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Slower Pace of Increase in U.S. Insurers' Exposure to Asset-Backed and Other Structured Securities at Year-End 2023

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Executive Summary

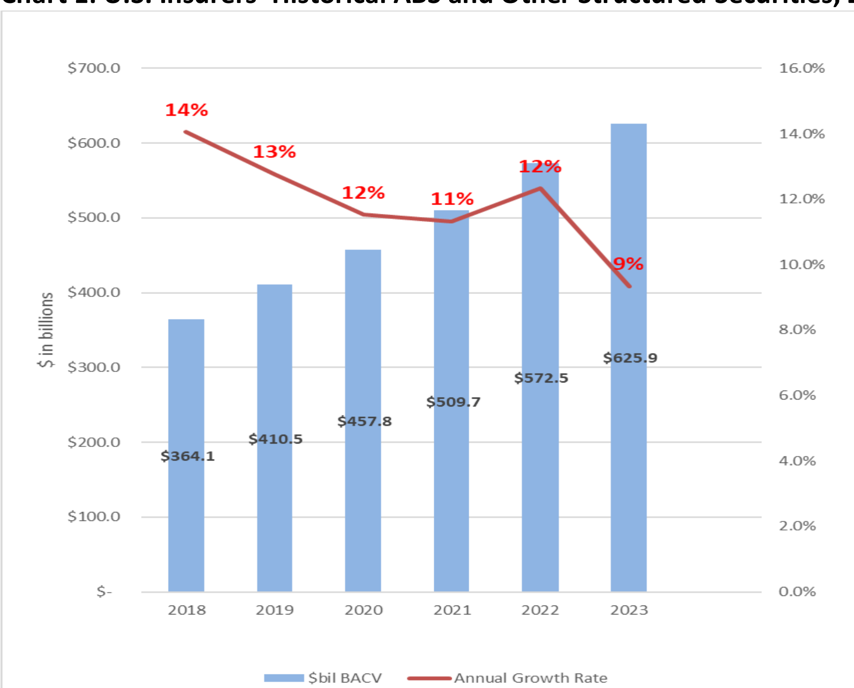
- U.S. insurers' exposure to asset-backed securities (ABS) and other structured securities had been increasing by double-digit percentages over at least the last five years ending in 2022 and increased 9% in 2023 to a total of $626 billion in book/adjusted carrying value (BACV).
- Life companies accounted for the majority of ABS and other structured securities exposure at 79% of the total, consistent with year-end 2022.
- Almost 80% of U.S. insurers' ABS and other structured securities investments were high credit quality, evidenced by NAIC 1 designations, a small improvement from 77% the year prior.
- Consumer ABS comprised 9% of total ABS and other structured securities, or about $53 billion in BACV at year-end 2023, a small increase from $50 billion at year-end 2022.
- Within U.S. insurers' total consumer ABS exposure, auto ABS accounted for the majority at about $33 billion, or 62% of total ABS and other structured securities.

U.S. insurers' exposure to asset-backed securities (ABS) and other structured securities has steadily increased in recent years as they represent an attractive yield alternative to traditional bond investments, such as corporate bonds. ABS and other structured securities includes bonds collateralized by consumer-based receivables, such as auto loans, credit card receivables and student loans; bonds collateralized by commercial-based receivables, such as equipment and aircraft leases; as well as collateral debt, bond, and loan obligations (CDOs/CBOs/CLOs). With structured securities, income generated by the underlying collateral pool (i.e., principal and interest paid by the obligors) is used to pay debt service on the bonds on payment dates. For more details on the mechanics and inherent risks of consumer ABS, please refer to the NAIC Capital Markets Bureau primer on consumer ABS.

While U.S. insurers' exposure to ABS and other structured securities has been a relatively small proportion of investments over the years, it increased at double-digit rates from at least 2018 through 2022. (Refer to Chart 1.) The large increases were partly due to what was a lower-for-longer interest rate environment. U.S. insurers' investments in ABS and other structured securities totaled about $626 billion in book/adjusted carrying value (BACV) at year-end 2023, which was 7% of U.S. insurers' total cash and invested assets. While this is a 9% increase from about $573 billion BACV in 2022 and a 72% increase from $364 billion in 2018, it is a slower pace of growth from previous years.

ABS and other structured securities made up the second-largest bond type for U.S. insurers at year-end 2023 and year-end 2022, at 12% and 11% of total bonds, respectively. Please see the NAIC Capital Markets Bureau special report titled *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*, published in May 2024, for more detail on overall U.S. insurers' asset allocations at year-end 2023. Note that ABS and other structured securities moved up in rank from being the third-largest bond type for U.S. insurers in 2021 when municipal bonds were the second-largest bond type.

