

## U.S. Insurance Industry Exposure to Thailand is Minimal, Mitigating Concern Over Military Coup (5/23/14)

The ouster of the civilian leaders of Thailand and seizing of government control by military leaders could potentially increase the market risk of related investments in the portfolios of U.S. insurers. The potential risk is mitigated by the small concentration of Thai securities held by insurers.

As of the 12 months ended May 23, 2014, the Thai baht depreciated 9.17% against the U.S. dollar. The price stood at 32.6. On Jan. 6, 2014, it reached a high of 33.08. The yield on the 10-year Thai U.S. dollar-denominated bond has experienced some volatility over the past three months, ranging from approximately 3.37% to more than 3.78%. On May 23, 2014, the ask price on the 10-year Thai bond was 107.68 and the bid was 105.88. Thai government credit-default swaps (CDS) reached almost 180 in early 2014, indicating a market-perceived increase in risk. The CDS have since fallen to a May 23, 2014, close of 138.8.

As of year-end 2013, the U.S. insurance industry had a total exposure of \$478 million in book/adjusted carrying value (BACV) in Thai securities, of which 98% were in bonds and 2% in equity. Life insurers had the greatest exposure to Thai bonds at \$418 million, representing about 89% of the bond exposure. About 60% (or \$281.8 million) of the energy sector investments were in PTT PCL (BBB+, Standard & Poor's) and 16% (or \$76.3 million) of the financial sector investments were in Bangkok Bank (Baa1, Moody's Investors Service). P/C insurers had the greatest exposure to equities at \$9.6 million (or about 88%) of the equity exposure.

Table 1: Sector Breakdown of Bond Investments (BACV)

| Sector Name     | Life               | P/C               | Health           | Total              | Pct of Total |
|-----------------|--------------------|-------------------|------------------|--------------------|--------------|
| Energy          | 310,440,618        | 522,817           | 1,201,204        | 312,164,639        | 67%          |
| Financial       | 94,895,824         | 27,512,376        |                  | 122,408,200        | 26%          |
| Government      |                    | 17,876,803        |                  | 17,876,803         | 4%           |
| Basic Materials | 13,127,904         | 2,358,091         |                  | 15,485,995         | 3%           |
| <b>Total</b>    | <b>418,464,346</b> | <b>48,270,087</b> | <b>1,201,204</b> | <b>467,935,637</b> | <b>100%</b>  |
| Pct of Total    | 89%                | 10%               | 0%               | 100%               |              |

Table 2: Sector Breakdown of Equity Investments (BACV)

| Sector Name     | Life             | P/C              | Health        | Total             | Pct of Total |
|-----------------|------------------|------------------|---------------|-------------------|--------------|
| Financial       | 769,764          | 5,233,967        |               | 6,003,731         | 56%          |
| Energy          | 136,312          | 2,757,637        | 24,112        | 2,918,061         | 27%          |
| Diversified     | 40,170           | 1,197,608        |               | 1,237,778         | 11%          |
| Basic Materials | 163,241          | 370,584          |               | 533,825           | 5%           |
| Industrial      | 123,229          |                  |               | 123,229           | 1%           |
| <b>Total</b>    | <b>1,232,716</b> | <b>9,559,796</b> | <b>24,112</b> | <b>10,816,624</b> |              |
| Pct of Total    | 11%              | 88%              | 0%            | 100%              |              |

Thai U.S. dollar-denominated long-term sovereign debt is rated A-/Baa1/A- by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. While this exposure is small, the situation bears closer monitoring until a resolution is reached.

The NAIC Capital Markets Bureau will continue to monitor events within this region and report as deemed appropriate regarding any potential impacts to the U.S. insurance industry's investments.

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