NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research — Capital Markets Special Report

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A Review of U.S. Insurance Company Holdings of Consumer/Commercial Asset-Backed Securities

This special report focuses on consumer and commercial asset-backed securities (ABS)—primarily credit card receivables, auto loans and leases, student loans and small business loans. The U.S. insurance industry held $70.6 billion in book/adjusted carrying value (BACV) of consumer and commercial ABS as of Dec. 31, 2012. Although they represented only 1.3% of the insurance industry's cash and invested assets and 1.9% of total insurance industry bond holdings as of Dec. 31, 2012, ABS offer advantages such as attractive yields, high credit quality, fixed-income portfolio diversification and low interest rate risk. Equipment ABS is not included in our analysis, as they were the focus of a July 23, 2013, special report titled, "U.S. Insurance Industry's Exposure to Credit Tenant Loans and Equipment Trust Certificates." Also excluded were housing-related ABS, such as home equity and manufactured housing.

What are Asset-Backed Securities?

Securitization is a financing technique in which financial assets, in many cases themselves illiquid, are pooled to create liquid securities. This provides investors with opportunities to diversify into an otherwise illiquid asset. Securitization allows originators, such as banks or credit card companies, to reduce credit exposure and free up capital for additional lending. ABS are backed by a discrete pool of receivables or loans that generate cash flows to pay investors. The originator or servicer of the receivables or loans sells a pool of assets to a "bankruptcy remote" legal entity—a special purpose vehicle (SPV) or trust. This insulates investors from the credit risk of the originator of the assets. The originator benefits by removing the receivables or loans from their balance sheet (as the credit risk is transferred) and reducing capital needs. The pooling of many assets or loans also increases portfolio diversification and, with added credit enhancements, can potentially reduce credit risk. The SPV or trust then issues debt in various tranches (layers) to investors, from senior (higher credit quality) to subordinated (lower credit quality). The cash flow priority of each tranche is outlined in a trust indenture (legal document between the issuer and the trustee). Generally, each tranche absorbs losses sequentially with the bottom-most, or subordinated, layer serving as the "first loss" position after possible credit enhancement features.

A key distinction for ABS is whether the loans/receivables are amortizing or non-amortizing, as it impacts cash flows. Amortizing loans/receivables include regular monthly payment of interest and principal; thus, the cash flows are spread out over the life of the asset instead of in a lump sum at maturity. Non-amortizing, or revolving, loans do not require principal pay-off on a predetermined schedule and, as such, have no actual maturity.

General characteristics that drive ABS credit ratings include credit enhancements, asset quality, structure and quality of the originator's underwriting and servicing capability. Credit enhancements include internal (e.g., excess spread, over-collateralization, subordination and cash reserve funds) and external methods (e.g., bond insurance, corporate guarantees and letters of credit).

Major Types of Consumer and Commercial ABS

There are three major consumer ABS types: auto, credit card and student loan. Together, they make up more than 87% of all ABS outstanding of $578 billion as of year-end 2012, according to data from the Securities Industry and Financial Markets Association (SIFMA). Other consumer and commercial ABS include timeshare and structured settlements, small business loans (mostly backed by the U.S. Small Business Administration), receivables from utilities (stranded costs), intellectual properties and trade receivables.

Auto ABS are backed by auto loan receivables and leases and are separated into prime and subprime categories. Prime borrowers have good credit scores and thus can borrow at lower interest rates than subprime borrowers, who have lower credit scores and tend to have a higher risk of default. Some of the factors for the lower credit scores include low income-to-debt ratio and/or poor payment history (i.e., non-payment). Recreational vehicles, motorcycles, fleet leases and auto dealer floor plans are also included. Auto loans/receivables are amortizing assets that are short-term, as they typically mature in four to five years.

Credit card ABS are backed by credit card receivables, which are revolving lines of credit because cardholders do not have to repay the principal on a predetermined schedule and are only required to make minimum monthly payments that could include more interest than principal. Thus, credit card receivables are non-amortizing loans. Credit card receivables are typically short-term, and to extend the maturity of the credit card ABS, a revolving period is established. During this period, investors receive only interest, and their share of the principal payment is used to purchase new receivables. After the revolving period ends, principal is deposited into an account held by the trustee during the accumulation period and paid back at the end in a soft bullet. The revolving period could also be followed by a controlled amortization period, where principal is paid back in equal scheduled payments. Two major types of credit card receivables are bank credit card and retailer credit card. Bank credit card receivables' performance has historically been less volatile than that of retail credit card receivables.

Student loan ABS are collateralized by loans issued by 1) the Federal Family Education Loan Program (FFELP), whereby a third party (such as a bank) makes the loan that is guaranteed by the U.S. government; or 2) a private entity, with no guarantee from the U.S. government. Student loans typically have long maturities and are amortizing assets.

