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Potential for Volatility in U.S. Insurer Holdings of Commercial Mortgage-Backed Securities

On June 26, 2012, the Capital Markets Bureau published a Special Report titled, "Modeling of U.S. Insurance Industry's Holdings in Commercial Mortgage-Backed Securities" that analyzed the U.S. insurance industry's exposure to commercial mortgage-backed securities (CMBS). In that report, we focused on the modeling results for year-end 2011 and the impact on risk-based capital (RBC), including a comparison to RBC requirements if NAIC designations had been driven solely by ratings from the nationally recognized statistical rating organizations (NRSROs). Also, on April 11, 2012, a Special Report on "Potential for Volatility in U.S. Insurer Holdings of Residential Mortgage-Backed Securities" was issued. In that report, we focused our analysis specifically on the downside risk in the industry's holdings of non-agency residential mortgage-backed securities (RMBS) in the event that the more conservative scenarios came to pass. While they represented a relatively small percentage of overall holdings, we highlighted the fact that there were some bonds with a substantial amount of downside risk. We also noted the differential between the bonds with downside risk and an equivalent amount of upside potential, as opposed to the bonds with substantial downside but limited upside. The purpose of this Special Report is to turn our attention to the same analysis for CMBS.

Beginning with year-end 2010, in lieu of translating NRSRO ratings into NAIC designations, each individual CMBS holding in the U.S. insurance industry is modeled annually for expected losses and an expected recovery value is calculated. Each U.S. insurer determines the NAIC designation of each holding based on its book/adjusted carrying value (BACV) in comparison with the modeled expected recovery value. Having now completed the second year under the new process, the new approach is well regarded for many reasons — the most important of which is the recognition that different carrying values mean a different risk profile for each holding and, therefore, a different level of investment risk. One question and, therefore, one potential concern is how much additional downside exists in the U.S. insurance industry's holdings of CMBS. If property values take another step down, if defaults take another jump up, how much additional downside exists in the U.S. insurance industry's portfolio of CMBS? The modeling process takes some of that risk into account by using a weighted average of four different economic scenarios. The economic scenarios are adopted by the Valuation of Securities (E) Task Force at the end of each year.

Assumptions for Year-End 2011 Modeling of CMBS

	Probability	Timing to Trough	Peak to Trough Property Value Prices	Year-end 2011 to Future Trough
Aggressive	20%	Q1 2010	(32%)	N/A
Base Case	55%	Q1 2010	(32%)	(5%) in Q3 2012
Conservative	20%	Q3 2013	(39%)	(20%) in Q3 2013
Most Conservative	5%	Q3 2014	(49%)	(33%) in Q4 2014

The scenarios differ in their expectation of Peak to Trough Property Value Prices. The Aggressive scenario assumes no further decline, and the Base Case assumes a 5% decline to the third quarter of 2012, but staying above the trough levels of 2010.

However, in the current environment — which continues to be somewhat volatile — are all bonds equivalent in their risk profile? Are there bonds that carry an inordinate amount of downside risk if defaults and resulting losses on the underlying commercial mortgages rise? Similarly, with some CMBS valued at prices significantly below par, are there bonds with a relatively small amount of downside risk and a more than commensurate amount of upside potential?

Overall Modeling Results

Across the different insurer types, total CMBS exposure as of the end of 2011, based on BACV, was \$161.9 billion. This is compared to a total par value of \$169.9 billion for a weighted average price of \$94.65. These holdings were spread across 4,627 unique CUSIPs that were modeled by the NAIC. Of that total, there were 3,126 CUSIPs that reported no losses, or an expected recovery value of 100, in each of the four scenarios. Because there are no expected losses even in the Most Conservative scenario, these bonds are not of any substantial interest in this particular analysis. This reflects and confirms previous analysis that indicates the majority of the industry's holdings are either senior or super-senior tranches in the structures. Of the remaining 1,501 CUSIPs, there were 705 that reported an expected recovery value of par, or 100, in the Base Case, but some level of loss in either the Conservative scenario or the Most Conservative scenario, or both. That leaves 796 bonds that reported an expected loss in the Base Case scenario, although the size of the loss could be relatively insignificant, and likely more significant expected losses in the more conservative scenarios. These latter bonds would also likely have some upside potential in the Aggressive scenario, although the maximum expected recovery value is par, thereby limiting the upside potential. Table 1 breaks down the total universe of CMBS modeled by the NAIC, with groupings based on a range of values reported in the Base Case.

