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Update on Insurance Industry Investment Portfolio Asset Mixes

The asset mix of an insurance company's investment portfolio varies over time based on different influences, including both macroeconomic and industry-specific factors. The general state of the global economy, industry trends, market events and the political environment all impact investment-management decisions. Similar to other industries, for U.S. insurance companies, a change in risk appetite also tends to result in an adjustment to investment strategies and philosophies. In a strong economy, risk appetite typically increases, and the converse is true during poor economic conditions.

Depending on the insurer type, portfolio compositions vary, due mostly to appropriately matching assets to liabilities and taking into consideration relative duration and liquidity risk. For example, life companies have longer-term liabilities than property/casualty companies; therefore, the former invests more heavily in longer-term assets, such as bonds with 30-year maturities, than do the other insurer types.

The U.S. economy seems to be on a path of slow but fairly steady recovery, and investors' biggest concern has been the continued period of low interest rates. Rewinding back to 2010, the market sentiment indicated a "flight to quality" — that is, a conscious move to safer, less volatile and shorter duration investments — in a time of continued distress within the financial markets (particularly within banks), as well as ongoing concerns about residential and commercial real estate, which appeared to be worsening modestly. Fast-forwarding two years to 2012, with recessionary concerns largely dissipating and market sentiment improving, investors' risk appetites have been increasing in the prolonged low-interest environment. This environment may have compelled insurers to "reach for yield" as they have been struggling to find high-quality investments with attractive returns.

The NAIC Capital Markets Bureau published a special report in August 2011 titled, "Analysis of Insurance Industry Investment Portfolio Asset Mixes," which studied the insurance industry's portfolio asset mix across the five general insurance company types (life, property/casualty, fraternal, health and title) as of year-end 2010, year-end 2008 and year-end 2005. This special report provides an update on the insurance industry's portfolio asset mix, as well as a breakdown of the bond sector and a further breakdown of the corporate bond exposure into sectors/industries, as of year-end 2012 and year-end 2011.

In both of the analyzed years, bonds consistently represented the majority of U.S. insurance industry investments, ranging between 68% and 70% of total cash and invested assets. And within the bond sector, the largest bond type in both years was corporate bonds, ranging between approximately 49% and 52% of total bond investments. Investments across other asset types tended to vary.

Asset Mix Comparison Between 2012 and 2011

As of year-end 2012, the overall insurance industry's assets amounted to \$5.35 trillion in terms of book/adjusted carrying value (BACV), which was a 2.3% increase from year-end 2011's total assets of \$5.23 trillion. The latter was, in turn, a 4.1% increase from year-end 2010's value of \$5.02 trillion. As Table 1A and Table 1B below show, the majority of insurance industry

investments in both years was in bonds. Bonds also were the largest component of investment portfolios across each of the five insurance company types. They include categories such as corporate debt, municipal bonds, structured securities, U.S. government bonds and foreign government bonds. Although the total amount of bond investments at year-end 2012 was \$3.66 trillion – higher than a year earlier (\$3.63 trillion) – their share of total cash and invested assets decreased to 68.4% from year-end 2011's number (69.5%).

Common stock was the second-largest asset type in both years. At year-end 2012, common stock investments amounted to almost \$590 billion (or 11.0% of total cash and invested assets), up from \$549 billion (or 10.5% of total cash and invested assets) at year-end 2011. Although this exhibited a 7.5% increase in the insurance industry's common stock investments year-over-year, it was significantly less than the 16% total return delivered by the S&P 500 index in 2012. Given that backdrop, insurers have likely scaled back their common stock holdings relative to the overall market.

Mortgages and first liens were the third-largest asset type, accounting for \$351.4 billion (or 6.6% of total cash and invested assets) and \$338.3 billion (or 6.5%) at year-end 2012 and 2011, respectively. Overall, the broad asset mix of the U.S. insurance industry's investment portfolios has remained fairly stable year-over-year, even as some asset type proportions have shifted slightly.

