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

The NAIC's Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the index.

Are Insurers Reaching for Yield in the Low Interest Rate Environment?

The current low interest rate environment has persisted since the end of the financial crisis. The Federal Reserve Board (the Fed) has kept short-term interest rates low—near zero—and a relatively flat yield curve since the end of 2008 to stimulate economic growth. As such, the U.S. insurance industry has been challenged with investing in assets that not only generate yield, but also meet investment guidelines, including an asset-liability matching strategy. This special report provides a brief historical recollection of interest rate trends since the financial crisis ended, followed by how the U.S. insurance industry has reacted in terms of investing and seeking incremental yield on its investment portfolio. While insurers have generally continued with their traditional investment allocations over the years, there has also been a noticeable increase in investment of certain asset types, such as collateralized loan obligations (CLOs), commercial real estate (CRE) and Schedule BA assets, for the higher expected yields they offer.

Historical Perspective on Interest Rates

Since the financial crisis, the Fed's approach to monetary policy has evolved. The Federal Open Market Committee established the near-zero target range for the federal funds rate (i.e., the interest rate at which depository institutions lend to each other overnight) at the end of 2008; and, with what was commonly referred to as Operation Twist, the goal of putting downward pressure on longer-term interest rates to support economic activity and job creation by making financial conditions more accommodative. The federal funds rate decreased from 3.5% in January 2008 to a range of 0% to 0.25% by December 2008, and has remained there ever since. The last rate increase was in June 2006; any future rate increase is dependent on economic performance, both domestic and abroad.

In recent months, a strong U.S. dollar and unsteady global economic growth (including in the U.S.) have been primary reasons the Fed has not yet raised interest rates. And, based on continued uncertainty regarding growth expectations, it is not likely the Fed will raise rates until later in 2015 (i.e., not before September). In fact, in the minutes leading up to the Fed policy meeting in April 2015, officials stated they were unlikely to begin raising short-term interest rates in June, contrary to what they had indicated at the beginning of the year. In the June 2015 Fed policy meeting, as expected, officials kept the federal funds rate near zero as, in their view, it "remains appropriate" for now. Improvement in the labor market and evidence of a stronger economy would be necessary for officials to consider an increase in short-term rates, which is expected to be a one-quarter or two-quarter percentage point increase by year-end. Consequently, for the time being, investors in general continue to be challenged with reinvesting maturity proceeds at low interest rates.

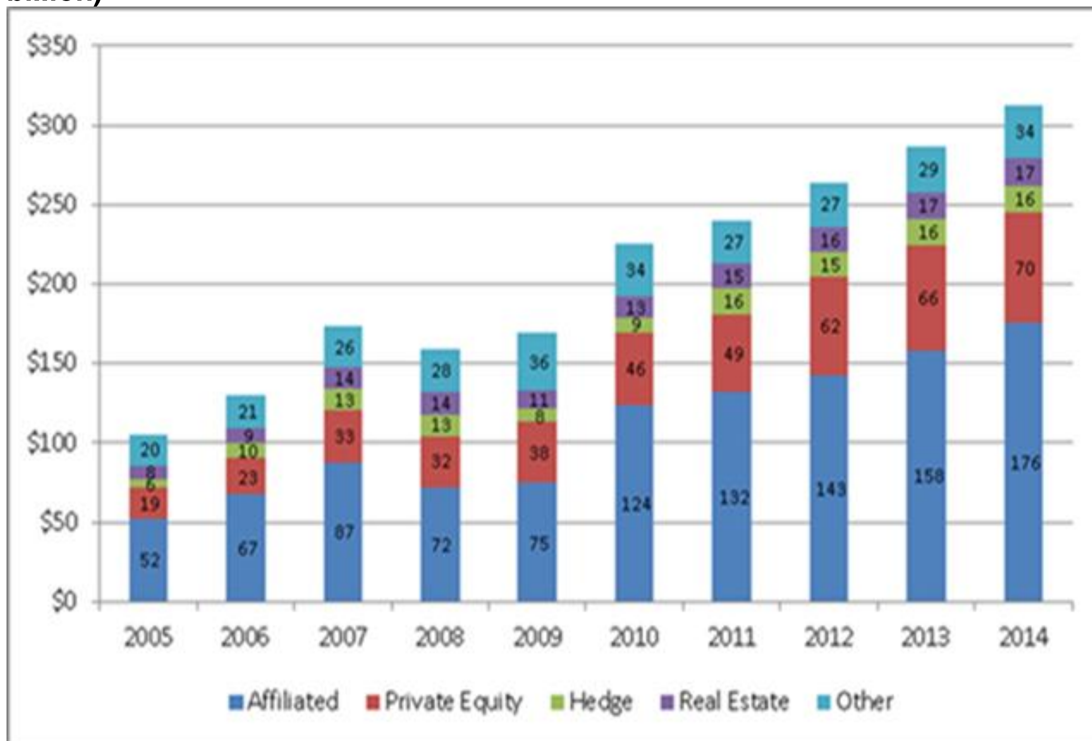
Recent Insurer Investment Trends

Sustained low interest rates can negatively impact insurer investment returns (erosion of investment yields), as well as the profitability of insurance products with guaranteed returns. That is, the spread between the net portfolio yield and guaranteed credited rate (on policies) diminishes, thereby reducing net profit margins. In a low interest rate environment, investors prefer to invest in shorter-term maturities so as to not lock in low rates on long-term

investments. For life companies, which invest heavily in long-term assets, this would result in an asset-liability mismatch.