<u>The ABS Market</u>

The ABS market evolved out of the mortgage-backed securities market, which started in the 1970s. The first non-mortgage ABS was issued in March 1985 when fixed-rate notes collateralized by computer leases were sold to institutional investors. The consumer and commercial ABS market has grown substantially, from only $0.9 billion outstanding in 1985, to a peak of $817 billion in 2007 and $578.4 billion as of year-end 2012, according to data from SIFMA. Consumer and commercial ABS outstanding grew by 2.3% in 2013 to almost $600 billion.

Table 1 shows the last three decades-ending data of U.S. consumer/commercial ABS outstanding. As of year-end 2012, student loan was the largest ABS category at 40.6% of total ABS outstanding, followed by 24.6% in auto and 22.1% in credit card. The market share of these three ABS types has changed over time. Student loan became the largest ABS type as of year-end 2010, taking the top title held by credit cards since 1989. The quadrupling of student loan ABS in the decade ending 2012 was due, in part, to increased securitizations, higher tuition costs, larger student loan balances and slower prepayment rates. Student loan ABS outstanding have been relatively stable between 2006 and year-end 2012, hovering close to $200 billion. Auto ABS, on the other hand, dropped 27.4% between 2006 and year-end 2012 due to reduced auto sales of a similar scale. Outstanding auto ABS peaked in 2006 at $196 billion and have declined every year since then, bottoming out in 2010 at $112 billion; growth finally returned in 2011 and 2012. Credit card ABS outstanding peaked in 2007 at $324 billion and began to substantially decline in 2010 as consumers reduced their credit card borrowings. As of year-end

2012, credit card ABS have dropped 60.5% since their 2007 peak, with a more than 20% declines each year since 2009. However, in 2013, there was only a 2.7% drop.

Table 1: U.S. Consumer/Commercial ABS Outstanding					
Year-end/US$ Billions	Auto	Credit Card	Student Loan	Other	Total
1992	$ 36.8	$ 70.8	$ 0.4	$ 3.7	$ 111.7
2002	$ 187.6	$ 293.3	$ 58.7	$ 63.3	$ 603.0
2012	$ 142.4	$ 127.9	$ 234.6	$ 73.5	$ 578.4
% of total					
1992	32.9%	63.4%	0.3%	3.4%	100%
2002	31.1%	48.7%	9.7%	10.5%	100%
2012	24.6%	22.1%	40.6%	12.7%	100%
Source: SIFMA. Equipment ABS exluded from SIFMA's "Other" category.					

According to Wells Fargo Securities second quarter 2013 ABS outstanding data, auto ABS was composed of 68% prime loans and 32% subprime loans; credit card ABS was 85% bank card and 15% retail card; and 82% of student loan ABS was guaranteed by the U.S. government. According to SIFMA data and a third quarter 2013 Federal Reserve Statistical Release, as of year-end 2012, the auto loan market of $809 billion outstanding was 17.6% securitized; credit card loans outstanding were $845.8 billion with 15.1% securitized; and student loans outstanding were $1.1 trillion with 20.7% securitized. Thus, on average, approximately 18% of total auto, credit card and student loans were securitized as of year-end 2012 and 82% of receivables/loans were still held as assets on the balance sheets of the original issuers or owners (usually in the financial sector).

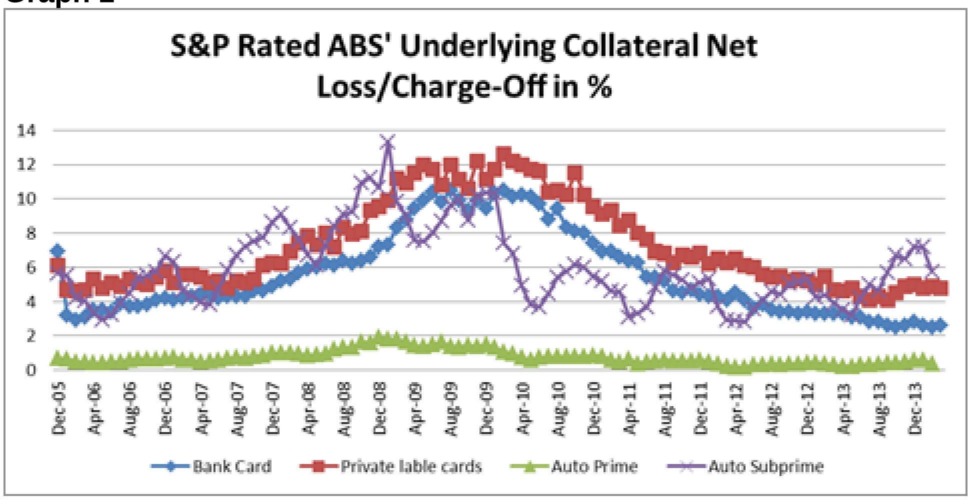
ABS Credit Ratings: More than 93.2% of ABS outstanding were rated investment grade (that is, BBB rating category and above), according to SIFMA fourth quarter 2013 data, as shown in Table 2. Credit card had the highest percentage of investment grade ratings at 98.5%.