Table 1A: Year-end 2012 Insurance Industry Asset Mix (\$)

<i>Asset Type</i>	<i>Life</i>	<i>Property/Casualty</i>	<i>Fraternal</i>	<i>Title</i>	<i>Health</i>	<i>TOTAL</i>	<i>% of Total</i>
Bonds	2,547,659,052,069	934,579,651,395	86,902,223,282	4,942,245,285	86,898,002,040	3,660,981,174,071	68.4
Preferred stock	7,841,289,162	12,144,363,882	524,528,489	272,509,893	437,674,497	21,220,365,923	0.4
Common stock	143,831,739,758	406,565,867,695	2,898,033,359	1,457,292,057	35,105,778,341	589,858,711,210	11.0
Mortgages, First Liens	335,610,603,174	5,686,035,389	10,001,574,738	46,999,061	39,707,824	351,384,920,186	6.6
Real Estate	21,429,925,556	10,454,811,521	341,530,415	170,518,863	5,884,359,280	38,281,145,635	0.7
Cash & Short-term Investments	106,678,498,005	85,074,589,393	4,462,150,267	931,244,763	28,489,156,869	225,635,639,297	4.2
Contract loans	127,569,366,876	1,952,136	2,869,499,907	-	547,357	130,441,366,276	2.4
BA & Other	139,087,952,205	115,841,389,191	3,052,753,265	487,424,658	7,282,290,865	265,751,810,184	5.0
Other receivables	1,827,989,651	7,723,376,665	24,879,726	459,909	339,072,793	9,915,778,744	0.2
Derivatives	41,580,386,485	591,754,756	873,145	-	17,971,959	42,190,986,345	0.8
Securities lending (reinvested collateral)	10,828,862,979	2,851,941,211	681,278,625	-	729,099,838	15,091,182,653	0.3
TOTAL	3,483,945,665,920	1,581,515,733,234	111,759,325,218	8,308,694,489	165,223,661,663	5,350,753,080,524	100.0
% of total	65.1	29.6	2.1	0.2	3.1	100.0	

Table 1B: Year-end 2011 Insurance Industry Asset Mix (\$)

<i>Asset Type</i>	<i>Life</i>	<i>Property/Casualty</i>	<i>Fraternal</i>	<i>Title</i>	<i>Health</i>	<i>TOTAL</i>	<i>% of Total</i>
Bonds	2,536,661,533,658	926,279,521,392	81,667,896,952	4,727,108,846	83,492,113,732	3,632,828,174,580	69.5
Preferred stock	8,148,681,329	11,837,621,746	405,435,502	120,958,262	345,016,103	20,857,712,942	0.4
Common stock	142,911,397,353	370,902,428,950	2,804,672,955	1,334,405,671	31,297,750,675	549,250,655,604	10.5
Mortgages, First Liens	323,109,885,964	4,973,792,012	10,160,749,148	56,013,225	32,804,320	338,333,244,669	6.5
Real Estate	20,628,401,105	10,442,179,990	340,685,230	176,525,129	5,766,881,626	37,354,673,080	0.7
Cash & Short-term Investments	96,939,491,957	75,676,949,055	3,059,030,902	727,904,292	26,244,517,051	202,647,893,257	3.9
Contract loans	126,049,528,961	1,623,655	2,851,339,917	-	524,194	128,903,016,727	2.5
BA & Other	127,076,267,453	110,855,943,122	2,555,708,353	522,551,117	6,354,185,830	247,364,655,875	4.7
Other receivables	2,328,968,436	8,250,462,217	45,154,363	158,154	355,313,228	10,980,056,398	0.2
Derivatives	44,356,615,747	648,784,887	1,520,508	-	23,863,758	45,030,784,900	0.9
Securities lending (reinvested collateral)	10,146,952,404	2,877,151,383	949,362,032	4,974,354	1,031,710,060	15,010,150,233	0.3
TOTAL	3,438,357,724,367	1,522,746,458,409	104,841,555,862	7,670,599,050	154,944,680,577	5,228,561,018,265	100.0
% of total	65.8	29.1	2.0	0.1	3.0	100.0	

Life companies accounted for the majority of industry cash and invested assets in terms of BACV, at 65.1% of the industry's total cash and invested assets as of year-end 2012 (a slight decline from 65.8% at year-end 2011). Property/casualty companies represented the second-

largest, at 29.6% of total cash and invested assets at year end 2012 (a slight increase from 29.1% at year-end 2011). Similar to the broader asset class mix, the overall composition of the insurance industry's investment portfolios by insurer type did not noticeably change year-over-year.

Bonds' Breakdown Comparison Between 2012 and 2011

In terms of specific bond types within the aggregate insurance industry, Table 2A and Table 2B below show that approximately half of all bond investments were corporate bonds for both year-end 2011 and year-end 2012. As of year-end 2012, corporate bond investments totaled about \$1.9 trillion (or 51.6% of total bond investments), a 4.9% increase from the \$1.8 trillion in corporate bonds (or 49.5% of total bond investments) at year-end 2011. That, in turn, was a 5.5% increase from \$1.7 trillion (or 48.7% of total bond investments) of corporate bonds held at year-end 2010. Notably, both the absolute amount of corporate bonds and their share of total bond investments have steadily increased year-over-year over the past three years.