Low yields on corporate bonds have driven insurers and other investors into less traditional investments often referred to as “alternative assets,” which tend to be less liquid but offer higher returns. The terms “alternative assets” and “alternative investments” have no fixed definition, and, as such, different analysts will include different investment types within those categories. However, the general idea is that they are “alternatives” to the traditional stocks and bonds held by institutional investors and high-net-worth individuals; they often have a complex structure and a more limited investor base, which likely means less liquidity. The most commonly referenced alternative assets for insurers include investments in private equity and hedge funds. Other asset types sometimes included are investments in CRE, either directly or through mortgages, and structured securities, especially CLOs. U.S. insurers have been investing in some of these assets for decades, so they and state insurance regulators do not necessarily consider them alternative assets. Assets considered by state insurance regulators as less typical for the U.S. insurance industry are detailed as “other long-term invested assets” on Schedule BA. Chart 1 shows the distribution of insurer investments in Schedule BA dating back to 2005. More recently, state insurance regulators have focused attention on structured notes. This includes risk-transfer assets, such as the structured agency credit risk (STACR) transactions issued by Freddie Mac and Connecticut Avenue Securities issued by Fannie Mae. These risk-transfer assets have a somewhat complex structure in that the transaction is not structured with a trust; rather, the notes are issued as general obligations of the respective government-sponsored entities, with the notes being credit-linked to a referenced pool of mortgages. The NAIC defines them as “mortgage-referenced transactions” and treats them as a subset of structured notes. Insurers were first required to separately disclose structured notes effective year-end 2014 in the notes to the financial statements. Reporting as of year-end 2014 shows that U.S. insurers had approximately $7.5 billion invested in structured notes; approximately 86% of the bonds carried NAIC 1 or NAIC 2 designations.

Chart 1: U.S. Insurance Industry Investment in Other Long-Term Invested Assets ($ billion)

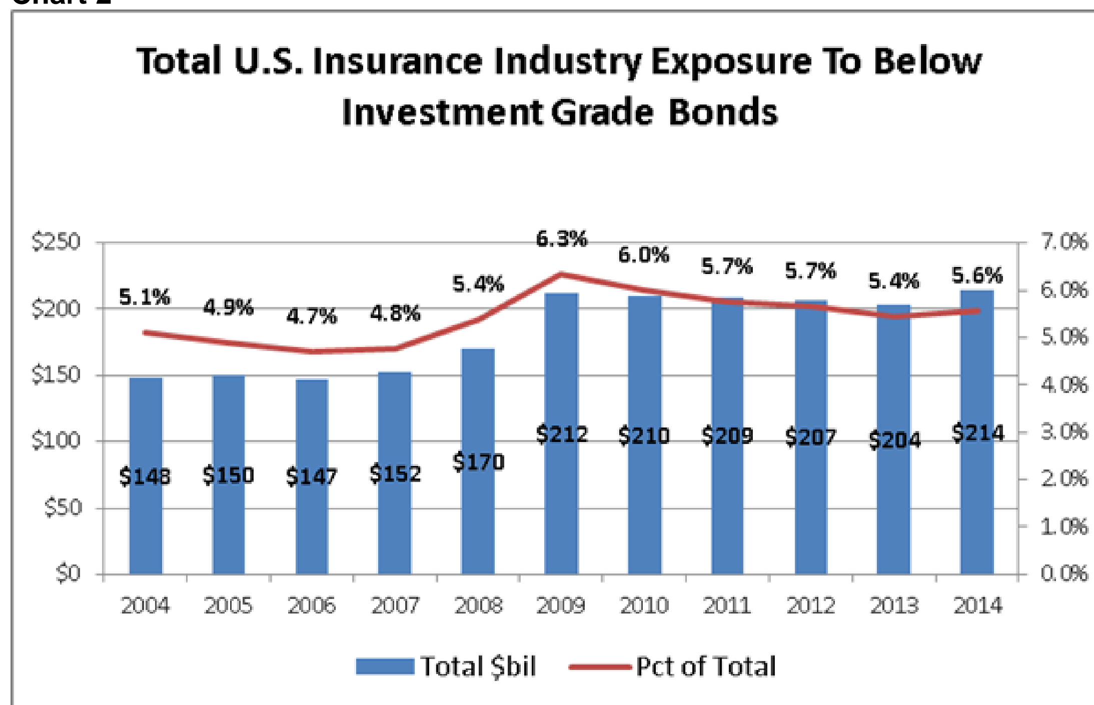


U.S. Insurance Industry Asset Allocations: No Significant Changes, But Signs of Higher-Yielding Investments

The asset allocation of U.S. insurance industry investments does not show a significant change in asset types year over year, as evidenced in the NAIC Capital Markets Bureau's special report titled "Year-End 2014 insurance Industry Investment Portfolio Asset Allocations" published in June 2015. The industry asset allocation report is generally updated on an annual basis. Bonds consistently represent the U.S. insurance industry's largest asset type, with corporate bonds representing at least half of that exposure. In addition, the bonds' credit quality was mostly investment grade, based on the NAIC 1 and NAIC 2 designations; however, there has been a recent uptick in below investment grade bonds—not enough to cause concern, but perhaps evidence of reaching for yield. Investment grade bonds still comprised well over 90% of the industry's bond investments as of year-end 2014.

Chart 2 shows the U.S. insurance industry's total exposure to below investment grade bonds (i.e., bonds rated below BBB) for the 10 years ended 2014. From at least 2004 to 2009, the industry's exposure to below investment grade bonds gradually increased, with a more significant increase occurring in 2009 as a result of credit rating downgrades during the financial crisis. Since then, however, the book/adjusted carrying value (BACV) and percentage of total below investment grade bonds ticked downward until 2014. On the other hand, within the investment grade universe, the industry's exposure to BBB-rated bonds has increased from 23% of total bonds in 2009 to 26% of total bonds in 2014. Bonds rated higher than BBB have decreased from a high of 76% of total bonds for this 10-year period in 2006 and 2007, to a low of 68% of total bonds as of year-end 2012, 2013 and 2014.

Chart 2



There are certain asset types that have demonstrated larger increases or decreases in recent years for various reasons. Table 1 shows the industry's asset allocations year over year since 2010 in terms of BACV; Table 2 shows the bond breakdown over the same time period.