Table 2: U.S. Consumer/Commercial ABS Outstanding Credit Ratings as of Q4/2013						
Rating/US$ Billions	Auto	Credit Card	Student Loan	Other	Total	%
Aaa/AAA	$ 123.0	$ 114.1	$ 61.2	$ 16.9	$ 315.3	56.9%
Aa/AA	$ 14.1	$ 0.8	$ 127.6	$ 1.5	$ 143.9	26.0%
A/A	$ 8.9	$ 5.2	$ 16.1	$ 9.4	$ 39.5	7.1%
Baa/BBB	$ 5.1	$ 2.4	$ 4.0	$ 6.1	$ 17.5	3.2%
Ba/BB to D/D	$ 1.4	$ 0.7	$ 12.8	$ 2.5	$ 17.4	3.1%
NR/NA	$ 7.5	$ 1.2	$ 6.7	$ 4.8	$ 20.2	3.7%
TOTAL	**$ 159.9**	**$ 124.5**	**$ 228.4**	**$ 41.1**	**$ 553.9**	**100.0%**
Investment Grade %	94.4%	98.5%	91.5%	82.3%	93.2%	
Source: SIFMA; Rating breakouts are lowest assigned rating by Moody's, S&P, or Fitch Ratings.						
Equipment ABS excluded from SIFMA's "Other" category.						

ABS Daily Turnover Rate: The ABS' turnover rate is an improvement versus the illiquidity of the underlying loans or receivables in the ABS pool. According to data from SIFMA, the ABS average daily turnover rate was 0.18% for 2012, based on auto, credit card and student loan ABS only; this was calculated by using the average daily dollar ABS trading volume divided by dollar ABS outstanding. The turnover was slightly lower in comparison to relatively more liquid securities (excluding U.S. Treasury bonds at 4.8%), such as common stock at 0.41%, corporate bonds at 0.39% and municipal bonds at 0.3%. The ABS turnover rate was low, in large part, due to the 0.14% turnover rate of student loan, as auto at 0.24% and credit card at 0.2% were higher.

Historical Net Loss/Charge-off Rates of Receivables/Loans: According to Standard & Poor's (S&P) U.S. credit card quality index report dated April 29, 2014, and U.S. auto loan ABS tracker report dated April 10, 2014, the rated ABS' underlying collateral pool of receivables/loans weathered the financial crisis relatively well. Graph 1 shows that net loss/charge-off rates for the underlying auto and credit card receivables/loans doubled in 2009 compared to 2007/2008, as per S&P data. This is in tandem with the doubling of the unemployment rate, but has since recovered to near lows.

Graph 1



According to Fitch Ratings' Global Structured Finance 2012 Transition and Default Study, dated March 15, 2013, impairment rates for global ABS were 0.79% in 2012. Impairments include defaults and near-defaults that include bonds rated CCsf or lower ("sf" stands for "structured finance securities"); near default means some type of default appears probable. This impairment rate is lower than that of commercial mortgage-backed securities' (CMBS) 9.6%, residential mortgage-backed securities' (RMBS) 5.5% and structured credit's 2.7% for 2012. Global ABS impairments reached a peak of 1.5% in 2002, and were only approximately 0.4% in 2008 and 0.7% in 2009 during the financial crisis. Global ABS ratings remained stable in 2012, with 90% of ratings remaining unchanged year-over-year. In addition, according to Fitch Ratings, 2.7% of global ABS ratings were upgraded and 7.3% were downgraded. Fitch Ratings' 2013 transition and default study showed a slight improvement in global ABS impairment rates, dropping to 0.73%.

Insurance Company Holdings of Consumer/Commercial ABS

The U.S. insurance industry held $70.6 billion of consumer/commercial ABS as of Dec. 31, 2012, which, after subtracting $2.3 billion in foreign ABS, was 11.8% of all U.S. consumer/commercial ABS outstanding of $578 billion as of year-end 2012. The five largest types of ABS represented 92% of the insurance industry holdings and consisted of auto loans and leases (30%), credit card receivables (24%), small business loans (13%), other (13%) and student loans (12%). "Other" ABS included receivables from timeshare, purchased royalty streams on pharmaceutical products, purchased structured settlement and annuities, and tax receivables and others. U.S. insurers held more auto and credit card, and less student loan ABS in percentage terms than the total U.S. ABS market's percentage breakdown. Life companies held 68% of the insurance industry's total consumer/commercial ABS, followed by P/C with 26%. P/C and health insurers have a larger concentration of auto ABS than life insurers, while fraternal insurers had 66% in small business loan ABS (see Table 3).