Municipal bonds were the second largest bond category for the insurance industry for both year-end 2011 and year-end 2012. Similar to the corporate bond exposure, both the absolute amount of municipal bonds and their share of total bond investments have steadily increased year-over-year — from \$467 billion, or 12.9% of total bond investments, at year-end 2011 to \$524 billion, or 14.3% of total bond investments, at year-end 2012. A more detailed analysis of the U.S. insurance industry's exposure to municipal bonds was published July 1, 2013 (*"Update on Municipal Bonds Held by the U.S. Insurance Industry"*).

Table 2A: Year-end 2012 Bond Breakdown (\$)

<i>Bond Type</i>	<i>Life</i>	<i>Property/Casualty</i>	<i>Fraternal</i>	<i>Title</i>	<i>Health</i>	<i>TOTAL</i>	<i>% of Total</i>
Corporate Bonds	1,506,761,527,399	292,718,043,983	55,474,764,488	2,413,474,366	31,057,630,670	1,888,425,440,906	51.6
Municipal Bonds	149,452,803,559	346,058,658,428	6,643,554,425	1,532,430,280	20,041,484,182	523,728,930,874	14.3
US Government	143,240,115,167	84,822,919,545	2,630,261,467	378,892,254	13,657,185,785	244,729,374,218	6.7
Agency-backed RMBS	213,287,881,744	91,832,466,566	10,405,239,355	483,751,675	14,780,994,938	330,790,334,278	9.0
Agency-backed CMBS	19,286,605,249	6,624,056,967	1,806,511,401	-	253,881,086	27,971,054,703	0.8
Private-label RMBS	96,744,183,445	17,704,668,057	2,051,506,183	11,696,645	765,230,830	117,277,285,160	3.2
Private-label CMBS	131,565,639,846	26,811,325,248	3,204,373,911	22,503,582	3,020,310,463	164,624,153,050	4.5
Foreign Government	78,264,669,998	27,350,723,281	1,471,814,921	68,365,877	421,182,167	107,576,756,244	2.9
Hybrid Securities	29,259,481,319	2,077,010,052	589,790,022	4,350,000	183,969,844	32,114,601,237	0.9
ABS and Other							
Structured Securities	179,796,106,378	38,580,273,914	2,624,284,801	26,831,013	2,724,331,737	223,751,827,843	6.1
TOTAL	2,547,659,014,104	934,580,146,041	86,902,100,974	4,942,295,692	86,906,201,702	3,660,989,758,513	100.0
% of total	69.6	25.5	2.4	0.1	2.4	100.0	

Table 2B: Year-end 2011 Bond Breakdown (\$)

<i>Bond Type</i>	<i>Life</i>	<i>Property/Casualty</i>	<i>Fraternal</i>	<i>Title</i>	<i>Health</i>	<i>TOTAL</i>	<i>% of Total</i>
Corporate Bonds	1,442,996,821,305	275,993,742,876	49,652,075,760	2,250,488,326	28,636,906,348	1,799,530,034,615	49.5
Municipal Bonds	114,283,425,290	330,099,103,658	5,581,493,898	1,560,226,835	15,709,645,495	467,233,895,176	12.9
US Government	170,377,629,851	107,652,056,897	3,238,700,121	303,083,645	17,201,601,181	298,773,071,695	8.2
Agency-backed RMBS	228,784,131,920	100,104,624,676	11,319,564,623	336,549,386	15,224,779,627	355,769,650,232	9.8
Agency-backed CMBS	16,168,594,639	5,045,336,977	1,548,388,137	11,122,922	216,026,350	22,989,469,025	0.6
Private-label RMBS	109,322,865,409	18,611,076,035	2,537,113,394	4,699,052	1,250,499,303	131,726,253,193	3.6
Private-label CMBS	145,135,941,280	26,368,584,722	3,244,563,957	14,766,897	2,366,098,112	177,129,954,968	4.9
Foreign Government	98,029,507,032	26,206,347,002	1,175,266,061	202,572,574	442,965,727	126,056,658,396	3.5
Hybrid Securities	37,750,264,529	2,507,902,316	574,717,105	4,350,000	208,660,667	41,045,894,617	1.1
ABS and Other							
Structured Securities	173,809,353,696	33,687,810,025	2,795,252,377	39,249,169	2,236,734,222	212,568,399,489	5.9
TOTAL	2,536,658,534,951	926,276,585,184	81,667,135,433	4,727,108,806	83,493,917,032	3,632,823,281,406	100.0
% of total	69.8	25.5	2.2	0.1	2.3	100.0	

Corporate bonds were also the largest category for four of the five insurance company types. The one exception, property/casualty companies, had its largest exposure in municipal bonds, at approximately \$346 billion in BACV, or 37% of property/casualty companies' total bond investments at year-end 2012. For life companies, corporate bonds represented \$1.5 trillion (or

59.1% of total bond investments). As Table 3A and Table 3B below show, the percentage mix of bond types varies between the different insurance company types due, in part, to duration management and risk appetite. For example, municipal bonds are the largest bond type for property/casualty companies; however, they are only 5.9% of life companies' total bond investments, primarily because of tax reasons.