As Table 1 shows, there has not been a significant change in overall bond exposure over the five years ended 2014 (although Table 2 shows some shifts within certain bond types). Notable in Table 1 is the change in Schedule BA and other long-term invested assets ("BA & Other") over the five-year period. BA & Other includes other long-term assets that are not included in

Schedule D1. Despite BACV increases in common equity from 2010 to 2014 (due to gains received on those investments and favorable stock market performance), as a percentage of total cash and invested assets, common equity exposure did not change significantly as a percentage of total assets; it ranged between 10.5% and 12.1% for the five-year time period ending 2014. Note that Table 1 includes affiliate investments in each asset category. In particular, affiliate investments in BA & Other and common equity exposures have been a significant contributing factor to their respective year-over-year increases. Excluding affiliate investments results in growth in the BA & Other category being more modest and more in line with the industry's total assets, which have also increased year over year.

Table 1: U.S. Insurance Industry Asset Allocations, 2010–2014 (% of Total Assets, includes Affiliates)

Asset Class	2014	2013	2012	2011	2010
Bonds	67.0%	67.5%	68.4%	69.3%	69.5%
Preferred Stock	0.4%	0.4%	0.4%	0.4%	0.6%
Common Stock	11.9%	12.1%	11.1%	10.7%	10.5%
Mortgages, First Lien	6.8%	6.7%	6.6%	6.5%	6.4%
Real Estate	0.7%	0.7%	0.7%	0.7%	0.7%
Cash & Short-term Investments	4.0%	3.8%	4.2%	3.8%	4.1%
Contract Loans	2.3%	2.4%	2.4%	2.4%	2.5%
BA & Other	5.4%	5.2%	5.0%	4.7%	4.6%
Other Receivables	0.2%	0.2%	0.2%	0.2%	0.3%
Derivatives	1.0%	0.7%	0.8%	0.9%	0.4%
Securities Lending (Reinvested Coll	0.3%	0.3%	0.3%	0.3%	0.4%
Industry Total	**100%**	**100%**	**100%**	**100%**	**100%**

Corporate bonds, in terms of BACV and as a percentage of total bonds, increased steadily over the five years ended 2014 (as shown in Table 2), while municipals remained relatively constant (despite an increase in BACV). And, although there was a decrease in BACV of non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), as a percentage of the industry's total bond exposure, these bond types also remained relatively constant for the five-year period ending 2014. There was, however, a noticeable decrease in U.S. government bonds and agency-backed RMBS in 2014 compared to 2010, and a noteworthy increase in asset-backed securities (ABS) and other structured securities from approximately 4% to 7% of total bonds.

The increase in ABS and other structured securities (both in terms of BACV and as a percentage of total bonds) suggests that insurers found value in this asset type as they sought yield pick-up. Note, however, that part of the increase may be due to changes in classification categories implemented under statutory accounting principles over the years. For example, beginning in 2011, any bond that used a trust structure was classified as a loan-backed or structured security.

Table 2: U.S. Insurance Industry Bond Allocations, 2010–2014 (% of Total Bonds)

Bond Type	2014	2013	2012	2011	2010
Corporate Bonds	53.4%	52.9%	51.6%	49.3%	49.6%
Municipal Bonds	14.0%	14.4%	14.3%	13.1%	14.0%
U.S. Government	6.3%	8.2%	6.7%	8.3%	9.4%
Agency-backed RMBS	7.8%	6.3%	9.0%	9.8%	9.7%
Agency-backed CMBS	0.9%	0.9%	0.8%	0.6%	0.1%
Private-label RMBS	3.0%	3.0%	3.2%	3.5%	3.8%
Private-label CMBS	4.5%	4.5%	4.5%	4.9%	5.1%
Foreign Government	2.7%	2.9%	2.9%	3.5%	2.8%
Hybrid Securities	0.7%	0.7%	0.9%	1.1%	1.0%
ABS and Other Structured Securities	6.8%	6.3%	6.1%	5.8%	4.3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Demonstrating this ABS investment trend, one insurance company recently noted that it increased its investments in subordinated (or junior) ABS collateralized by auto loans—a slight change in its general investment strategy—as these bonds were viewed as a “safe” way, based on historical performance, to obtain extra yield. In addition, investor demand for auto ABS in general has been strong, given their resilience through the financial crisis, demonstrated by stable performance and relative liquidity. Less traditional ABS, especially CLOs, are structured securities that insurers may continue to view as attractive investment opportunities in terms of yield and credit quality going forward. Feeding this desire has been an increase in new issuance in structured finance securities over the past couple of years, as shown by data from Standard & Poor’s (S&P) in Chart 3 .

Chart 3

U.S. Structured Finance Issuance

(Bil. $)

	2013	2014	2015F	YTD 2014	YTD 2015	YTD %
ABS	$186	$206	$215	$92	$104	14%
CMBS	$86	$94	$110	$30	$44	45%
CLO	$83	$124	$90	$47	$47	0%
RMBS	$28	$38	$50	$13	$23	77%
Total	$383	$462	$465	$182	$218	20%

Source: S&P; YTD is through the end of May 2015.

According to S&P, U.S. structured finance new issuance was $462 billion in 2014 and is expected to experience the same relative volume in 2015. ABS new issuance, which is a subset of U.S. structured finance new issuance, is forecasted to reach $215 billion by the end of 2015, slightly higher than the $206 billion issued in 2014. As of June 25, 2015, year-to-date ABS new

issuance was $116 billion (per S&P). According to the Securities Industry and Financial Markets Association (SIFMA), ABS new issuance was approximately $124 billion in 2011, a sizable increase from about $106 billion in 2010.

