lent to borrowers. 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. Insurers can earn investment income on reinvested collateral, and in doing so, they must consider not only the credit risk of the reinvested collateral but also the asset/liability management risk relative to the lent securities.

Reinvested collateral held by U.S. insurers totaled $65.2 billion in BACV at year-end 2021 based on data reported in Schedule DL, Part 1 and Schedule DL, Part 2. This represents an 18% increase from $55.1 billion at year-end 2020. Chart 2 shows U.S. insurers’ historical exposure to securities lending reinvested collateral over the last five years. It has been steadily rising since 2018 and increased by about 17% from 2017 to 2021.

**Chart 2: U.S. Insurers’ Reinvested Collateral, 2017–2021 ($Bil BACV)**

Similar to year-end 2020, about 43% of collateral held by U.S. insurers for securities lent at year-end 2021 was in cash and cash equivalents (refer to Chart 3). Short-term investments represented 14% of total collateral, representing a slight increase from 13% at year-end 2020. When combined with cash and cash equivalent collateral, almost 60% of the total was in highly liquid assets, which was the same as year-end 2020. There was also an increase in U.S. government bonds at year-end 2021 to 4% of total collateral, from 2% at year-end 2020, as well as an increase in municipal bonds to 3% from 2%. These aforementioned trends indicate an increase in liquid collateral YOY. Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS) combined represented 16% of total collateral at year-end 2021, compared to 20% at year-end 2020. This reduction in less liquid collateral also lends support to an increase in reinvested collateral liquidity.
Life companies accounted for about 84% of U.S. insurers’ reinvested collateral exposure at year-end 2021, representing a decrease from 86% at year-end 2020. Offsetting this decrease, property/casualty (P/C) companies accounted for 12% of U.S. insurers’ reinvested collateral at year-end 2021, up from 10% the prior year. In addition, large U.S. insurers, or those with more than $10 billion in assets under management, accounted for 90% of the industry’s total securities lending reinvested collateral at year-end 2021.

About three-quarters of U.S. insurers’ reinvested collateral carried NAIC 1 and NAIC 2 Designations, implying high credit quality, and about 80% of reinvested collateral was scheduled to mature in 10 years or less at year-end 2021.

Repos and Reverse Repos

Similar to securities lent, U.S. insurers report the total amount of securities associated with repo and reverse repo activity in the investment schedules; i.e., Schedule D, Part 1; Schedule D, Part 2, Section 2; and Schedule DA. For the purpose of this special report, and based on accounting guidance, total repo and reverse repo activity reported by U.S. insurers in Note 5L1C through Note 5L1F was about $31.8 billion in BACV of securities associated with repos and reverse repos, with about $3.6 billion, or 11% of this total, accounting for reverse repos. This is a 16% YOY increase from a total of $28 billion at year-end 2020. While 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, it has been on an increasing trend as a form of short-term secured financing. Chart 4 shows the most recent four years’ exposure to securities
associated with repos and reverse repo activity. Note that there was an almost 53% increase from 2017 to 2021.

**Chart 4: U.S. Insurers’ Securities Associated with Repos and Reverse Repos, 2017–2021 ($Bil BACV)**

At year-end 2021, securities associated with repos and reverse repos held by U.S. insurers, as reported in Schedules D, Part 1 and Part 2 and Schedule DA, were investment grade based on their NAIC designations. Almost 70% carried NAIC 1 Designations, indicating the highest credit quality. This is also consistent with U.S. insurers’ related exposure at year-end 2020. The majority of lent securities associated with repos and reverse repos were corporate bonds, as reported by U.S. insurers. Despite the relative liquidity of corporate bonds, 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. Life companies accounted for about 70% of the U.S. insurance industry’s exposure to repos and reverse repos, with another 24% at P/C companies.

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

According to a Markit survey, and as published in the Financial Stability Oversight Council (FSOC) 2021 annual report, the estimated size of the global securities lending market was about $3.1 trillion as of September 2021, representing an increase from $2.5 trillion as of September 2020. In addition, similar to the prior year, 58% of this total was attributed to U.S. securities on loan. The FSOC cites that most of the YOY growth was attributed to “short squeezes in equity markets” and increased demand for borrowing government bonds, particularly in the last quarter of 2020 and the first quarter of 2021. According to the FSOC 2021 annual report, as of the second quarter of 2021, total repo borrowing was $4.8 trillion, up from $4.1 trillion the prior year.

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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