Table 1: Overall Expected Recovery Values*

Base Case Value	Most Conservative	Conservative	Base Case	Aggressive	Number of CUSIPs
95–100	89.06	95.30	99.99	100.00	3,863
80–95	29.10	42.55	86.91	97.94	60
70–80	24.25	32.74	75.14	95.15	26
60–70	20.76	26.96	64.81	93.67	25
50–60	14.71	19.55	54.74	93.10	20
<50	10.70	12.15	16.47	29.52	633
Total	76.50	82.19	87.87	90.24	4,627

* Note: The totals in this table and the others in this report, unless otherwise noted, are simple averages and not weighted by the size of holdings.

Looking at these overall results, the profile across the first scenario does not look unreasonable. For those bonds with a Base Case value of between 95 and 100, in the Most Conservative scenario, the average value drops to 89.06 vs. the average Base Case value of 99.99, or a difference of 10.93 points. This is compared with the potential upside of 100.00 in the

Aggressive scenario. While there is not much upside in average value, this is not surprising because values are capped at 100. The comparison is more interesting in looking at one of the more heavily discounted groupings. For bonds with a Base Case value between 70 and 80, the average Base Case value in that group is 75.14. This is compared with the downside of 24.25 in the Most Conservative case and an upside of 95.15 in the Aggressive, differentials of down 50.89 points vs. up 20.01 points between the worst and best cases. For the most distressed group, the differentials are down 5.77 and up 13.05, vs. the Base Case average of 16.47. The relatively simple explanation for this apparently attractive upside/downside profile is that these bonds have already suffered serious deterioration such that they cannot get much worse, whereas a reasonable improvement in commercial property values would translate into solid improvements in defaults and losses given default. In some limited cases, even bonds in this last group might still be receiving payments of principal and interest for the time being. There are groupings of bonds within each category and a more detailed consideration is appropriate to find outliers within the groupings, specifically those with a less attractive upside/downside profile.

Par Bonds

To start out with, we focused on the group of bonds with Base Case expected recovery values of 100. These are bonds that are expected to return their full par value in what was considered the most likely economic scenario. There were a total of 705 bonds in this group out of the 1,501 bonds that were expected to experience a loss in at least one of the economic scenarios. We further broke out the subset of that group that also had an expected recovery value of 100 in the Conservative scenario. The two groups were then stratified based on the differential or loss in expected recovery value between the Base Case and the Most Conservative case. These two groups exclude those bonds that reported no expected losses in any of the four scenarios, so the mitigating impact that those bonds would have had on the average outcomes has been eliminated.

Table 2: Bonds with Expected Recovery Value of Par in Both Base Case and Conservative Case

Values in Most Conservative	Average of Most Conservative	Change from Base Case	Number of CUSIPs
95–100	97.52	(2.48%)	26
80–95	88.13	(11.87%)	75
70–80	74.81	(25.19%)	43
60–70	65.77	(34.23%)	28
50–60	55.08	(44.92%)	22
<50	29.46	(70.54%)	158
Total	57.02	(42.98%)	352

Because the bonds have an expected recovery value of par in the Base Case, there is also no upside in the more optimistic scenario. The bonds can only recover par. In the first line of Table 2, there is some limited downside in the Most Conservative scenario. That is not surprising, but it only represents a small percentage of this group of bonds. There is also some additional downside risk for the next group of 75 bonds. What is potentially more concerning (and worth further consideration) is that 251 bonds in this group would experience a very steep drop, in some cases more than 70%, in their expected recovery value in the Most Conservative case, even though in the Base Case and the Conservative scenario, a full return of principal is expected. This cliff-like profile is usually related to what are termed “cuspy” bonds, often because they represent relatively thin credit tranches in a structure. They perform well up to a given level of defaults and losses, but once that level is exceeded, the negative impact is severe. In the cases where the result is due to the thinness of the credit tranche, a relatively small amount of additional realized losses in the CMBS pool equals the principal value of the