RMBS

Homeowners defaulting on mortgage loans, particularly the financially stressed borrowers of 2006 and 2007 vintage loans, ultimately contributed to the U.S. economy entering a recession post financial crisis. Following the financial crisis, issuance of non-agency (or private label) RMBS all but ceased, while existing transactions continued to paydown and experience liquidations due to defaults. New issuance of private label RMBS began to revive in 2010, from virtually no new issuance in 2009 to $28 billion in new issuance in 2013 (according to S&P, Chart 2), yet nowhere near the peak issuance of $740 billion in 2005. In addition, according to S&P, through the end of May 2015, RMBS new issuance was ahead of last year's pace at $23 billion and is expected to reach $50 billion by the end of 2015. Regulatory uncertainty, lack of transaction standardization and anticipated interest rate hikes have all been contributing factors to the slow pace of new RMBS issuance, according to S&P research.

Table 3 shows the U.S. insurance industry's exposure to private label RMBS from 2008 to 2014. While it was static from 2013 to 2014 at approximately $113 billion, it decreased by more than half from 2008 to 2009 due primarily to paydowns, but also due to sales and impairments taken. RMBS was 3% of total bond investments in 2014, whereas it was 10.5% of total bonds in 2008. RMBS exposure has generally ranged between 3.0% and 3.7% since 2010. In August 2012, the NAIC Capital Markets Bureau published a special report on RMBS trends and insurance industry exposure titled "Part 1 of 2: Mortgage Loan and MBS Market Trends and Relative Insurance Industry Exposure – Residential."

Table 3: U.S. Insurance Industry Year-End Non-Agency RMBS Exposure, 2008–2014

	$ bil BACV	% of Total Bonds
2008	$328.2	10.5%
2009	$150.5	4.5%
2010	$128.9	3.7%
2011	$123.1	3.5%
2012	$117.2	3.2%
2013	$113.6	3.0%
2014	$113.9	3.0%

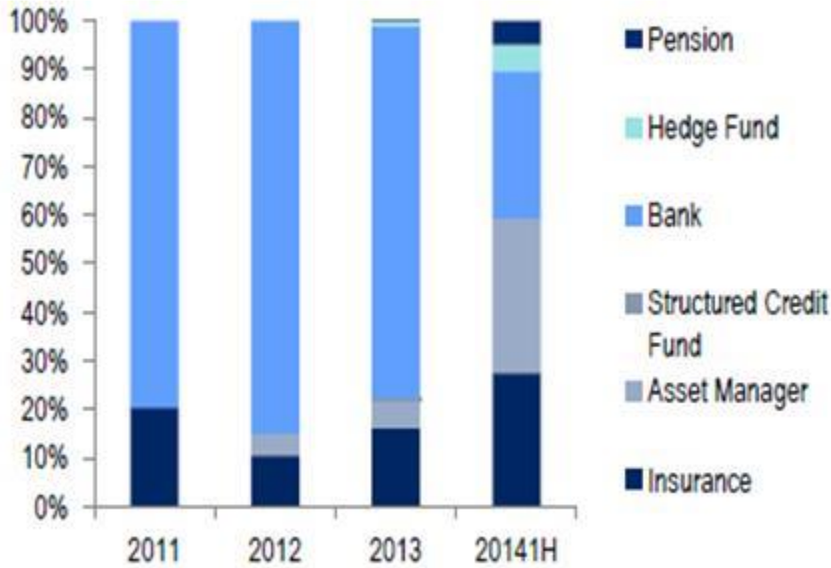
CLOs

Insurer CLO exposure within insurance industry portfolios nearly doubled from year-end 2013 to year-end 2014, having increased from $28.3 billion to $47 billion BACV. Notwithstanding, CLOs remain a nominal percentage of the $5.6 trillion total assets in the U.S. insurance industry. About one-third of the CLOs held by insurers as of year-end 2014 included 2014 vintages, followed by another approximately 25% in 2013 vintages and about 14% in 2012 vintages. By comparison, as of year-end 2009, insurer CLO exposure was approximately $13.7 billion and increased to $22 billion by year-end 2011. In June 2014, the NAIC Capital Markets Bureau published a special report on CLO industry trends and insurance industry exposure titled "U.S. Insurance Industry Exposure to Collateralized Loan Obligations & Market Trends."

According to research by Citibank (Chart 4), insurance companies worldwide accounted for about 20% of AAA-rated CLO investments in the U.S. primary (new issuance) market in 2014, up from 16% in 2013. In addition, insurance companies represented 17% of the overall investor base for AAA-rated CLOs as of the first quarter of 2015 (Chart 6). While it is a small dollar

exposure, the report also notes that insurance companies account for 42% of the overall investor base for mezzanine (or junior) CLO tranches for the same time period (Chart 7).

Chart 4

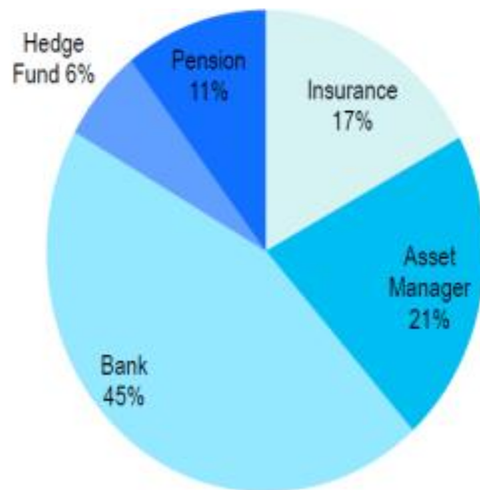


Source: Citi Research

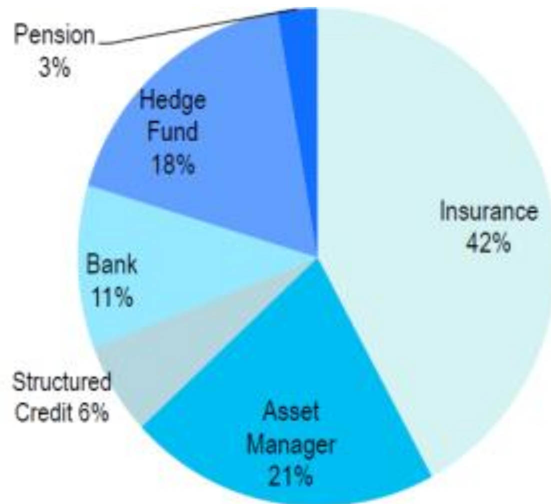
Chart 5 **Chart 6**

US CLO AAA Investor Base (2015 Q1)