Life companies also had the largest concentration of non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), at 9% as of year-end 2012, compared to 4.8% for property/casualty companies and 6.0% for fraternal companies. Notably, all insurer types except title companies have reduced their exposure to both agency and non-agency RMBS and CMBS in terms of BACV and as a percentage of their total bond investments. This reduction has occurred steadily from 2010 to 2011 and further to 2012, as insurers have adjusted their investment holdings in reaction to the 2008 housing sector turmoil that caused volatility in the RMBS and CMBS markets in subsequent years. This reduction also coincided with very low new issuance volumes in the non-agency structured markets. In addition, all insurer types except title companies have also reduced their exposure to U.S. government bonds, both in terms of BACV and as a percentage of their total bond investments. While holdings of U.S. government-related and foreign government debt are usually a small part of insurers' invested assets, they serve an important role in their investment portfolios. A more thorough analysis of the U.S. insurance industry's exposure to the U.S. government bond market was published May 9, 2013 ("**U.S. Government-Related and Foreign Government Debt Holdings Within the U.S. Insurance Industry**"). Insurers typically have a portion of their assets in U.S. Treasuries for a number of reasons, including high credit quality, favorable liquidity, wide maturity distribution and universal acceptability serving as required collateral. The overall insurance industry holdings of U.S. government debt dropped from about \$328 billion (or 9.4% of total bond investments) at year-end 2010 to about \$299 billion (or 8.2%) at year-end 2011, and further decreased to about \$245 billion (or 6.7%) at year-end 2012. This reduction has occurred largely because of continued low interest rates paid on those investments as insurance companies have faced challenges in meeting their investment return goals; at the same time, investors have more confidence in the economy and are more willing to move away from the "safety" provided by government bonds. Going forward, we anticipate this trend to be at least partially offset by the additional collateral requirements imposed by the impending move to centralized clearing houses for over-the-counter derivatives as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. These requirements will likely lead to relatively higher demand for and holdings of U.S. government debt by any investor participating in the derivatives market.

Table 3A: Year-end 2012 Bond Breakdown (%)

Bond Type	Life	Property/Casualty	Fraternal	Title	Health
Corporate Bonds	59.1%	31.3%	63.8%	48.8%	35.7%
Municipal Bonds	5.9%	37.0%	7.6%	31.0%	23.1%
US Government	5.6%	9.1%	3.0%	7.7%	15.7%
Agency-backed RMBS	8.4%	9.8%	12.0%	9.8%	17.0%
Agency-backed CMBS	0.8%	0.7%	2.1%	0.0%	0.3%
Private-label RMBS	3.8%	1.9%	2.4%	0.2%	0.9%
Private-label CMBS	5.2%	2.9%	3.7%	0.5%	3.5%
Foreign Government	3.1%	2.9%	1.7%	1.4%	0.5%
Hybrid Securities	1.1%	0.2%	0.7%	0.1%	0.2%
ABS and Other					
Structured Securities	7.1%	4.1%	3.0%	0.5%	3.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Table 3B: Year-end 2011 Bond Breakdown (%)

Bond Type	Life	Property/Casualty	Fraternal	Title	Health
Corporate Bonds	56.9%	29.8%	60.8%	47.6%	34.3%
Municipal Bonds	4.5%	35.6%	6.8%	33.0%	18.8%
US Government	6.7%	11.6%	4.0%	6.4%	20.6%
Agency-backed RMBS	9.0%	10.8%	13.9%	7.1%	18.2%
Agency-backed CMBS	0.6%	0.5%	1.9%	0.2%	0.3%
Private-label RMBS	4.3%	2.0%	3.1%	0.1%	1.5%
Private-label CMBS	5.7%	2.8%	4.0%	0.3%	2.8%
Foreign Government	3.9%	2.8%	1.4%	4.3%	0.5%
Hybrid Securities	1.5%	0.3%	0.7%	0.1%	0.2%
ABS and Other					
Structured Securities	6.9%	3.6%	3.4%	0.8%	2.7%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Credit Quality Breakdown

The insurance industry's bond exposure is predominantly investment grade credit risk; however, there is a portion that is below investment grade — some as a result of downgrade activity post-purchase by the insurance companies, while others due to active purchases. As Table 4A and Table 4B below show, about 94% of all insurance industry's bond investments were investment grade (NAIC 1 and NAIC 2 designations) at year-end 2012 and year-end 2011. While the investment grade *totals* have been similar among different insurer types, the *breakdown* between NAIC 1 and NAIC 2 designations shows some fairly significant differences. Life and fraternal companies have stood out from the other insurer types (property/casualty, title and health) in terms of having a much smaller share of NAIC 1-designated investments, which ranged from 64% to 67% of total bond investments versus the other insurer types' proportions, ranging from 79% to 86%.