Chart 1: U.S. Insurers' Historical ABS and Other Structured Securities, 2018–2023



The majority of ABS and other structured investments for U.S. insurers include CDOs/CBOs/CLOs, which were about 43% of the total.[1] Further detail of U.S. insurers' CLO exposure is discussed in an NAIC Capital Markets Bureau special report titled *U.S. Insurers' Collateralized Loan Obligation Exposure Continues to Climb in 2023 but at a Slower Pace*, published in December 2024. Consumer ABS, which includes auto

[1] CDO/CBO/CLO investments included in this special report are based on data reported by U.S. insurers in the annual statement filings with the NAIC, in particular in Schedule D Part 1 – Bonds.

loans and leases, credit card receivables, and student loans, represented another 9% of total ABS and other structured securities on an aggregate basis, or $53.4 billion, as reported by U.S. insurers. Commercial ABS (e.g., equipment, railcar, and aircraft leases) accounted for 2% of total ABS and other structured securities, or about $15.6 billion. The remaining balance is an aggregate of various ABS asset types that were 1% of the total or less and asset types reported as unclassified by U.S. insurers.

Consumer ABS increased by almost 7% to $53.4 billion at year-end 2023, from $50.1 billion at year-end 2022. (Refer to Table 1.) However, consumer ABS remained at almost 9% of total ABS and other structured investments in both years. Within consumer ABS, those collateralized by auto loans/leases/receivables accounted for the majority of U.S. insurers' consumer ABS exposure, at 62% of the total, or $33 billion. This was followed by student loans and credit card receivables at 26% and 12%, respectively. In prior years, auto ABS also accounted for the majority of U.S. insurers' consumer ABS exposure. This is due in part to the available inventory of these securities.

Table 1: U.S. Insurer Investments in Consumer ABS, Year-End 2023 and Year-End 2022

Consumer ABS Type	$ bil. BACV 2023	Pct of Total 2023	$ bil. BACV 2022	Pct of Total 2022
Auto	33.1	62%	26.6	53%
Student Loan	13.6	26%	12.5	25%
Credit Card	6.6	12%	11.0	22%
Total	**53.4**	100%	**50.1**	100%
% of Total ABS and Other	8.5%		8.8%	

Life companies accounted for the majority of U.S. insurers' ABS and other structured investments at almost $495 billion, or 79% of the total. Property/casualty (P/C) companies accounted for 18%, and health companies accounted for 3%. This statement type percentage breakdown is consistent with year-end 2022. (Refer to Table 2.) At year-end 2022, life companies accounted for about $450 billion of ABS and other structured securities, followed by $103 billion with P/C companies and $18 billion with health companies.

Table 2: U.S. Insurer Exposure ABS and Other Structured Securities, Year-End 2023 and Year-End 2022

Statement Type	$ bil. BACV 2023	Pct of Total 2023	$ bil. BACV 2022	Pct of Total
Life	494.5	79%	451.0	79%
P/C	112.1	18%	103.2	18%
Health	19.3	3%	18.3	3%
Title	0.1	0%	0.0	0%
Total	**625.9**	**100%**	**572.5**	**100%**

About 97% of ABS and other structured securities were high-quality, investment-grade investments, evidenced by the NAIC 1 and NAIC 2 designations. (Refer to Chart 2.) Almost 80% carried NAIC 1 designations. In comparison, at year-end 2022, about 96% of U.S. insurer investments in ABS and other structured securities carried NAIC 1 and NAIC 2 designations, with NAIC 1 accounting for 77%. (Refer to Chart 3.) This trend demonstrates a small year-over-year (YOY) improvement in credit quality. Note that the ability of ABS to generate income depends not only on the soundness of the transaction structure but also on the underlying consumer and commercial creditworthiness.

Chart 2: U.S Insurers' ABS and Other Structured Securities – NAIC Designations, Year-End 2023