Table 3: 2012 Consumer/Commercial ABS Type and Insurer Type												
Book Adjusted Carrying Value (In US$ millions)	Life	%	P/C	%	Health	%	Fraternal	%	Title	%	Industry Total	%
Auto	$ 12,704	26%	$ 7,317	40%	$ 1,166	57%	$ 257	15%	$ -	0%	$ 21,444	30%
Credit Card	$ 12,671	26%	$ 3,628	20%	$ 472	23%	$ 203	12%	$ -	0%	$ 16,975	24%
Small Business Loan	$ 3,771	8%	$ 3,840	21%	$ 143	7%	$ 1,157	66%	$ 9	97%	$ 8,920	13%
Other*	$ 7,900	16%	$ 891	5%	$ 35	2%	$ 66	4%	$ -	0%	$ 8,892	13%
Student Loan	$ 6,219	13%	$ 2,079	11%	$ 203	10%	$ 6	0%	$ -	0%	$ 8,506	12%
Receivables from Utilities	$ 3,265	7%	$ 682	4%	$ 41	2%	$ 66	4%	$ 0	3%	$ 4,055	6%
Trade Receivable	$ 1,766	4%	$ 7	0%	$ -	0%	$ 7	0%	$ -	0%	$ 1,780	3%
Total	**$ 48,294**	**100%**	**$ 18,444**	**100%**	**$ 2,060**	**100%**	**$ 1,763**	**100%**	**$ 10**	**100%**	**$ 70,572**	**100%**
Percentage of Industry Total	*68%*		*26%*		*3%*		*2%*		*0%*		*100%*	

*Source: I-Site & Bloomberg. Excludes equipment AB. *Other includes time share, structured settlements, royalty payments and tax receivables.*

Total figures may not add up due to rounding

Based on preliminary year-end 2013 data, the U.S. insurance industry's exposure to auto, credit card and student loan ABS was $20.3 billion, $15.0 billion and $8.1 billion, respectively.

ABS Holdings by Insurer Size: Nearly 70% of the industry's 2012 ABS holdings were with insurers that had more than $10 billion in cash and invested assets. This was mostly due to life companies with greater than $10 billion in cash and invested assets holding 84% of the life industry's total ABS holdings, compared to 35% for P/C and only 10% for health insurers. In other words, life companies with greater than $10 billion in cash and invested assets held 57.4% (or more than half) of all ABS held by the insurance industry ($40.5 billion/$70.6 billion). Unlike life and fraternal insurers, ABS holdings of P/C and health insurers are more spread out among the different size insurers, as seen in Table 4.

Table 4: 2012 Consumer/Commercial ABS Holdings By Insurer Size (Total Cash & Invested Assets) and Insurer Type												
Book Adjusted Carrying Value (in US$ million)	Life	%	P/C	%	Health	%	Fraternal	%	Title	%	Industry Tot	%
> $10bn	$ 40,516	84%	$ 6,518	35%	$ 212	10%	$ 1,160	66%	$ -	0%	$ 48,406	69%
>$5bn to ≤ $10bn	$ 2,837	6%	$ 1,508	8%	$ 2	0%	$ 538	31%	$ -	0%	$ 4,885	7%
>$2.5bn to ≤ $5bn	$ 1,868	4%	$ 3,399	18%	$ 59	3%	$ -	0%	$ -	0%	$ 5,326	8%
>$1bn to ≤ $2.5bn	$ 1,921	4%	$ 2,941	16%	$ 613	30%	$ 26	1%	$ 8	84%	$ 5,509	8%
>$500mm to ≤ $1bn	$ 614	1%	$ 1,452	8%	$ 304	15%	$ 30	2%	$ 2	16%	$ 2,401	3%
>$250mm to ≤ $500mm	$ 311	1%	$ 1,051	6%	$ 404	20%	$ 3	0%	$ -	0%	$ 1,769	3%
≤ $250mm	$ 228	0%	$ 1,575	9%	$ 466	23%	$ 5	0%	$ -	0%	$ 2,275	3%
Total	**$ 48,294**	**100%**	**$ 18,444**	**100%**	**$ 2,060**	**100%**	**$ 1,763**	**100%**	**$ 10**	**100%**	**$ 70,572**	**100%**

Source: I-Site & Bloomberg. Excludes Equipment ABS

Maturity: ABS are concentrated in the shorter-term (more than one year to less than or equal to five years) maturity bands, as evident in Table 5. Industry exposure in the ">1 to ≤ 5 yrs" band was 47% of the total industry exposure, followed by 21% in the ">5 to ≤ 10 yrs" band. Fraternal is an exception, with 56% of ABS holdings in the ">10 to ≤ 20 yrs" band, due to their large holdings in longer maturity small business loan ABS.