Additionally, life companies have further shifted the balance from NAIC 1- to NAIC 2-designated investments year-over-year, reducing NAIC 1 share from about 64% to about 62% of total bond investments and increasing NAIC 2 share from about 29% to about 32%. Similar, albeit smaller, shifts have occurred across all five insurer types between year-end 2011 and year-end 2012. Although these are fairly small changes, they are consistent with the aforementioned reduction in U.S. government bond holdings and indicate a possible "reach for yield" by insurance companies (at least within their investment grade holdings).

NAIC Designation	Life	Property/Casualty	Fraternal	Title	Health	% of Total
1	61.8%	83.7%	63.5%	79.1%	83.4%	68.0%
2	31.7%	12.1%	32.5%	16.6%	12.7%	26.2%
NAIC 1&2	93.5%	95.8%	96.0%	95.7%	96.1%	94.2%
3	3.9%	1.9%	2.4%	1.8%	2.2%	3.4%
4	1.8%	1.1%	1.3%	1.2%	1.4%	1.6%
5	0.6%	1.0%	0.2%	1.0%	0.2%	0.7%
6	0.1%	0.2%	0.1%	0.3%	0.0%	0.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4B: Year-end 2011 Bond Breakdown – NAIC Designation (%)

NAIC Designation	Life	Property/Casualty	Fraternal	Title	Health	% of Total
1	64.1%	85.6%	66.8%	80.9%	85.9%	70.2%
2	29.1%	11.2%	28.6%	14.7%	11.0%	24.1%
NAIC 1&2	93.2%	96.8%	95.4%	95.6%	96.9%	94.3%
3	4.1%	1.4%	2.5%	1.2%	1.8%	3.3%
4	1.9%	1.3%	1.7%	1.4%	1.1%	1.7%
5	0.6%	0.2%	0.3%	1.5%	0.2%	0.5%
6	0.2%	0.2%	0.1%	0.2%	0.0%	0.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Corporate Bonds' Sector/Industry Breakdown Comparison Between 2012 and 2011

As shown in Table 5A and Table 5B below, our analysis also included a more detailed sector breakdown of the nearly \$2 trillion corporate bond exposure as of year-end 2011 and year-end 2012. In this report, we based our sector breakdowns on a recently improved Bloomberg Industry Classification System (BICS), which streamlined and enhanced industry assignments. Financials — that is, banking, insurance, and other financial companies — was the largest sector held by insurance companies in terms of BACV (about \$447 billion), and it represented 23.7% of total insurance industry corporate bond exposure as of year-end 2012, a decrease from the 25.1% at year-end 2011 (about \$452 billion). Within the financial sector, the banking subsector accounted for the majority of this decline, decreasing from 10.9% of corporate bond investments at year-end 2011 to 9.4% at year-end 2012. A more detailed analysis of the U.S. insurance industry's exposure to the financial sector was published April 5, 2013 (*"U.S. Insurance Industry's Investment Exposure to the Financial Sector"*).

The utilities sector (including electric, gas and water companies) was the second-largest sector and accounted for 14.0% of the industry's total corporate bond exposure at year-end 2012, while the energy sector (including oil, gas, coal and renewable energy producers) was the third-largest sector with an 11.8% share of total year-end 2012 corporate bond holdings. Although the consumer discretionary (formerly called "consumer cyclical" within the BICS) and consumer staples (formerly called "consumer non-cyclical" within the BICS) sectors did not make the top three as stand-alone sectors, together they accounted for a sizable 15.6% share of total corporate bond investments at year-end 2012.

While most sector weights have remained stable between year-end 2011 and year-end 2012, the energy and industrials sectors exhibited the largest year-over-year share increases of 0.7 and 0.6 percentage points, respectively. At the same time, the financial sector experienced the largest year-over-year share decrease of 1.4 percentage points.

