The HOT SPOT

Year-End 2015 U.S. Insurer Exposure to Private Equity Funds Decreases; Hedge Funds Increases (04/04/2016)

On March 4, 2016, the NAIC Capital Markets Bureau published a special report on the U.S. insurance industry's exposure to private equity funds and hedge funds, which included data as of year-end 2014. The 2015 annual financial statements have now been submitted; while there are likely to be some continuing updates, significant changes are unlikely. This Hot Spot provides information on exposures for year-end 2015 and highlights changes since the prior year.

As of year-end 2015, the U.S. insurance industry held approximately $65.5 billion in private equity funds, a decrease of $4 billion since year-end 2014. Over the same period, hedge fund exposure increased to $17.7 billion from $16.8 billion. To gain further insight into these exposures, the Capital Markets Bureau sorted the private equity funds and hedge funds investments held in 2015 by company size (that is, assets under management, in seven groupings), as shown in Table 1 below.

Table 1:

2015 Year-End Exposure

Insurer Groups Based on Asset Size	Private Equity Funds	Hedge Funds
< $250mm	177,479,907	194,360,215
Between $250mm and $500mm	360,807,226	422,921,764
Between $500mm and $1B	512,961,671	516,060,586
Between $1B and $2.5B	1,636,483,959	2,721,927,595
Between $2.5B and $5B	1,509,320,496	1,516,232,142
Between $5B and $10B	2,962,036,080	1,306,677,724
Greater than $10B	58,309,779,312	10,978,103,364
Grand Total	**65,468,868,651**	**17,656,283,390**
Change from 2014	(4,034,045,170)	865,133,360
	-5.8%	5.2%

Notably, larger insurers (i.e., those with greater than $5 billion asset under management) generally reduced their exposure to both private equity funds and hedge funds during the year. (See Table 2.) Smaller and mid-tier insurer exposures to private equity funds stayed roughly the same. However, smaller and mid-tier insurers increased their exposures to hedge funds, more than offsetting the decrease within the larger insurers. Among the group of smaller insurers (i.e., less than $500 million assets under management), 31 of the 86 companies are new investors in hedge funds. Among the midtier group of insurers (i.e., between $500 million and $5 billion assets under management), 32 of 135 were insurance companies that reported exposure in 2015, but did not report exposure in 2014.

Table 2:

Percent Change	Private Equity Funds	Hedge Funds
Smaller Insurers	-0.5%	9.7%
Mid-Tier Insurers	0.0%	33.7%
Larger Insurers	-6.2%	-3.1%

As shown in Table 3, in 2015, 89.1% of the industry's exposure to private equity funds was with the largest insurance companies�that is, those with $10 billion or more assets under management. Similarly, 62.2% of hedge fund exposure is also within the largest insurers category. There were a total of 343 U.S. insurance companies with at least some exposure to private equity funds, and 331 with some exposure to hedge funds.

Table 3:

Percent of Total PE or Hedge Funds	Private Equity Funds	Hedge Funds
< $250mm	0.3%	1.1%
Between $250mm and $500mm	0.6%	2.4%
Between $500mm and $1B	0.8%	2.9%
Between $1B and $2.5B	2.5%	15.4%
Between $2.5B and $5B	2.3%	8.6%
Between $5B and $10B	4.5%	7.4%
Greater than $10B	89.1%	62.2%

For both private equity and hedge funds, the exposure among U.S. insurers as a percent of total invested assets continues to be relatively modest and was 1.2% of total invested assets as of year-end 2015. Table 4 shows U.S. insurer exposure to private equity and hedge funds as a percentage of total invested assets in 2015.

Table 4:

Percent of Invested Assets	Private Equity Funds	Hedge Funds
< $250mm	0.1%	0.2%
Between $250mm and $500mm	0.1%	0.1%
Between $500mm and $1B	0.2%	0.2%
Between $1B and $2.5B	1.4%	2.3%
Between $2.5B and $5B	1.1%	1.1%
Between $5B and $10B	0.9%	0.4%
Greater than $10B	1.4%	0.3%
Total	1.2%	0.3%

As noted in the March 2016 special report, performance (in terms of returns) for private equity funds and hedge funds have, in past years, proven to be less attractive relative to more traditional investments, and they remain relatively volatile. There are also concerns about transparency and liquidity. Additional review, especially for smaller and mid-tier insurers, focusing on exposure for individual companies as a percent of capital and surplus, is warranted.