Table 5: 2012 Consumer/Commercial ABS Holdings By Maturity and Industry												
Book Adjusted Carrying Value (in US$ millions)	Life	%	P/C	%	Health	%	Fraternal	%	Title	%	Industry Total	%
≤ 1 Year	$ 766	2%	$ 120	1%	$ 40	2%	$ 60	3%	$ -	0%	$ 986	1%
>1 to ≤ 5 yrs	$ 21,842	45%	$ 9,516	52%	$ 1,448	70%	$ 374	21%	$ 9	93%	$ 33,188	47%
>5 to ≤ 10 yrs	$ 10,472	22%	$ 3,773	20%	$ 323	16%	$ 284	16%	$ -	0%	$ 14,852	21%
>10 to ≤ 20 yrs	$ 8,087	17%	$ 3,889	21%	$ 192	9%	$ 979	56%	$ 1	7%	$ 13,148	19%
> 20 years	$ 7,127	15%	$ 1,147	6%	$ 57	3%	$ 67	4%	$ -	0%	$ 8,398	12%
Total	**$ 48,294**	**100%**	**$ 18,444**	**100%**	**$ 2,060**	**100%**	**$ 1,763**	**100%**	**$ 10**	**100%**	**$ 70,572**	**100%**

Source: I-Site & Bloomberg. Excludes Equipment ABS

The insurance industry's exposure to auto ABS is mostly short-term, with approximately 88% of maturities in the ">1 to ≤ 5 yrs" range (see Table 6). Approximately 61% of credit card ABS exposure was in the ">1 to ≤ 5 yrs" band and 35% was in the ">5 to ≤ 10 yrs" band. Auto loans and leases, as well as credit card receivables, are generally short-term asset classes. On the other hand, student loan and small business loans are longer maturity asset classes. Insurers' student loan ABS had 49% of its exposure maturing in greater than 20 years, while small business loan ABS had 77% maturing in the “>10 to ≤ 20 yrs” range.

Table 6: 2012 Consumer/Commercial ABS Type vs. Maturity Band

Book Adjusted Carrying Value (in US$ millions)	≤ 1 Year	%	>1 to ≤ 5 yrs	%	>5 to ≤ 10 yrs	%	>10 to ≤ 20 yrs	%	> 20 years	%	Total
Auto	$ 618	3%	$ 18,908	88%	$ 1,392	6%	$ 102	0%	$ 424	2%	$ 21,444
Credit Card	$ 137	1%	$ 10,304	61%	$ 5,877	35%	$ 358	2%	$ 298	2%	$ 16,975
Small Business Loan	$ 16	0%	$ 544	6%	$ 1,491	17%	$ 6,838	77%	$ 30	0%	$ 8,920
Other*	$ 145	2%	$ 1,224	14%	$ 1,863	21%	$ 2,430	27%	$ 3,230	36%	$ 8,892
Student Loan	$ 28	0%	$ 394	5%	$ 1,637	19%	$ 2,307	27%	$ 4,140	49%	$ 8,506
Receivables from Utilities	$ 20	1%	$ 1,432	35%	$ 2,301	57%	$ 121	3%	$ 180	4%	$ 4,055
Trade Receivable	$ 22	1%	$ 381	21%	$ 291	16%	$ 991	56%	$ 95	5%	$ 1,780
Total	**$ 986**	**1%**	**$ 33,188**	**47%**	**$ 14,852**	**21%**	**$ 13,148**	**19%**	**$ 8,397**	**12%**	**$ 70,571**

*Source: I-Site & Bloomberg. Excludes equipment AB. *Other includes time share, structured settlements, royalty payments and tax receivables.*

Credit Ratings: The U.S. insurance industry’s ABS are high-quality securities, as reflected by 99% having investment grade ratings (92% had NAIC 1 designations and 7% had NAIC 2 designations) as of year-end 2012. ABS with NAIC 1 designations comprised more than 95% of all insurer ABS holdings, except for life companies, which had 89% with an NAIC 1 designation, as shown in Table 7.