tranche. There are also other credit structures that are leveraged to specifically create this profile based on the overall loss history of the CMBS pool. This risk profile is clearly different from those bonds represented at the top of the table that do not have that cliff-like profile. Because this latter subgroup represents about 5.4% of the U.S. insurance industry's bonds, a question that should be asked is, "Should these bonds be treated in the same way, with the same RBC and reserve requirements?"

Table 3: Bonds with Expected Recovery Value of Par in the Base Case and Expected Loss in Conservative Case and Most Conservative Case

Values in Conservative	Average of Most Conservative	Change from Base Case	Change from Conservative	Average of Conservative	Change from Base Case	Number of CUSIPs
95-100	30.68	(69.32%)	(68.42%)	97.16	(2.84%)	20
80-95	28.79	(71.21%)	(67.25%)	87.91	(12.09%)	49
70-80	27.13	(72.87%)	(63.92%)	75.19	(24.81%)	42
60-70	25.90	(74.10%)	(60.56%)	65.67	(34.33%)	23
50-60	25.07	(74.93%)	(54.28%)	54.84	(45.16%)	24
<50	22.71	(77.29%)	(22.18%)	29.18	(70.82%)	195
Total	24.90	(75.10%)	(50.97%)	50.78	(49.22%)	353

Table 3 is similar to Table 2 except that, in these cases, the bonds are also expected to incur a loss in principal in the Conservative scenario, as well as in the Most Conservative scenario. Sorted by the average expected recovery value in the Conservative case, we see that a majority of the bonds suffer a substantial loss, of more than half their value in the Conservative case, with an additional expected loss of 22.18% in the Most Conservative case. Out of the 353 bonds in this group, 284 face substantial losses, from one-quarter to three-quarters of their value in the Conservative case. For the first two gradations in the group with less severe losses in the Conservative case, the potential losses are severe in the Most Conservative case. For this small group of 69 bonds, the "cusp" is just below the Base case. This is another 7.6% of the industry's bonds that have a relatively severe profile from the standpoint of negative credit volatility. Together with the previously highlighted bonds from Table 2, this totals 13.0% of the CUSIPs held.

Taking a somewhat more expansive view of bonds held by the U.S. insurance industry that would be considered relatively unimpaired under the Base Case assumptions, we combined the two groups in Table 2 and Table 3 with other bonds that had a reported expected recovery value of at least 95. The profile of this larger group of 737 bonds is detailed in Table 4.

Table 4: Bonds with Expected Recovery Values of 95 or Higher in the Base Case

Values in Most Conservative	Average of Most Conservative	Change from Base Case	Change from Conservative	Average of Conservative	Change from Base Case	Average of Base Case	Number of CUSIPs
95-100	98.38	(1.62%)	(1.62%)	100.00	--	100.00	44
80-95	88.05	(11.95%)	(11.95%)	100.00	--	100.00	82
70-80	74.73	(25.27%)	(25.27%)	100.00	--	100.00	47
60-70	65.70	(34.30%)	(34.30%)	100.00	--	100.00	34
50-60	55.00	(45.00%)	(45.00%)	100.00	--	100.00	35
<50	27.61	(72.37%)	(54.66%)	60.90	(-39.06%)	99.92	495
Total	44.62	(55.36%)	(39.48%)	73.74	(26.23%)	99.95	737