US CLO Mezz Investor Base (2015 Q1)



Source: Citi Research



Source: Citi Research

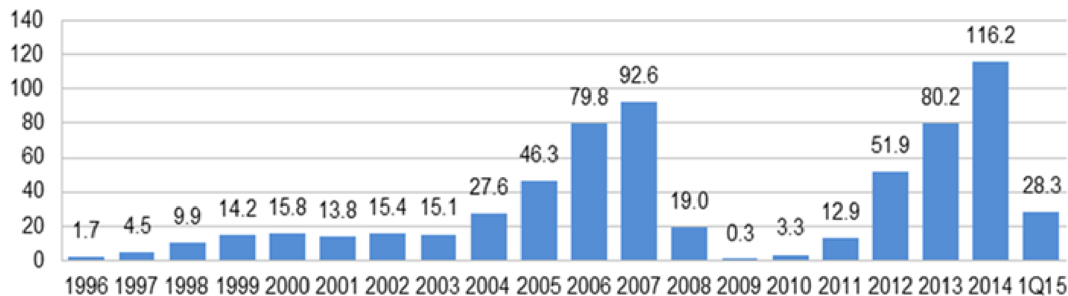
According to NAIC data, approximately 95% of the insurance industry's CLO exposure was investment grade (as of year-end 2014), evidenced by the NAIC 1 and NAIC 2 designations. For NAIC 1 designations in particular, the concentration has increased over time from approximately 80% in 2011 to 92% as of year-end 2014; this means that the increased exposure to CLOs includes primarily those with the highest credit quality (i.e., AAA to A-). In addition, more than 80% of CLO investments in the insurance industry have consistently been held by life companies.

Since the financial crisis, CLO issuance has significantly increased, reaching a high of between $116.2 billion and $124 billion in 2014, according to data from Fitch Ratings (Chart 7) and S&P. According to S&P research, through the end of May 2015, new CLO issuance was $47 billion, relatively flat compared to the same time last year. S&P also expects new issuance to reach approximately $90 billion by year-end 2015. This reflects lower new loan issuance overall, including lending by banks. For the first quarter of 2015, spreads on AAA-rated CLOs averaged 153 basis points (bps) over three-month LIBOR, according to Fitch research, compared to 150 bps for the first quarter of 2014. And, CLOs outstanding through the first quarter of 2015, according to SIFMA, was $529 billion.

Chart 7

Historical U.S. CLO Issuance

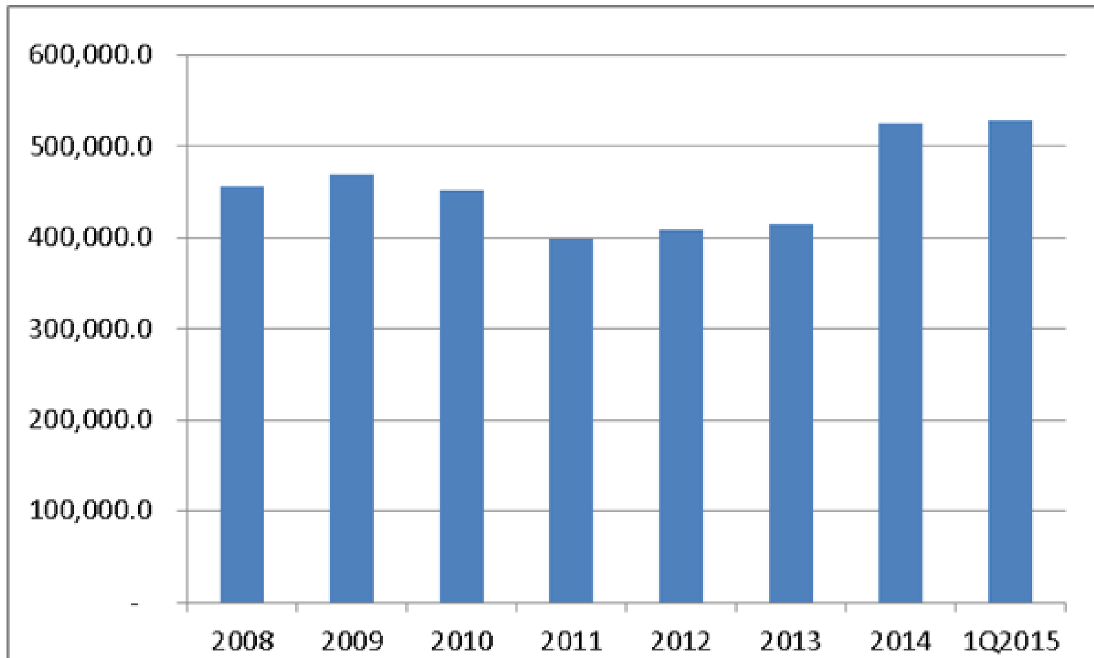
(As of March 31, 2015)



Sources: The Royal Bank of Scotland and Fitch Ratings.

Source: Securities Industry and Financial Markets Association (SIFMA).