Table 7: 2012 Consumer/Commercial ABS Holdings By NAIC Designation and Industry

Book Adjusted Carrying Value (in US$ millions)	Life	%	P/C	%	Health	%	Fraternal	%	Title	%	Total	%
NAIC 1	$ 43,145	89%	$ 17,826	97%	$ 2,045	99%	$ 1,676	95%	$ 10	100%	$ 64,701	92%
NAIC 2	$ 4,211	9%	$ 514	3%	$ 10	1%	$ 61	3%	$ -	0%	$ 4,796	7%
NAIC 3	$ 429	1%	$ 76	0%	$ 5	0%	$ -	0%	$ -	0%	$ 510	1%
NAIC 4	$ 441	1%	$ 19	0%	$ -	0%	$ 16	1%	$ -	0%	$ 476	1%
NAIC 5	$ 44	0%	$ 10	0%	$ -	0%	$ 4	0%	$ -	0%	$ 57	0%
NAIC 6	$ 25	0%	$ 0	0%	$ -	0%	$ 7	0%	$ -	0%	$ 32	0%
Total	**$ 48,294**	**100%**	**$ 18,444**	**100%**	**$ 2,060**	**100%**	**$ 1,763**	**100%**	**$ 10**	**100%**	**$ 70,572**	**100%**

Source: I-Site & Bloomberg. Excludes Equipment ABS

Yields: The effective interest rate or yield is based on the price the insurers paid for the ABS. The largest, and usually the most liquid, types of ABS outstanding in the market generally offered the lowest rates or yields, such as auto, credit card and student loan. Other factors, such as maturity and credit rating, also could affect the effective interest rate or yield. As shown in Table 8, insurers’ BACV weighted average effective interest rate, or yield, for year-end 2012 ABS holdings was 3%.

Table 8: 2012 Consumer/Commercial ABS Effective Interest Rate by ABS Types

Weighted Average Using Book Adjusted Carrying Value (BACV)	BACV Weighting	Effective Interest Rate
Auto	30.4%	1.96%
Credit Card	24.1%	2.52%
Small Business Loan	12.6%	4.20%
Other	12.6%	4.69%
Student Loan	12.1%	2.20%
Receivables from Utilities	5.7%	4.74%
Trade Receivables	2.5%	5.53%
Total	**100.0%**	**3.00%**

Source: I-Site & Bloomberg. Excludes Equipment ABS

Consumer/Commercial ABS Outlook

The consumer/commercial ABS market is expected to remain stable in terms of credit ratings in 2014, due to the growing economy and improving consumer credit fundamentals. According to S&P’s early March 2014 reports, U.S. gross domestic product (GDP) grew 2.5% in 2013, and is expected to grow 3% in 2014. Key drivers include higher home prices and housing starts, lower unemployment rate, higher consumer sentiment to pre-crisis levels, higher consumer spending, record household net worth, lower consumer debt levels and higher savings rates. Collateral performance is expected to deteriorate slightly due to increased competition from lenders, which, in turn, may loosen underwriting standards. Of the 3,028 S&P rated U.S. ABS at the beginning of 2012, 74.4% remained stable, 9.3% were upgraded and 16.3% were downgraded in 2012. Of these, only 0.36% defaulted and 2.01% were near default by the end of 2012. "Near default" includes securities downgraded to CC or C during the year that are highly vulnerable to nonpayment risk, not those that started 2012 already at CC or C (Source: *S&P Global Structured Finance Default Study 1978–2012*, dated March 30, 2013).

Auto: Credit performance for prime auto ABS has been solid, with record low loss levels. However, the subprime auto ABS are of some concern due to potentially rising loss levels. The rapid growth of the subprime auto ABS market has resulted in deteriorating underwriting standards with loan terms being extended and residual values being priced at unjustifiable levels (possibly resulting in under-collateralization). According to S&P, "Most subprime auto finance securitizers started to report rising delinquencies in their managed portfolios at year-end 2012…we expect losses to rise for full years 2013…and 2014." But the good news is the increased losses are only trending toward more normal historical averages from record low levels. Used car prices could be under more pressure as even more cars come off leases in the next few years. Also, new entrants to subprime auto ABS may be contributing to increased losses and delinquencies as they try to gain market share by lowering underwriting standards. Of the 3,000 auto ABS tranches rated by S&P since 1985 (prime and sub-prime), only four tranches have defaulted; they were all subordinated bonds rated BB or lower. There were no auto ABS rating downgrades in 2012 or 2013 by S&P.

Credit Card: Consumers are benefitting from lower unemployment, stronger economic growth, solid equity market returns and higher real estate prices. As a result, the underlying collateral losses and delinquencies of credit card ABS are at historical lows, with tight underwriting standards, consumer caution in adding high-rate revolving credit card loans and the high quality of seasoned credit card collateral pools also contributing. Of the 2,800 credit card ABS tranches that S&P has rated in the past 30 years, only 15 tranches have defaulted. In 2013, S&P downgraded only four tranches of credit card ABS from one issuer to D from CC.