Focusing on this somewhat larger group of bonds held by the U.S. insurance industry presents at least one picture of the different risk profiles. Except for the first group of 44 bonds, there appears to be some significant downside risk in this larger group of bonds. Taken further, if the total line at the bottom of Table 4 is used as being representative of an average level of downside risk, the first four lines in Table 4 include bonds that (1) are unimpaired in the Base Case scenario; and (2) perform better than the average in both the Conservative and Most Conservative scenarios. The remaining bonds, which number 530 different CUSIPs, have a

profile that appears to have a disproportionate amount of downside risk. While it is not unreasonable to assume full, or close to full, recovery of principal in these bonds as of year-end 2011, the likelihood for a significant impairment not only exists, based on the two lower sets of assumptions, but also extreme levels of impairments are possible. Because all of the bonds in this group have limited upside because their current expected recovery is par (or only slightly below par) in the Base Case, a reasonable question is whether the additional downside volatility has been adequately accounted for. In contrast with the same analysis that was done for RMBS and the details that are laid out in Table 2 and Table 3, the additional bonds in this group that had expected recovery values of between 95 and 100 in the Base Case was only a small group of 32 bonds. Therefore, they did not have much effect on the analysis.

Discounted Bonds

So far, we have considered 3,126 bonds with no losses in any scenario and 737 bonds with an expected loss in at least one scenario, but either a full, or near full, expected recovery of principal in the Base Case. That leaves 764 bonds that reported a significant expected loss, or an expected recovery value of significantly less than par, in the Base Case. While our analysis of this group of bonds was similar, in that we considered the potential downside risk in expected recovery values if market conditions took a turn for the worse, there was also an additional factor in that these bonds also represented some upside opportunities. With expected recovery values of significantly less than par in the Base Case, if market conditions were to improve, along the lines of the Aggressive assumptions, expected recovery values could likewise improve. Therefore, besides the downside risk, another consideration is the relative volatility between that and the potential for upside.

At the extreme end are the distressed values mentioned earlier in this report. There are 633 bonds with an expected recovery value of less than 50, with a weighted average expected recovery value of 16.47. In the Most Conservative case, the expected recovery value would drop 5.77 points, or 35.03%. While that still represents a significant amount of downside in those holdings, if the market environment improves and the Aggressive assumption comes to pass as being more appropriate, the average expected recovery values would improve 13.05 points, or 79.23%. For this group of bonds, the ratio of upside to downside is 2.26 times. Notably, this is not as favorable a ratio as it was for the same group of RMBS, but that was also a comparison to a Most Aggressive set of assumptions. The CMBS modeling was done with only four scenarios and did not have that case. At the time that the assumptions were adopted by the Valuation of Securities (E) Task Force, the Conservative and Most Conservative assumptions had a combined weight of 25%, while the Aggressive scenario was weighted at 20%. Comparing like scenarios, Conservative and Aggressive, both of which were weighted at 20%, the downside was 4.32 points and upside was the same 13.05 points, or a ratio of 3.02 times.

There are four other groupings of bonds, ranging in expected recovery values from 50 to 95. Table 5 presents the average results for each group and the volatility in expected recovery values for the different scenarios.

Table 5: Discounted Bonds in the Base Case

Base Case Grouping	Most Conservative (Change from Base Case)	Conservative (Change from Base Case)	Base Case Average Value	Aggressive (Change from Base Case)	Number of CUSIPs
80-95	(66.52%)	(51.04%)	86.91	12.69%	60
70-80	(67.73%)	(56.43%)	75.14	26.63%	26
60-70	(67.97%)	(58.42%)	64.81	44.53%	25
50-60	(73.13%)	(64.29%)	54.74	70.08%	20

There are two readily apparent conclusions in considering the potential volatility between the different scenarios for each of the groupings in Table 5. There is an increasing level of volatility as we move down the table in Base Case results. However, the differentials are not as significant as they were for RMBS. This is because for each of these groupings, including those at the top of scale, there is a substantial loss in value going to the Conservative Case. For the grouping of bonds with Base Case values between 80 and 95, the downside volatility in the Most Conservative scenario is 66.52%, whereas in the group between 50 and 60, the average downside is 73.13%. However, the risk profile in downside vs. upside improves substantially with lower Base Case values. In the first instance, there is a negative relationship, as the ratio is 0.19 of Aggressive to Most Conservative, and 0.25 for the less extreme assumptions. In the lowest tranche, the ratios are 0.96 and 1.09, respectively.