Sector	Life	Property/Casualty	Fraternal	Title	Health	TOTAL	% of Total
Financials	329,475,740,226	92,116,027,499	11,900,348,828	889,968,569	12,277,636,921	446,659,722,043	23.7
Finance	152,994,740,255	29,372,859,085	6,001,695,933	317,784,768	4,224,420,605	192,911,500,646	10.2
Banking	119,379,873,431	46,866,249,480	3,783,154,747	431,861,591	6,545,694,036	177,006,833,285	9.4
Insurance	57,101,126,540	15,876,918,934	2,115,498,148	140,322,210	1,507,522,280	76,741,388,112	4.1
Communications	117,359,674,346	23,213,522,822	3,596,783,086	96,597,200	2,746,263,019	147,012,840,473	7.8
Consumer							
Discretionary	99,393,404,704	16,775,826,147	2,642,934,509	135,567,350	1,585,124,956	120,532,857,666	6.4
Consumer Staples	136,379,900,035	30,003,635,294	5,334,483,926	245,235,016	2,121,054,222	174,084,308,493	9.2
Energy	187,863,574,982	26,023,983,324	5,992,355,041	183,257,411	2,879,440,868	222,942,611,626	11.8
Health Care	97,936,172,187	22,043,367,413	2,789,884,165	171,711,072	2,190,580,342	125,131,715,179	6.6
Industrials	143,143,744,862	21,494,975,956	4,880,634,677	188,101,964	1,829,036,163	171,536,493,622	9.1
Materials	114,232,328,001	21,271,139,337	3,716,872,600	97,149,947	1,632,867,636	140,950,357,521	7.5
Technology	46,080,980,116	12,915,087,452	2,106,147,555	217,772,710	1,636,300,675	62,956,288,508	3.3
Utilities	227,185,588,228	24,331,140,086	10,804,574,442	163,623,228	1,813,798,423	264,298,724,407	14.0
Government	4,794,494,363	2,039,560,151	1,697,460,939	19,685,768	254,582,179	8,805,783,400	0.5
Unknown	2,915,925,349	489,778,502	12,284,720	4,804,131	90,945,266	3,513,737,968	0.2
Grand Total	1,506,761,527,399	292,718,043,983	55,474,764,488	2,413,474,366	31,057,630,670	1,888,425,440,906	100.0

Table 5B: Year-end 2011 Corporate Bond Investments – Sector Breakdown (\$)

Sector	Life	Property/Casualty	Fraternal	Title	Health	TOTAL	% of Total
Financials	337,160,733,649	90,609,308,762	11,428,319,178	809,957,834	11,523,325,301	451,531,644,724	25.1
Finance	142,401,976,641	27,230,809,320	5,306,819,236	270,163,670	3,805,545,718	179,015,314,585	9.9
Banking	136,298,995,302	48,063,842,287	4,123,761,336	407,082,742	6,403,027,831	195,296,709,498	10.9
Insurance	58,459,761,706	15,314,657,155	1,997,738,606	132,711,422	1,314,751,752	77,219,620,641	4.3
Communications	114,274,217,531	22,082,005,039	3,267,940,847	86,888,360	2,593,782,455	142,304,834,232	7.9
Consumer							
Discretionary	93,364,858,180	14,185,925,340	2,384,218,727	132,929,553	1,177,565,122	111,245,496,922	6.2
Consumer Staples	126,584,588,901	27,838,082,007	4,672,327,294	245,948,320	2,109,523,218	161,450,469,740	9.0
Energy	169,727,439,034	22,477,654,948	5,097,627,573	119,917,977	2,400,430,260	199,823,069,792	11.1
Health Care	89,692,971,811	20,187,917,271	2,633,855,018	167,012,523	2,045,939,929	114,727,696,552	6.4
Industrials	128,411,069,193	19,104,763,965	4,139,614,492	176,676,794	1,663,677,826	153,495,802,270	8.5
Materials	107,800,907,701	20,550,206,329	3,194,000,198	149,917,106	1,496,056,255	133,191,087,589	7.4
Technology	42,711,368,239	11,806,574,524	1,820,948,937	185,897,787	1,473,538,485	57,998,327,972	3.2
Utilities	223,690,033,454	24,528,084,808	9,597,762,840	166,054,397	1,845,616,908	259,827,552,407	14.4
Government	5,150,090,491	2,026,855,289	1,315,732,830	9,107,605	212,060,742	8,713,846,957	0.5
Unknown	4,428,640,651	596,385,658	99,727,826	180,070	95,390,112	5,220,324,317	0.3
Grand Total	1,442,996,918,835	275,993,763,940	49,652,075,760	2,250,488,326	28,636,906,613	1,799,530,153,474	100.0

Summary

The insurance industry’s asset mix does not appear to change significantly, even as insurers make slight adjustments in line with changing economic conditions. Bonds have been the preferred investment type, and corporate bonds have been the preferred bond type. Overall, the broad asset mix of the insurance industry’s investment portfolios has remained fairly stable year-over-year, although some asset type proportions have shifted slightly.