Chart 8: Global CLOs Outstanding ($ million)

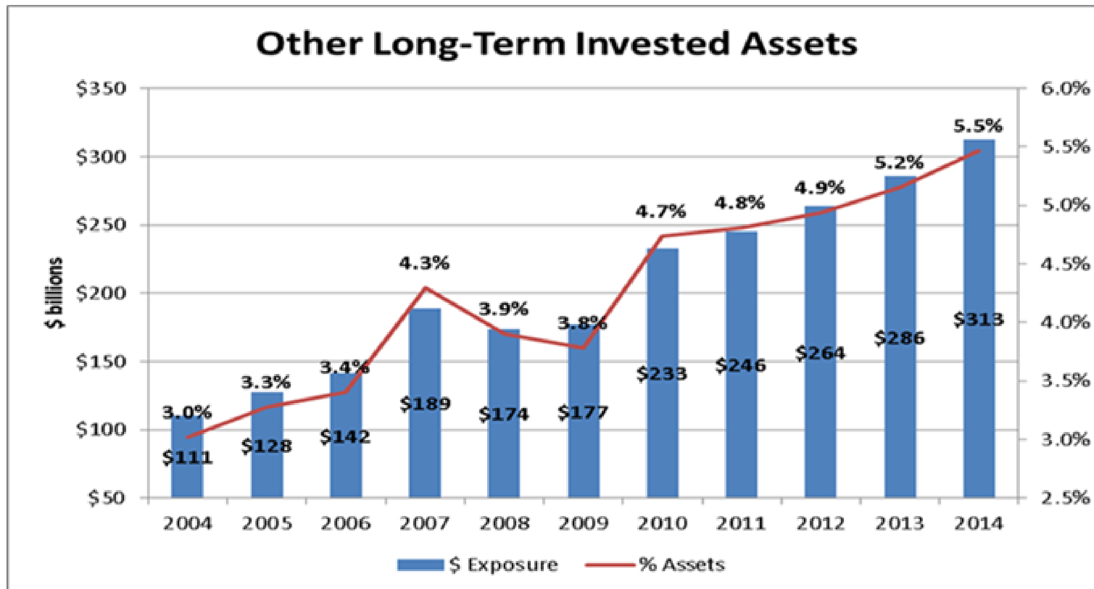


Source: Securities Industry and Financial Markets Association (SIFMA).

Other Long-Term Invested Assets (Schedule BA)

Reported in Schedule BA are other long-term investments such as private equity, hedge funds, mineral rights and other types of assets that are not eligible for reporting in the other investment schedules. In September 2011, the NAIC Capital Markets Bureau published a special report on Schedule BA investments, titled "Analysis of Schedule BA: The Insurance Industry's 'Other Long-Term Invested Assets,'" detailing the exposure reported in Schedule BA as of year-end 2010; it was updated to an extent in April 2012 with the publication of a special report titled "Schedule BA: Private Equity and Hedge Funds." Insurer exposure to Schedule BA assets has since increased to approximately $312.6 billion as of year-end 2014 from $286.5 billion as of year-end 2013. Chart 5 shows how the U.S. insurance industry's exposure to Schedule BA assets trended since 2004; exposure increased 96% from 2008 to 2014. Chart 5 also shows that Schedule BA assets as a percentage of total assets increased steadily since 2009, reaching 5.5% of total assets as of year-end 2014. While life and P/C companies dominate the exposure (i.e., they account for at least 96% of total Schedule BA assets), life companies' proportion has been about 50% of total Schedule BA assets consistently from at least 2008. As noted earlier, a significant portion of the recent growth has been in affiliated investments, which is especially true for P/C companies.

Chart 5



For several reasons, Schedule BA investments offer a higher expected yield that is attractive to investors. Within Schedule BA assets, NAIC data analysis over the most recent nine-year period (i.e., 2005 through 2014) shows that the largest category of unaffiliated investments consistently held by insurers is in the form of joint ventures, partnerships and limited liability companies where the underlying assets are common stock. This category is private equity funds and exposure ranged between 18% and 24% of Schedule BA assets and was 22% of Schedule BA assets as of year-end 2014.

Table 4 shows how the industry's unaffiliated private equity and hedge fund investments within Schedule BA trended over the nine years ended 2014. On a BACV level, private equity increased over time (with one exception in 2008) yet, as a percentage of total Schedule BA assets, it fluctuated, ranging between 18% and 24%. Hedge fund investments, however, fluctuated in terms of BACV and, as a percentage, and were a much smaller proportion of Schedule BA assets.

Table 4: Schedule BA Unaffiliated Private Equity and Hedge Fund Investments, 2005–2014 ($ billion BACV; % of Total Schedule BA Assets)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Private Equity	69,502.9	65,984.0	62,464.8	49,479.7	46,104.5	38,445.0	32,094.1	33,123.5	23,066.8	19,362.8
	22%	23%	24%	21%	20%	23%	20%	19%	18%	18%
Hedge Funds	16,255.0	16,060.6	14,773.7	16,165.2	9,210.1	8,300.1	13,071.3	13,162.5	9,531.5	6,128.1
	5%	6%	6%	7%	4%	5%	8%	8%	7%	6%

Commercial Mortgage Loans and Real Estate

Both commercial mortgage loan exposure and exposure to real estate have increased since 2010, as shown in Table 5. While the U.S. insurance industry's default experience was nominal in comparison with the overall market's default experience, industry exposure to commercial mortgage and real estate decreased in terms of BACV from 2008 through 2010, as the industry significantly reduced its investing activity while existing mortgages matured. Since 2010, the exposure has been increasing. On a percentage basis, these two asset types followed a similar trend, showing a relatively significant drop from 2009 to 2010; but, since then, exposure has been increasing approximately 5% each year except for 2013 to 2014 when the exposure increased more than 6%. In December 2014, the NAIC published a special report titled "Year-End 2013 Update to the Insurance Industry's Exposure to Commercial Real Estate" that provided an update to the U.S. insurance industry's long-standing investment in the overall commercial real estate market. The report discussed the different components of the industry's

commercial real estate investments (including commercial mortgage loans and real estate), as well as trends within these markets.

According to research from Fitch, U.S. life insurers in particular have experienced growth in commercial mortgage investments because "Mortgages continued their six-year run of strong performance driven by low credit impairments and good relative yield versus bonds." And, while Fitch research also cited that mortgage portfolio yields were 5.36% in 2014 (down from 5.46% in 2013), they were still more attractive than investment grade bond yields (which were 3.36% in early June 2015, a 17-month high).