While the risk profile of the different groups in Table 5 does not reveal any potential issues, a more detailed breakdown within each group did highlight additional subgroups where the upside/downside profile was less favorable. In these cases, the profile was not as negative as the situations described earlier, primarily because there was some upside potential, as the Base Case values were significantly less than par. In that sense, they did not have the cliff-like characteristics.

Aggregate Portfolio Values

Valuation of CMBS for U.S. insurance companies is governed by the *Statement of Statutory Accounting Principles (SSAP) No. 43R—Loan-Backed and Structured Securities* (SSAP No. 43R). For insurers that maintain an asset valuation reserve (AVR), CMBS is reported at amortized cost, except for those with a designation of NAIC 6, which are reported at the lower of amortized cost or fair value. For insurers that do not maintain an AVR, only CMBS with designations of NAIC 1 or NAIC 2 are reported at amortized cost. If the present value of the cash flows expected to be collected is less than the amortized cost, an other than temporary impairment (OTTI) will be considered to have occurred and the amount of the OTTI will be recognized as a realized loss. The previous amortized cost basis less the OTTI recognized as a realized loss will become the new amortized cost basis for the investment.

Table 6 compares the BACV of modeled CMBS with the aggregate value of those holdings using the expected recovery values resulting from each of the four scenarios. It should be noted that, while the process the NAIC goes through in calculating expected recovery values for each individual CUSIP is similar to the guidance under SSAP No. 43R, it is not exactly the same. U.S. insurers also are expected to apply their own investment judgment as to the appropriate assumptions that should be used in the assessment and are not required to use the same assumptions as those adopted by the Valuation of Securities (E) Task Force for modeling purposes. The modeling done by the NAIC is not intended for valuation purposes, but to provide a guide for where losses might be expected to occur depending on different economic scenarios. As noted earlier, these expectations are then used in conjunction with the insurer's current book/adjusted carrying value to determine an NAIC designation, which is then mapped to an RBC factor.

Table 6: Aggregate Portfolio Values

(\$millions)	Total	Life	Property	Health	Title	Fraternal
Par Value	\$169,864.2	\$140,005.5	\$24,855.3	\$2,174.1	\$3.7	\$2,825.6
BACV	\$161,861.8	\$132,238.1	\$24,570.2	\$2,231.0	\$3.7	\$2,818.9
BACV/Par Value	95.3%	94.5%	98.9%	102.6%	100.0%	99.8%
Aggressive	\$165,531.4	\$135,762.9	\$24,770.3	\$2,173.8	\$3.7	\$2,820.6
Base Case	\$164,347.3	\$134,634.1	\$24,722.3	\$2,173.2	\$3.7	\$2,814.1
Conservative	\$160,647.4	\$131,125.7	\$24,553.2	\$2,172.2	\$3.7	\$2,792.7
Most Conservative	\$155,255.7	\$126,215.7	\$24,112.5	\$2,167.7	\$3.7	\$2,756.1

There are aggregate values for the overall portfolio and the comparisons will vary from bond to bond, as well as with different groupings of bonds. However, it is worth noting that the BACV as of year-end 2011 for the industry as a whole was less than the aggregate value of holdings in the Base Case. This results from at least two factors. First, the modeling results do not in any way reflect market values. In particular, the modeling calculation uses the original issue yield as a discount rate for cash flows, not current market rates. This will impact purchases of bonds at significantly discounted values and bonds that have been reported at fair value and not amortized cost. Second, to the extent that the performance of bonds recovers, the improvement in expected recoveries is generally not reflected until the bond is sold.