Notably, both the absolute amount of *corporate* bonds and their share of total bond investments have steadily increased year-over-year over the past three years. Similarly, both the absolute amount of *municipal* bonds and their share of total bond investments have steadily increased over the past two years. At the same time, all insurer types except title companies have reduced their exposure to *U.S. government bonds* and to both *agency and non-agency RMBS and CMBS* in terms of BACV and as a share of their total bond investments over the past three years. Additionally, all five insurer types have increased their proportions of NAIC 2-designated bonds by reducing their proportions of NAIC 1-designated bonds (while keeping the total of the two fairly constant) year-over-year; this supports a reduction in U.S. government bond holdings and indicates a possible “reach for yield” by insurance companies. Finally, insurance companies have reduced their holdings of *financial sector corporate bonds* year-over-year, especially in the banking subsector.

The Capital Markets Bureau will continue to monitor trends within the asset mixes in the insurance industry and report on any developments as deemed appropriate.

September 20, 2013								
Major Insurer Share Prices			Change %			Prior		
			Close	Week	QTD	YTD	Week	Quarter
Life	Aflac	\$62.34	2.1	7.3	17.9	\$61.04	\$58.12	\$52.89
	Ameriprise	92.31	1.7	14.1	47.8	90.80	80.88	62.45
	Genworth	12.17	(0.5)	6.6	62.4	12.23	11.41	7.49
	Lincoln	42.34	(4.7)	16.1	64.3	44.43	36.47	25.77
	MetLife	47.45	(2.8)	3.7	44.8	48.83	45.76	32.76
	Principal	43.25	0.4	15.5	52.4	43.09	37.45	28.38
	Protective	42.57	(3.3)	10.8	49.5	44.01	38.41	28.47
	Prudential	78.20	(1.9)	7.1	47.3	79.69	73.03	53.09
	UNUM	30.29	(2.3)	3.1	46.1	30.99	29.37	20.73
PC	ACE	\$95.03	3.7	6.2	19.5	\$91.67	\$89.48	\$79.50
	Axis Capital	43.34	0.6	(5.3)	25.8	43.07	45.78	34.46
	Allstate	52.00	3.9	8.1	29.8	50.06	48.12	40.05
	Arch Capital	54.00	1.9	5.0	23.2	53.00	51.41	43.82
	Cincinnati	47.49	2.0	3.4	21.9	46.56	45.92	38.95
	Chubb	89.91	2.6	6.2	19.9	87.61	84.65	75.01
	Everest Re	141.91	2.1	10.6	29.4	139.02	128.26	109.67
	Progressive	26.99	4.1	6.2	28.5	25.93	25.42	21.01
	Travelers	86.64	3.7	8.4	21.1	83.56	79.92	71.53
	WR Berkley	43.29	4.2	5.9	15.2	41.53	40.86	37.59
	XL	31.40	2.9	3.6	25.9	30.51	30.32	24.94
Other	AON	\$75.48	10.2	17.3	36.2	\$68.52	\$64.35	\$55.41
	AIG	49.83	0.3	11.5	41.2	49.70	44.70	35.28
	Assurant	53.73	(2.7)	5.5	55.8	55.21	50.91	34.48
	Fidelity National	26.01	6.4	9.2	10.3	24.45	23.81	23.58
	Hartford	31.04	(1.8)	0.4	38.6	31.62	30.92	22.39
	Marsh	44.17	4.1	10.6	28.8	42.41	39.92	34.30
Health	Aetna	\$64.85	(3.9)	2.1	40.5	\$67.47	\$63.54	\$46.17
	Cigna	78.76	(5.8)	8.6	47.8	83.65	72.49	53.29
	Humana	95.74	(2.5)	13.5	39.9	98.24	84.38	68.43
	United	70.82	(4.9)	8.2	30.9	74.48	65.48	54.12
	WellPoint	82.53	(7.4)	0.8	35.9	89.09	81.84	60.73
Monoline	Assured	\$19.34	0.3	(12.3)	37.0	\$19.29	\$22.06	\$14.12
	MBIA	11.30	(2.3)	(15.1)	42.7	11.57	13.31	7.92
	MGIC	7.49	3.7	23.4	177.4	7.22	6.07	2.70
	Radian	13.76	1.7	18.4	123.7	13.53	11.62	6.15
	XL Capital	31.40	2.9	3.6	25.9	30.51	30.32	24.94

