The NAIC Capital Markets Bureau monitors global capital market developments and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Special Reports are available via the Capital Markets Bureau web page and the NAIC archives (for reports published prior to 2016).

Decrease in U.S. Insurers' Securities Lending and Repurchase Agreement Activity at Year-End 2023

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Executive Summary

- U.S. insurers reported exposure to securities associated with securities lent, totaling almost $48 billion in book/adjusted carrying value (BACV) at year-end 2023 pursuant to disclosures held under securities lending agreements and representing a 7% decrease from about $52 billion at year-end 2022.
- In turn, securities lending collateral held by U.S. insurers totaled $51.1 billion in BACV, representing a decrease of about 5% from year-end 2022.
- At year-end 2023, about 80% of U.S. insurers' exposure to securities lending reinvested collateral was with life companies, similar to the prior year, and almost 90% was with large insurers or those with more than $10 billion in assets under management.
- About 60% of the reinvested collateral was in liquid assets, or specifically, short-term investments and cash and cash equivalents, which was also similar to the year prior.
- U.S. insurers engage in repurchase agreements (repos) and reverse repos to raise short-term cash and reported $47 billion in BACV in repo and reverse repo activity at year-end 2023, which was a small decrease from $49 billion at year-end 2022.
- Together, securities lending and repo activity continued to account for about 1% of U.S. insurers' total cash and invested assets.

Engaging in securities lending activity enables U.S. insurers to earn a modest income on fees charged to the borrowers (or counterparties) of the lent securities. Insurers also earn yield income on the cash or securities received from the counterparties, i.e., the collateral, in exchange for the loaned securities. While securities lending has historically represented a low-risk asset management strategy for U.S. insurers, the reinvested collateral is not a significant portion of their investment portfolio, representing less than 1% of the total.

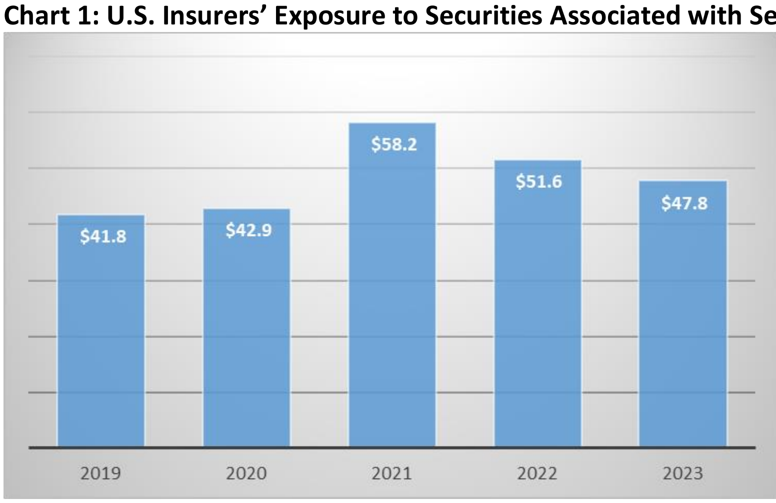
U.S. insurers may also engage in another form of short-term financing, or repurchase agreements (repos), to raise cash and access short-term liquidity. Bilateral repos represent a direct agreement between two counterparties; tri-lateral repos include a third-party custodian bank settling the trade between two counterparties. U.S. insurers' exposure to securities lending reinvested collateral, repos, and reverse repos (i.e., repos from the counterparty's perspective) has been relatively small over the past several years, totaling only about 1% of total cash and invested assets on a combined basis.

Securities Lent

The total amount attributed to securities lending activity reported by U.S. insurers in the investment schedules (i.e., Schedule D, Part 1 [Bonds]; Schedule D, Part 2 [Common Stock]; and Schedule DA [Short-Term Investments]) is greater than the amount of securities lent. That is, in the annual statement filings with the NAIC, U.S. insurers are not required to identify the specific amount of securities lent to borrowers with regard to securities lending activity; rather, they identify the full amount of the investment. For the securities lent exposure identified in this special report; however, year-end exposure was obtained from data reported by insurers in *Note 5L(1)b—Restricted Assets (Including Pledged)—Collateral Held Under Security Lending Agreements to the Financial Statements*, as it contains details of the assets pledged as collateral.