Table 6a: Differences in Aggregate Portfolio Values vs. BACV

	Total	Life	Property	Health	Title	Fraternal
Aggressive	\$3,669.6 2.3%	\$3,524.8 2.7%	\$200.2 0.8%	(\$57.2) (2.6%)	\$0.01 0.4%	\$1.7 0.1%
Base Case	\$2,485.5 1.5%	\$2,396.0 1.8%	\$152.1 0.6%	(\$57.7) (2.6%)	\$0.01 0.4%	(\$4.89) (0.2%)
Conservative	(\$1,214.4) (0.8%)	(\$1,112.4) (0.8%)	(\$17.0) (0.1%)	(\$58.8) (2.6%)	\$0.01 0.4%	(\$26.3) (0.9%)
Most Conservative	(\$6,606.1) (4.1%)	(\$6,022.4) (4.6%)	(\$457.7) (1.9%)	(\$63.2) (2.8%)	\$0.01 0.4%	(\$62.9) (2.2%)

Table 6a indicates a relatively negative profile in values for health insurers, where the aggregate BACV exceeds the aggregate of values in the Base Case. However, the greater focus should be on life insurers, given their overall larger exposure. In the case of life insurers, there is a small 1.5% cushion, on an aggregate basis, between BACV and Base Case. The relatively simple analysis would indicate that, if market conditions worsen, and the Most Conservative assumptions are more indicative of actual performance, there is downside risk of \$6.6 billion in additional impairments for those exposures held by the U.S. insurance industry as of year-end 2011. Those impairments would be in addition to the impairments taken by the U.S. insurance industry in 2009 (\$2.2 billion), 2010 (\$4.0 billion) and 2011 (\$966 million). On the other hand, the upside potential, in the Aggressive scenario, is also significant. While these would generally only be realized upon a sale of the bonds, the potential gains in the Aggressive scenario totals \$3.7 billion across the industry. This upside potential is less than the downside, which reflects the fact that (1) unlike for RMBS, this is not a Most Aggressive set of assumptions; and (2) a large percentage of the industry's holdings are at or near par, which would cap any potential upside.

Table 6b: Percentage Change in Aggregate Valuation in Comparison with Base Case

	Total	Life	Property	Health	Title	Fraternal
Aggressive	0.7%	0.8%	0.2%	--	--	0.2%
Conservative	(2.3%)	(2.6%)	(0.7%)	--	--	(0.8%)
Most Conservative	(5.5%)	(6.3%)	(2.5%)	(0.3%)	--	(2.1%)

What appear to be reasonable valuations on an overall basis is an important factor in considering the industry's risk profile between the different sets of assumptions. Generally, the upside/downside profile for the industry's holdings is modestly negative, as there is more downside in the Most Conservative scenario than upside in the Aggressive scenario. Again, a significant contributor to this profile is the fact that most of the industry's holdings are relatively conservative to begin with, with a carrying value and an expected recovery value in the Base Case either at or near par already.

Conclusion

While the intended purpose of the NAIC's modeling of CMBS holdings of the U.S. insurance industry is to align expected recovery values with book/adjusted carrying values — and to use that comparison as a basis for assigning NAIC designations that are then mapped to RBC

factors — analyzing the results for each of the four different scenarios employed in the modeling provides additional information as to where there might be vulnerabilities and the potential for additional volatility.

Overall, aggregate valuations appear to be reasonable, based on the assumptions employed for year-end 2011. That assessment is based on the entire industry's exposure and is not necessarily reflective of either individual bond valuations or the portfolio valuations from insurer to insurer.

Although not a large percentage of the industry's holdings, there are bonds within the group of 4,627 that were modeled by the NAIC that have profiles that are potentially problematic. These bonds demonstrate a substantial amount of downside risk if the market environment turns negative relative to those assumptions used in the year-end modeling, without a significant amount of upside potential. Where those individual holdings are valued by their respective owners is a critical consideration. Notwithstanding that, an issue worth considering is whether the current framework properly addresses the additional volatility that is represented in those securities. The current formula applies the same weighting and approach to all CMBS, regardless of their volatility characteristics.

The non-agency CMBS market continues to be a difficult environment and subject to a number of concerns. The situation will continue to evolve and will continue to require careful scrutiny. This analysis is part of the analysis that the Capital Markets Bureau is planning with annual statement information recently received from U.S. insurers.