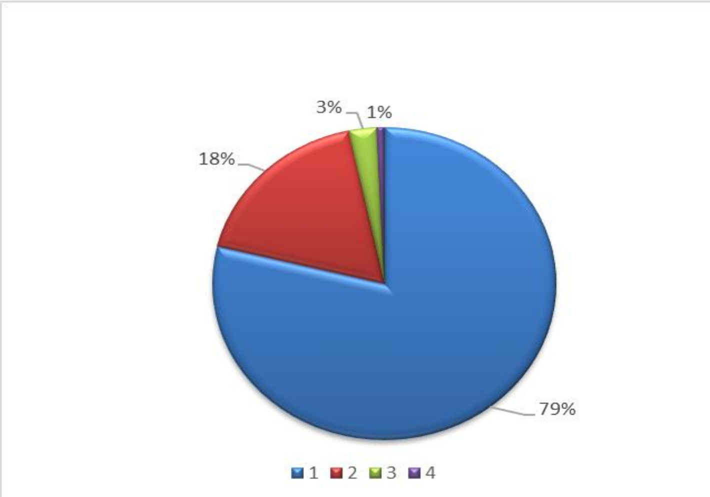
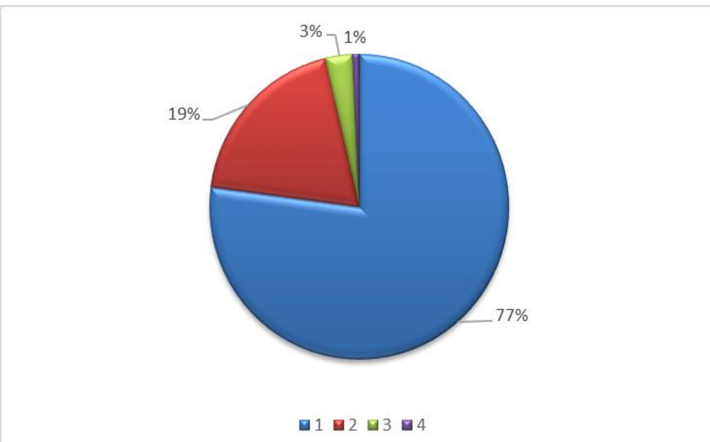


Chart 3: U.S. Insurers' ABS and Other Structured Securities – NAIC Designations, Year-End 2022



ABS Market Overview

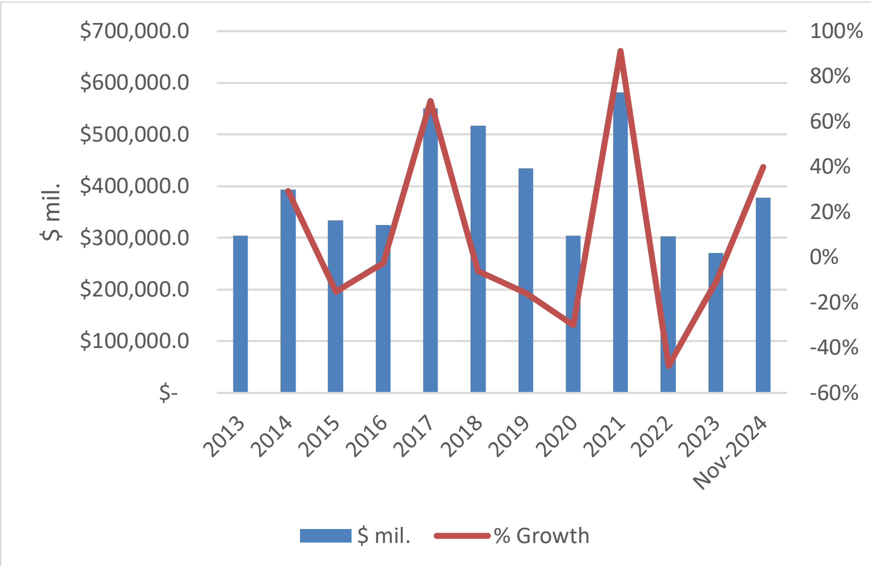
According to data from the Securities Industry and Financial Markets Association (SIFMA), total ABS issuance was $270.5 billion at year-end 2023, which includes consumer and commercial ABS, as well as CDOs and CLOs. This was a decrease of 11% from the year prior. (Refer to Chart 4.) Year-to-date, as of November 2024, new issuance for ABS totaled $378.2 billion, representing a 45% YOY increase.

Within total ABS issuance, auto represented 53% of the total at year-end 2023, or $144 billion, having increased 11% from the year prior. Auto includes auto loans and auto leases. Among the various ABS asset types, including credit card receivables, student loans, equipment leases, and others, auto was the only one that experienced a YOY increase, according to SIFMA data. The surge in auto ABS new issuance, according to S&P Global's research, was due in part to significant demand for, and increase in, auto sales in 2023.[2] As a result, auto loan ABS reached a record $120 billion in new issuance in 2023. Commercial

[2] S&P Global, *Global Structured Finance 2024 Outlook*, January 2024.

ABS, such as equipment leases, was not a significant part of new issuance, and according to S&P Global, it could remain flat in 2024 due in part to a higher cost of capital.

Chart 4: ABS Issuance ($mil), 2013 – Nov. 2024



Source: SIFMA

The NAIC Capital Markets Bureau will continue to monitor events and trends in the ABS market and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org.](mailto:CapitalMarkets@naic.org)

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