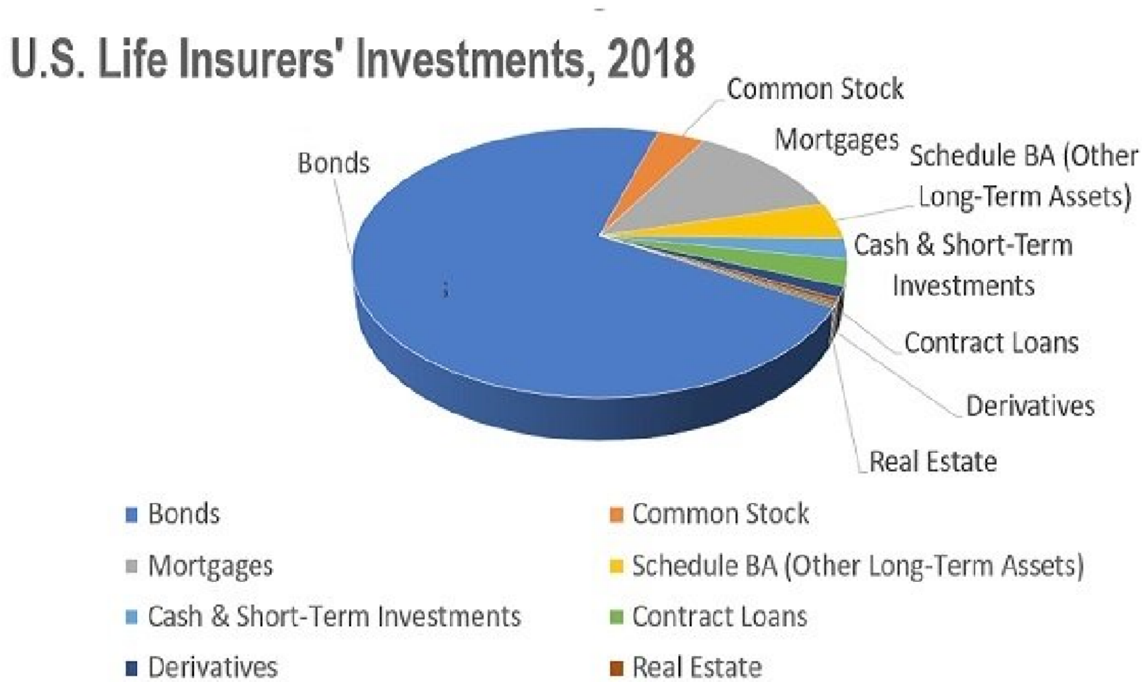
U.S. Life Insurers Add $44 Billion to Mortgage Investments

The value of life insurers' mountain of bonds increased by $17 billion, according to new NAIC data.

By Allison Bell | August 06, 2019



(Chart Data: NAIC Capital Markets Bureau (https://www.naic.org/capital_markets_archive_index.htm))

U.S. life insurers still have almost three-quarters of their assets parked in bonds, but the value of their mortgage investments is growing much faster.

A team at the National Association of Insurance Commissioners' Capital Markets Bureau has painted that picture in two new insurance company investment reports based on insurers' financial statements for 2018.

(Related: Democrats' Strategy for Senate Wins Diverges in Western Desert (https://www.thinkadvisor.com/2018/10/31/democrats-strategy-for-senate-wins-diverges-in-wes/))

U.S. life insurers ended 2018 with $4.2 trillion in cash and invested assets, up 1.3% from the total at the end of 2017.

Life insurers' bond holdings increased by $17 billion — just 0.6% — to $3 trillion.

The biggest growth came in mortgage investments.

The value of life insurers' mortgage investments increased by 9.3%, to $522 billion. The increase amounted to $44 billion, or the equivalent of about 170,000 new residential mortgage loans.

Here's what happened to life insurers' holdings of some other types of assets between the end of 2017 and the end of 2018:

- **Cash:** $105 billion (About the same)
- **Stock:** $158 billion (Down 4.8%)
- **Derivatives:** $56 billion (Down 3.8%)
- **Unaffiliated Private Equity Arrangements:** $56 billion (Up 9.3%)
- **Unaffiliated Hedge Funds:** $7.3 billion (Up 26%)

Michele Wong, the NAIC capital markets specialist who wrote on of the reports, concluded in her report that the prolonged low interest rate environment continues to push U.S. insurers into assets other than corporate bonds.

"Although these asset classes generally offer higher yields than public corporate bonds, they are typically less liquid, have less transparency and are subject to greater price volatility," Wong wrote.

Life insurers sell many products, such as life insurance policies, annuities and long-term disability insurance policies, that provide long-term benefits guarantees. Life insurers tend to depend much more heavily than health insurers or property-casualty insurers on long-term investments, and especially on investments in bonds, to support their products.

Wong noted, for example, that U.S. life insurers account for about 94% of U.S. insurers' total exposure to mortgages.

U.S. life insurers also account for about 70% of U.S. insurers' exposure to bonds.

Partly because of the effects of insurance regulators' capital calculation rules, life insurers have much smaller common stock holdings than property-casualty insurers have.

At the end of 2018, U.S. property-casualty insurers had $583 billion in common stock. U.S. life insurers had just $158 billion in common stock.

Resources

Links to NAIC Capital Markets Bureau reports are available here (https://www.naic.org/capital_markets_archive_index.htm).

— Read Prudential Sheds 'Too-Big-to-Fail' Label, But... (https://www.thinkadvisor.com/2018/10/17/prudential-sheds-too-big-to-fail-label-but/), on ThinkAdvisor.

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