July 12, 2012								
Major Insurer Share Prices		Close	Change %			Prior		
			Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	\$42.48	(0.8)	(0.8)	(1.8)	\$42.81	\$42.81	\$43.26
	Ameriprise	49.66	(5.0)	(5.0)	0.0	52.29	52.29	49.64
	Genworth	5.08	(11.0)	(11.0)	(22.4)	5.71	5.71	6.55
	Lincoln	20.30	(5.1)	(5.1)	4.5	21.38	21.38	19.42
	MetLife	29.88	(2.4)	(2.4)	(4.2)	30.60	30.60	31.18
	Principal	25.41	(2.7)	(2.7)	3.3	26.11	26.11	24.60
	Protective	29.12	(1.1)	(1.1)	29.1	29.43	29.43	22.56
	Prudential	47.56	(1.3)	(1.3)	(5.1)	48.21	48.21	50.12
	UNUM	18.92	(2.3)	(2.3)	(10.2)	19.37	19.37	21.07
PC	ACE	\$71.50	(3.8)	(3.8)	2.0	\$74.35	\$74.35	\$70.12
	Axis Capital	32.99	(1.3)	(1.3)	3.2	33.43	33.43	31.96
	Allstate	33.66	(4.3)	(4.3)	22.8	35.17	35.17	27.41
	Arch Capital	39.01	(2.5)	(2.5)	4.8	40.00	40.00	37.23
	Cincinnati	37.75	(1.5)	(1.5)	23.9	38.34	38.34	30.46
	Chubb	70.66	(3.3)	(3.3)	2.1	73.06	73.06	69.22
	Everest Re	104.04	(0.9)	(0.9)	23.7	104.94	104.94	84.09
	Progressive	19.53	(5.5)	(5.5)	0.1	20.66	20.66	19.51
	Travelers	62.28	(2.6)	(2.6)	5.3	63.95	63.95	59.17
	WR Berkley	38.96	(0.9)	(0.9)	13.3	39.30	39.30	34.39
		XL	20.31	(3.4)	(3.4)	2.7	21.03	21.03
Other	AON	\$47.18	(0.4)	(0.4)	0.8	\$47.35	\$47.35	\$46.80
	AIG	30.49	(4.1)	(4.1)	31.4	31.78	31.78	23.20
	Assurant	33.91	(2.7)	(2.7)	(17.4)	34.84	34.84	41.06
	Fidelity National	18.98	(1.7)	(1.7)	19.1	19.31	19.31	15.93
	Hartford	16.35	(6.1)	(6.1)	0.6	17.41	17.41	16.25
	Marsh	31.92	(1.7)	(1.7)	0.9	32.48	32.48	31.62
Health	Aetna	\$37.55	(2.5)	(2.5)	(11.0)	\$38.53	\$38.53	\$42.19
	Cigna	42.42	(1.2)	(1.2)	1.0	42.92	42.92	42.00
	Humana	73.59	(4.0)	(4.0)	(16.0)	76.66	76.66	87.61
	United	54.57	(2.8)	(2.8)	7.7	56.17	56.17	50.68
	WellPoint	61.06	(2.0)	(2.0)	(7.8)	62.31	62.31	66.25
Monoline	Assured	\$12.08	(13.9)	(13.9)	(8.1)	\$14.03	\$14.03	\$13.14
	MBLA	10.49	(3.7)	(3.7)	(9.5)	10.89	10.89	11.59
	MGIC	2.36	(19.8)	(19.8)	(36.9)	2.94	2.94	3.73
	Radian	2.87	(15.3)	(15.3)	22.6	3.39	3.39	2.34
		XL Capital	20.31	(3.4)	(3.4)	2.7	21.03	21.03