Table 5: US. Insurance Industry Exposure to Commercial Mortgage Loans and Real Estate, 2008–2014

	2014	2013	2012	2011	2010	2009	2008
Commercial mortgage loans and real estate ($ bil BACV)	431,890	405,824	385,505	366,080	348,377	366,582	375,755
% change year-over-year	6.4%	5.3%	5.3%	5.1%	-5.0%	-2.4%	

Notwithstanding the increase in terms of BACV, as a percentage of total assets, commercial mortgage loans and real estate exposure (on an aggregate basis) have been relatively consistent over the years, hovering in the 7% range from 2009 through 2014. The majority of the industry's investments in unaffiliated mortgages and real estate (thereby excluding insurer-occupied properties), is held by the larger life companies.

Common Equity

Exposure to common equity (including affiliates), as shown in Table 1, has been growing in terms of BACV, especially for P/C companies. Growth was not necessarily due to an increased investment allocation; rather, common equity has increased on a BACV level due likely to the benefit of favorable stock market valuations. As a percentage of total cash and invested assets, however, common equity exposure had been relatively stable for the five years ended 2014, hovering around 11% of total assets, give or take a few basis points (as shown in Table 6). After subtracting affiliate exposure, in terms of BACV, common equity ranged between $199.1 billion and $320 billion for the five years ended 2014 (also shown in Table 6). In percentage terms, the U.S. insurance industry's non-affiliate common equity exposure ranged between 3.9% and 5.9% of total assets.

Table 6: Common Equity Exposure: With and Without Affiliates, 2010–2014 ($ billion BACV)

	2014	2013	2012	2011	2010
With Affiliates	684,201	669,400	588,067	544,283	515,008
% of total assetes	11.9%	12.1%	11.1%	10.7%	10.5%
Without Affiliates	320,767	302,645	239,863	213,124	199,189
% of total assetes	5.9%	5.7%	4.4%	4.0%	3.9%

P/C companies, more so than life companies, experienced the largest growth in common equity exposure for the five years ended 2014. On a BACV basis and net of affiliate investments, life companies' exposure ranged between a low of $27.9 billion in 2012 to a high of $34.5 billion in 2014, all of which was 1% or less of life companies' total assets. For P/C companies, on a BACV basis and net of affiliate investments, common equity ranged from a low of $153.9 billion in 2010 to a high of $263.1 billion in 2014, representing a 70% increase. Common equity exposure net of affiliates increased from 9.8% of total assets in 2010 to 15.5% of total assets in 2014 for P/C companies, with the substantial increase due to a large increase in valuations and relatively strong gains from favorable stock market performance. In addition, overall common equity exposure is skewed because a small number of large P/C companies hold large exposures. Nevertheless, even after omitting these large P/C companies from the equation, P/C companies in general still have a higher concentration of common equity than life companies. The S&P 500 Index returned 13.7% in 2014 and 32.4% in 2013. By comparison, the S&P 500

returned a negative 37% in 2008. Because growth in insurer common equity exposure in 2013 and 2014 was below these market performance levels, while insurers benefitted from the stronger equity markets, they were also managing their exposure.

Summary

In summary, while low interest rates continue to persist, with no expectation for increase in the near term, insurers as investors continue to search for yield, particularly in alternative assets. Data as shown and discussed in this report show that insurers continue to abide by their standard investment strategies and policies, maintaining the traditional investment focus. Since the financial crisis, the U.S. insurance industry as a whole has increased its exposure to several asset classes that have the potential to generate higher returns than traditional investments; this occurred after a significant de-risking in 2009 and 2010. Despite this increase, however, as a percentage of total cash and invested assets, the industry's investment in alternative assets continues to be relatively modest, and generally still below their pre-crisis peak, as a percentage of invested assets.

As a related issue, in recent years there has been a growing concern regarding liquidity in the corporate bond market—the result of a decrease in corporate bond inventories at broker-dealers following the financial crisis. Illiquidity results when there is no dealer willing to purchase the flow of bonds that will likely be sold by the current investors. While corporate bonds are insurers' largest bond investment, given that they are traditionally buy-and-hold investors, insurance companies may not entirely feel the impact of this illiquidity as much as other institutional investors.

The NAIC Capital Markets Bureau will continue to monitor the U.S. insurance industry's investment activity, particularly as it pertains to alternative investments, and their potential to reach for yield, and report as deemed appropriate.