Student Loan: S&P currently has a stable ratings outlook on the underlying collateral performance of student loan ABS, due to more than 80% having a government guarantee. The U.S. Department of Education guarantees these loans at a minimum rate of 97% recovery, meaning the maximum potential loss for investors is 3%. But the private student loan sector, without the government guarantee, constitutes the riskiest ABS asset type, according to S&P. Private student loan ABS issued prior to 2009 are experiencing more losses, as they have lower average FICO scores and less robust credit enhancements, than those issued post-2009. From 1984 to 2013, AAA-rated student loan ABS (FFELP and private) experienced no defaults.

Conclusion

Although the insurance industry's consumer/commercial ABS exposure is only 1.3% of total cash and invested assets of insurers, ABS offer high average credit quality, attractive yields, portfolio diversification and low interest rate risk. The consumer/commercial ABS market composition has changed after the financial crisis of 2008, with student loan ABS becoming the largest category, followed by auto ABS and credit card ABS. Insurers held mostly auto ABS, followed by credit card ABS, and life companies held 68% of insurers' total ABS exposure. According to S&P, ABS credit ratings are expected to remain generally stable based on the solid quality of the underlying collateral. However, recent rising loss levels in subprime auto ABS and private student loan ABS have sparked some concerns.

The NAIC Capital Markets Bureau will continue to monitor trends surrounding the asset-backed securities market and its impact on insurance industry investments. We will report on any developments as deemed appropriate.

May 9, 2014								
Major Insurer Share Prices			**Change %**			**Prior**		
		Close	**Week**	**QTD**	**YTD**	**Week**	**Quarter**	**Year**
Life	Aflac	$62.98	(0.3)	(0.1)	(5.7)	$63.15	$63.04	$66.80
	Ameriprise	111.23	(1.0)	1.1	(3.3)	112.34	110.07	115.05
	Genworth	18.22	2.3	2.8	17.3	17.81	17.73	15.53
	Lincoln	49.65	1.0	(2.0)	(3.8)	49.18	50.67	51.62
	MetLife	51.30	(1.1)	(2.8)	(4.9)	51.89	52.80	53.92
	Principal	46.58	(0.2)	1.3	(5.5)	46.65	45.99	49.31
	Protective	51.99	1.5	(1.1)	2.6	51.24	52.59	50.66
	Prudential	83.75	2.1	(1.1)	(9.2)	82.05	84.65	92.22
	UNUM	33.33	(0.9)	(5.6)	(5.0)	33.62	35.31	35.08
PC	ACE	$102.66	0.6	3.6	(0.8)	$102.06	$99.06	$103.53
	Axis Capital	45.24	0.2	(1.3)	(4.9)	45.17	45.85	47.57
	Allstate	58.13	1.7	2.7	6.6	57.18	56.58	54.54
	Arch Capital	56.93	(0.2)	(1.1)	(4.6)	57.07	57.54	59.69
	Cincinnati	49.13	0.1	1.0	(6.2)	49.09	48.66	52.37
	Chubb	92.95	0.4	4.1	(3.8)	92.61	89.30	96.63
	Everest Re	158.36	(0.6)	3.5	1.6	159.31	153.05	155.87
	Progressive	24.64	(0.6)	1.7	(9.6)	24.80	24.22	27.27
	Travelers	91.30	0.3	7.3	0.8	91.00	85.10	90.54
	WR Berkley	44.38	(0.6)	6.6	2.3	44.64	41.62	43.39
	XL	32.04	0.7	2.5	0.6	31.83	31.25	31.84
Other	AON	$85.53	0.6	1.5	2.0	$85.04	$84.28	$83.89
	AIG	52.28	(0.1)	4.5	2.4	52.35	50.01	51.05
	Assurant	67.64	(0.6)	4.1	1.9	68.02	64.96	66.37
	Fidelity National	34.02	1.3	8.2	4.8	33.60	31.44	32.45
	Hartford	35.08	(2.0)	(0.5)	(3.2)	35.78	35.27	36.23
	Marsh	48.93	1.0	(0.8)	1.2	48.46	49.30	48.36
Health	Aetna	$74.47	4.2	(0.7)	8.6	$71.49	$74.97	$68.59
	Cigna	86.49	4.6	3.3	(1.1)	82.66	83.73	87.48
	Humana	120.04	10.2	6.5	16.3	108.89	112.72	103.22
	United	76.95	2.6	(6.1)	2.2	75.03	81.99	75.30
	WellPoint	104.51	3.6	5.0	13.1	100.87	99.55	92.39
Monoline	Assured	$25.54	4.5	0.9	8.3	$24.45	$25.32	$23.59
	MBIA	11.99	(2.1)	(14.3)	0.4	12.25	13.99	11.94
	MGIC	8.55	(1.5)	0.4	1.3	8.68	8.52	8.44
	Radian	14.69	2.9	(2.3)	4.0	14.27	15.03	14.12
	XL Capital	32.04	0.7	2.5	0.6	31.83	31.25	31.84