July 12, 2012								
Major Market Variables		Close	Change %			Prior		
			Week	QTD	YTD	Week	Quarter	Year
Dow Jones Ind		12,573.27	(2.3)	(2.3)	2.9	12,871.39	12,871.39	12,217.56
S&P 500		1,335.45	(2.1)	(2.1)	6.2	1,363.98	1,363.98	1,257.60
S&P Financial		192.74	(2.9)	(2.9)	10.0	198.44	198.44	175.23
S&P Insurance		178.57	(2.0)	(2.0)	4.9	182.21	182.21	170.17
US Dollar \$			Change %			Prior		
/ Euro	\$1.22		(3.0)	(3.0)	(5.8)	\$1.26	\$1.26	\$1.30
/ Crude Oil bbl	85.80		2.6	2.6	(13.2)	83.62	83.62	98.83
/ Gold oz	1,571.70		(1.7)	(1.7)	0.3	1,598.90	1,598.90	1,566.80
Treasury Ylds %	%		Change bp			%	%	%
1 Year	0.19		(0.02)	(0.02)	0.08	0.20	0.20	0.11
10 Year	1.47		(0.12)	(0.12)	(0.40)	1.59	1.59	1.88
30 Year	2.56		(0.13)	(0.13)	(0.34)	2.70	2.70	2.90
Corp Credit Spreads -bp			Change %			Prior		
CDX.IG	82.83		(1.4)	(1.4)	(27.2)	83.99	83.99	113.83

July 12, 2012								
Major Insurer Bond Yields				Weekly Change				
Company	Coupon	Maturity	Price			Spread		
			Current	Change	Yield	B.P.	Change	
Life	Aflac	8.500%	5/15/2019	\$132.22	\$0.56	3.21%	219	(4)
	Ameriprise	5.300%	3/15/2020	\$115.63	\$0.87	3.00%	183	(3)
	Genworth	6.515%	5/15/2018	\$98.95	\$0.79	6.73%	588	(7)
	Lincoln National	8.750%	7/15/2019	\$127.29	\$0.31	4.19%	317	4
	MassMutual	8.875%	6/15/2039	\$148.96	\$2.58	5.40%	292	(1)
	MetLife	4.750%	2/15/2021	\$112.39	\$0.43	3.09%	181	5
	Mutual of Omaha	6.800%	6/15/2036	\$115.28	\$1.98	5.63%	333	(2)
	New York Life	6.750%	11/15/2039	\$135.32	\$3.63	4.49%	198	(7)
	Northwestern Mutual	6.063%	3/15/2040	\$127.03	\$3.84	4.37%	187	(7)
	Pacific Life	9.250%	6/15/2039	\$131.64	\$1.14	6.70%	420	3
	Principal	6.050%	10/15/2036	\$117.98	\$2.27	4.79%	244	(1)
	Prudential	4.500%	11/15/2020	\$106.70	\$0.96	3.56%	229	(4)
	TIAA	6.850%	12/15/2039	\$133.79	\$2.39	4.66%	218	1
P&C	ACE INA	5.900%	6/15/2019	\$124.22	\$0.49	2.11%	107	(5)
	Allstate	7.450%	5/15/2019	\$129.55	\$1.01	2.68%	167	(10)
	American Financial	9.875%	6/15/2019	\$128.31	\$0.68	4.98%	393	(4)
	Berkshire Hathaway	5.400%	5/15/2018	\$119.09	\$0.74	1.92%	105	(13)
	Travelers	3.900%	11/15/2020	\$112.50	\$0.96	2.24%	96	(5)
	XL Group	6.250%	5/15/2027	\$110.35	\$0.87	5.24%	344	5
Other	AON	5.000%	9/15/2020	\$113.19	\$0.87	3.16%	192	(3)
	AIG	5.850%	1/15/2018	\$111.24	\$0.41	3.58%	278	(4)
	Fidelity National	7.875%	7/15/2020	\$110.71	(\$0.96)	2.35%	143	22
	Hartford	5.500%	3/15/2020	\$106.04	\$0.89	4.56%	342	(3)
	Marsh	9.250%	4/15/2019	\$134.11	\$0.80	3.52%	249	(6)
	Nationwide	9.375%	8/15/1939	\$132.54	\$0.54	6.74%	427	11
Health	Aetna	3.950%	9/15/2020	\$110.75	\$1.48	2.48%	126	(8)
	CIGNA	5.125%	6/15/2020	\$113.13	(\$0.18)	3.23%	206	13
	United Healthcare	3.875%	10/15/2020	\$109.83	\$1.56	2.54%	130	(8)
	Wellpoint	4.350%	8/15/2020	\$111.05	\$0.59	2.81%	159	(1)

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

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