September 20, 2013							
Major Market Variables		Change %			Prior		
		Close	Week	QTD	YTD	Week	Quarter
Dow Jones Ind	15,489.22	0.7	3.9	18.2	15,376.06	14,909.60	13,099.80
S&P 500	1,711.18	1.4	6.5	20.3	1,687.99	1,606.28	1,422.10
S&P Financial	275.51	1.5	5.1	24.6	271.33	262.06	221.17
S&P Insurance	264.89	1.3	7.3	32.7	261.57	246.78	199.67
US Dollar \$		Change %			Prior		
/ Euro	\$1.35	1.7	3.9	2.5	\$1.33	\$1.30	\$1.32
/ Crude Oil bbl	104.67	(3.3)	8.4	14.2	108.21	96.53	91.62
/ Gold oz	1,332.60	0.6	8.0	(20.4)	1,324.60	1,233.50	1,673.70
Treasury Ylds %		Change bp			%	%	%
1 Year	0.11	(0.01)	(0.04)	(0.04)	0.11	0.15	0.14
10 Year	2.73	(0.16)	0.24	0.97	2.89	2.49	1.76
30 Year	3.77	(0.07)	0.27	0.82	3.84	3.50	2.95
Corp Credit Spreads -bp		Change %			Prior		
CDX.IG	24.25	(21.4)	(39.5)	(57.5)	30.86	40.05	57.04

September 20, 2013 Major Insurer Bond Yields				Weekly Change					YTD
Company	Coupon	Maturity	Price			Spread over UST		Spread	
			Current	Change	Yield	B.P.	Change	Change	
Life	Aflac	8.500%	5/15/2019	\$129.28	\$1.62	2.84%	111	(6)	(16)
	Ameriprise	5.300%	3/15/2020	\$113.49	\$0.89	2.99%	101	6	(17)
	Genworth	6.515%	5/15/2018	\$112.89	\$1.43	3.49%	205	(14)	(185)
	Lincoln National	8.750%	7/15/2019	\$129.17	\$1.44	3.17%	138	(6)	(46)
	MassMutual	8.875%	6/15/2039	\$144.21	\$1.66	5.61%	199	(0)	(49)
	MetLife	4.750%	2/15/2021	\$108.61	\$1.33	3.42%	120	0	12
	New York Life	6.750%	11/15/2039	\$123.02	\$1.41	5.14%	151	(1)	(12)
	Northwestern Mutual	6.063%	3/15/2040	\$113.53	\$0.87	5.12%	149	4	4
	Pacific Life	9.250%	6/15/2039	\$135.44	\$1.46	6.42%	281	1	(50)
	Principal	6.050%	10/15/2036	\$114.00	\$1.57	5.02%	154	1	(27)
	Prudential	4.500%	11/15/2020	\$107.28	\$1.37	3.34%	116	(2)	(25)
	TIAA	6.850%	12/15/2039	\$121.92	\$0.66	5.29%	166	3	(3)
P&C	ACE INA	5.900%	6/15/2019	\$117.93	\$1.36	2.52%	76	(4)	(1)
	Allstate	7.450%	5/15/2019	\$126.44	\$1.53	2.41%	64	(8)	(46)
	American Financial	9.875%	6/15/2019	\$129.88	\$1.20	3.98%	214	(2)	(98)
	Berkshire Hathaway	5.400%	5/15/2018	\$115.20	\$0.93	1.96%	57	1	(6)
	Travelers	3.900%	11/15/2020	\$106.37	\$1.43	2.90%	70	(1)	6
	XL Group	6.250%	5/15/2027	\$110.60	\$2.08	5.16%	222	(0)	(20)
Other	AON	5.000%	9/15/2020	\$109.79	\$1.32	3.42%	122	(2)	(10)
	AIG	5.850%	1/15/2018	\$113.58	\$1.24	2.51%	125	(11)	4
	Hartford	5.500%	3/15/2020	\$112.42	\$0.99	3.36%	134	1	(39)
	Marsh	9.250%	4/15/2019	\$129.81	\$1.59	3.33%	157	(8)	(40)
	Nationwide	9.375%	8/15/2039	\$136.60	\$0.80	6.45%	284	5	(37)
Health	Aetna	3.950%	9/15/2020	\$103.91	\$1.17	3.31%	116	1	(4)
	CIGNA	5.125%	6/15/2020	\$109.67	\$1.06	3.50%	141	2	(3)
	United Healthcare	3.875%	10/15/2020	\$104.31	\$1.01	3.19%	106	2	10
	Wellpoint	4.350%	8/15/2020	\$105.67	\$0.91	3.42%	129	3	(9)

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

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