May 9, 2014							
Major Market Variables		**Change %**			**Prior**		
	Close	**Week**	**QTD**	**YTD**	**Week**	**Quarter**	**Year**
Dow Jones Ind	16,583.34	0.4	0.8	0.0	16,512.89	16,457.66	16,576.66
S&P 500	1,878.48	(0.1)	0.3	1.6	1,881.14	1,872.34	1,848.36
S&P Financial	295.08	(0.4)	(2.0)	0.1	296.32	301.06	294.71
S&P Insurance	283.93	0.2	1.4	(1.8)	283.44	280.10	289.10
US Dollar $		**Change %**			**Prior**		
/ Euro	$1.38	(0.8)	(0.1)	0.1	$1.39	$1.38	$1.37
/ Crude Oil bbl	99.99	0.1	(1.6)	1.6	99.89	101.58	98.42
/ Gold oz	1,287.60	(1.0)	0.3	7.1	1,300.70	1,283.40	1,202.30
Treasury Ylds %	**%**	**Change bp**			**%**	**%**	**%**
1 Year	0.10	(0.01)	(0.02)	(0.02)	0.10	0.11	0.11
10 Year	2.63	0.04	(0.09)	(0.40)	2.59	2.72	3.03
30 Year	3.46	0.10	(0.10)	(0.51)	3.37	3.56	3.97
Corp Credit Spreads -bp		**Change %**			**Prior**		
CDX.IG	14.20	9.2	(18.2)	7.0	13.00	17.37	13.27

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Major Insurer Bond Yields

				Weekly Change					YTD
				Price			Spread over UST		Spread
	Company	**Coupon**	**Maturity**	**Current**	**Change**	**Yield**	**B.P.**	**Change**	**Change**
Life	Aflac	8.500%	5/15/2019	$129.60	$0.17	2.22%	56	(1)	(36)
	Ameriprise	5.300%	3/15/2020	$114.52	$0.04	2.60%	71	6	(10)
	Genworth	6.515%	5/15/2018	$115.89	$0.22	2.35%	107	(3)	(56)
	Lincoln National	8.750%	7/15/2019	$130.23	$0.30	2.44%	73	(5)	(35)
	MassMutual	8.875%	6/15/2039	$157.15	$0.10	4.89%	158	(7)	(18)
	MetLife	4.750%	2/15/2021	$111.53	($0.08)	2.86%	74	4	(15)
	New York Life	6.750%	11/15/2039	$132.87	$0.03	4.56%	124	(6)	(4)
	Northwestern Mutual	6.063%	3/15/2040	$122.67	($0.33)	4.56%	122	(5)	(3)
	Pacific Life	9.250%	6/15/2039	$151.34	($0.96)	5.46%	215	(3)	(19)
	Principal	6.050%	10/15/2036	$121.06	($1.12)	4.54%	135	(0)	(3)
	Prudential	4.500%	11/15/2020	$110.44	$0.44	2.74%	65	(4)	(13)
	TIAA	6.850%	12/15/2039	$132.96	($0.01)	4.64%	131	(7)	(1)
P&C	ACE INA	5.900%	6/15/2019	$117.44	$0.22	2.25%	56	(2)	(7)
	Allstate	7.450%	5/15/2019	$125.06	$0.13	2.14%	46	(1)	(16)
	American Financial	9.875%	6/15/2019	$131.10	$0.13	3.20%	145	(4)	(42)
	Berkshire Hathaway	5.400%	5/15/2018	$114.47	$0.15	1.65%	37	(1)	(2)
	Travelers	3.900%	11/15/2020	$107.30	$0.39	2.66%	60	(3)	(1)
	XL Group	6.250%	5/15/2027	$117.83	$0.26	4.43%	160	(6)	(22)
Other	AON	5.000%	9/15/2020	$111.98	$0.28	2.93%	88	(3)	(2)
	AIG	5.850%	1/15/2018	$114.38	$0.11	1.79%	65	(1)	(9)
	Hartford	5.500%	3/15/2020	$114.61	$0.17	2.79%	88	0	(18)
	Marsh	9.250%	4/15/2019	$130.98	$0.10	2.51%	89	2	(36)
	Nationwide	9.375%	8/15/2039	$154.33	$0.01	5.41%	209	(7)	(27)
Health	Aetna	3.950%	9/15/2020	$108.04	$0.21	2.56%	53	0	(33)
	CIGNA	5.125%	6/15/2020	$113.07	$0.32	2.78%	81	(4)	(16)
	United Healthcare	3.875%	10/15/2020	$106.94	$0.14	2.69%	66	0	1
	Wellpoint	4.350%	8/15/2020	$108.37	$0.38	2.88%	87	(4)	(12)

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

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