June 26, 2015 Major Insurer Share Prices		Close	Change %			Prior		
			Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	$63.69	1.8	(0.5)	4.3	$62.56	$64.01	$61.09
	Ameriprise	128.42	0.5	(1.8)	(2.9)	127.84	130.84	132.25
	Genworth	7.79	(1.0)	6.6	(8.4)	7.87	7.31	8.50
	Lincoln	60.92	1.6	6.0	5.6	59.96	57.46	57.67
	MetLife	57.37	2.0	13.5	6.1	56.23	50.55	54.09
	Principal	52.44	(0.1)	2.1	1.0	52.50	51.37	51.94
	Prudential	90.72	1.6	13.0	0.3	89.29	80.31	90.46
	UNUM	36.77	0.6	9.0	5.4	36.54	33.73	34.88
PC	ACE	$103.47	(2.4)	(7.2)	(9.9)	$106.01	$111.49	$114.88
	Axis Capital	53.25	(4.4)	3.2	4.2	55.71	51.58	51.09
	Allstate	65.83	(0.9)	(7.5)	(6.3)	66.45	71.17	70.25
	Arch Capital	67.45	1.1	9.5	14.1	66.72	61.60	59.10
	Cincinnati	50.91	(0.5)	(4.4)	(1.8)	51.17	53.28	51.83
	Chubb	96.45	(1.8)	(4.6)	(6.8)	98.19	101.10	103.47
	Everest Re	184.51	(0.2)	6.0	8.3	184.83	174.00	170.30
	Progressive	28.32	0.9	4.1	4.9	28.08	27.20	26.99
	Travelers	97.92	(1.5)	(9.4)	(7.5)	99.45	108.13	105.85
	WR Berkley	52.62	(0.5)	4.2	2.7	52.91	50.51	51.26
	XL	37.68	(1.7)	2.4	9.6	38.35	36.80	34.37
Other	AON	$102.75	(0.2)	6.9	8.4	$102.99	$96.12	$94.83
	AIG	62.73	1.5	14.5	12.0	61.83	54.79	56.01
	Assurant	68.37	(0.3)	11.3	(0.1)	68.56	61.41	68.43
	Fidelity National	36.87	0.4	0.3	7.0	36.74	36.76	34.45
	Hartford	42.07	0.1	0.6	0.9	42.02	41.82	41.69
	Marsh	58.31	(1.9)	4.0	1.9	59.43	56.09	57.24
Health	Aetna	$130.05	4.8	22.1	46.4	$124.07	$106.53	$88.83
	Cigna	168.06	8.2	29.8	63.3	155.26	129.44	102.91
	Humana	195.50	(3.4)	9.8	36.1	202.31	178.02	143.63
	United	123.25	2.4	4.2	21.9	120.33	118.29	101.09
Monoline	Assured	$27.42	(6.5)	3.9	5.5	$29.32	$26.39	$25.99
	MBIA	8.32	(7.6)	(10.5)	(12.8)	9.00	9.30	9.54
	MGIC	11.48	0.8	19.2	23.2	11.39	9.63	9.32
	Radian	18.87	2.0	12.4	12.9	18.50	16.79	16.72
	XL Capital	37.68	(1.7)	2.4	9.6	38.35	36.80	34.37

June 26, 2015 Major Market Variables	Close	Change % Week	Change % QTD	Change % YTD	Prior Week	Prior Quarter	Prior Year
Dow Jones Ind	17,947.02	(0.4)	1.0	0.7	18,014.28	17,776.12	17,823.07
S&P 500	2,101.61	(0.4)	1.6	2.1	2,109.76	2,067.89	2,058.90
S&P Financial	335.77	(0.1)	3.3	0.7	336.08	324.95	333.32
S&P Insurance	312.88	0.2	4.1	1.9	312.22	300.59	307.04
US Dollar $		Change %			Prior		
/ Euro	$1.12	(1.7)	4.0	(7.7)	$1.14	$1.07	$1.21
/ Crude Oil bbl	59.59	0.2	25.2	10.7	59.47	47.60	53.83
/ Gold oz	1,172.90	(2.3)	(0.9)	(0.8)	1,200.30	1,183.10	1,182.10
Treasury Ylds %	%	Change bp			%	%	%
1 Year	0.29	0.06	0.03	0.07	0.22	0.26	0.22
10 Year	2.47	0.21	0.55	0.30	2.26	1.93	2.17
30 Year	3.24	0.19	0.70	0.49	3.05	2.54	2.75
Corp Credit Spreads -bp		Change %			Prior		
CDX.IG	11.40	0.0	10.1	(2.5)	11.40	10.35	11.69

June 26, 2015

Major Insurer Bond Yields

	Company	Coupon	Maturity	Weekly Change Price Current	Weekly Change Price Change	Weekly Change Yield	Spread over UST B.P.	Spread over UST Change	YTD Spread Change
Life	Ameriprise	5.300%	3/15/2020	$112.65	($0.89)	2.44%	73	(0)	(2)
	Genworth	6.515%	5/15/2018	$104.94	($0.38)	4.67%	354	7	(83)
	Lincoln National	8.750%	7/15/2019	$122.30	($0.65)	2.82%	135	2	21
	MassMutual	8.875%	6/15/2039	$146.90	($3.53)	5.37%	233	3	39
	MetLife	4.750%	2/15/2021	$109.97	($0.94)	2.81%	89	(1)	12
	New York Life	6.750%	11/15/2039	$129.06	($2.87)	4.73%	165	(3)	10
	Northwestern Mutual	6.063%	3/15/2040	$118.37	($1.88)	4.79%	170	(7)	21
	Pacific Life	9.250%	6/15/2039	$148.07	$1.16	5.59%	255	(26)	10
	Principal	6.050%	10/15/2036	$113.00	($2.32)	5.05%	210	(5)	36
	Prudential	4.500%	11/15/2020	$108.70	($0.73)	2.75%	87	(5)	(12)
	TIAA	6.850%	12/15/2039	$124.49	($2.54)	5.09%	204	(2)	37
P&C	ACE INA	5.900%	6/15/2019	$113.32	($0.69)	2.35%	85	3	1
	Allstate	7.450%	5/15/2019	$118.65	($0.43)	2.38%	93	(5)	8
	American Financial	9.875%	6/15/2019	$124.83	($0.72)	3.15%	163	(1)	18
	Berkshire Hathaway	5.400%	5/15/2018	$110.89	($0.44)	1.51%	44	3	3
	Travelers	3.900%	11/15/2020	$107.02	($1.08)	2.49%	63	4	3
	XL Group	6.250%	5/15/2027	$115.75	($2.10)	4.52%	184	2	1
Other	AON	5.000%	9/15/2020	$109.91	($0.95)	2.95%	111	(0)	15
	AIG	5.850%	1/15/2018	$110.19	($0.10)	1.74%	73	(15)	5
	Hartford	5.500%	3/15/2020	$112.16	($0.43)	2.75%	105	(2)	6
	Nationwide	9.375%	8/15/2039	$147.73	($1.84)	5.71%	265	(10)	19
Health	Aetna	3.950%	9/15/2020	$105.27	($1.26)	2.85%	101	6	8
	CIGNA	5.125%	6/15/2020	$110.84	($1.85)	2.77%	91	15	(3)
	United Healthcare	3.875%	10/15/2020	$106.17	($1.17)	2.62%	75	5	11
	Wellpoint	4.350%	8/15/2020	$107.45	($1.37)	2.78%	90	5	(2)

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