At year-end 2023, U.S. insurers' reported exposure to securities associated with securities lent totaled $47.8 billion in book/adjusted carrying value (BACV), based on Note 5L(1)b at year-end 2023. This is a 7% decrease from $51.6 billion at year-end 2022. As in previous years, about 80% of securities lent activity was with life companies, followed by 15% with property/casualty (P/C) companies. The most recent five years' exposure to securities associated with securities lent for U.S. insurers (refer to Chart 1) shows that securities associated with securities lent have been steadily declining since 2021, and the exposure increased by about 14% from 2019 to 2023.

Chart 1: U.S. Insurers' Exposure to Securities Associated with Securities Lent, 2019–2023 ($Bil BACV)



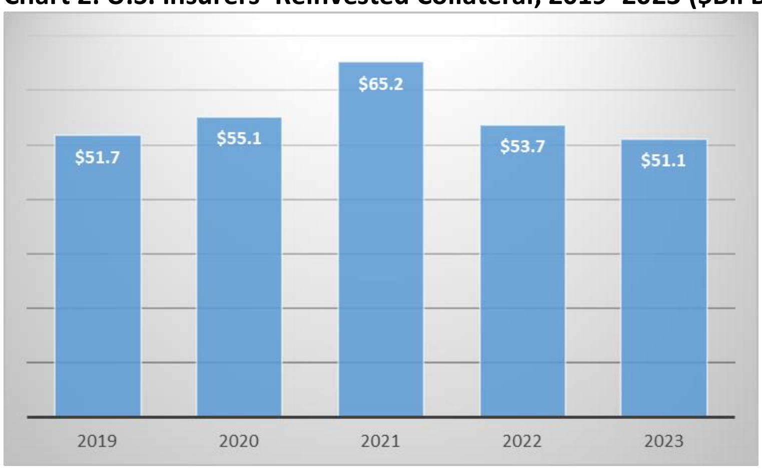
Analysis of securities made up of securities lent by U.S. insurers, as reported in Schedules D, Parts 1 and 2, and Schedule DA, showed that similar to prior years, the largest portion was in corporate bonds, followed by U.S. government bonds at year-end 2023.

Reinvested Collateral

U.S. insurers receive cash and/or securities as collateral in exchange for securities lent to borrowers. The cash and securities received are recognized in the financial statements and are referred to as "reinvested collateral," even though the insurer may not actually sell or repledge the collateral. Since insurers may earn investment income on reinvested collateral, they must consider not only the credit risk of the reinvested collateral but also the asset/liability management risk relative to the lent securities.

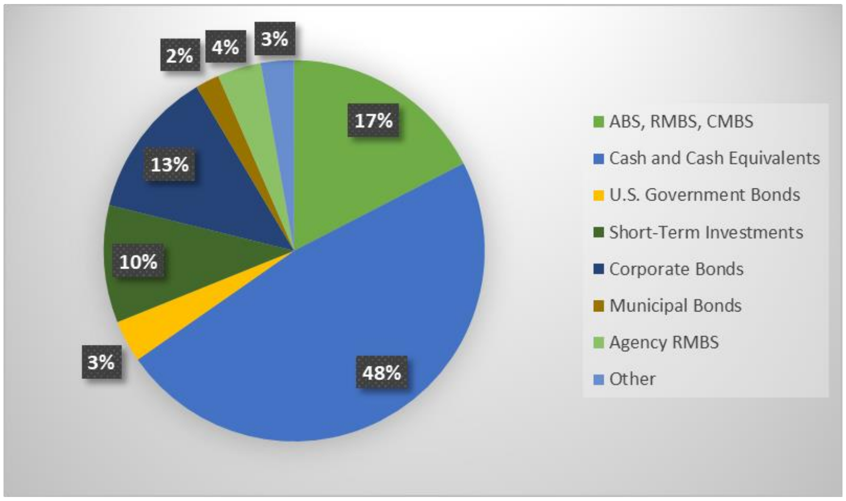
At year-end 2023, U.S. insurers reported a total of $51.1 billion in reinvested collateral in Schedule DL, Parts 1 and 2, representing a decrease of almost 5% from $53.7 billion at year-end 2022. For the past two years, U.S. insurers' exposure to securities lending reinvested collateral has been declining after increasing for at least the three years prior to 2021. Total reinvested collateral at year-end 2023 was relatively consistent with the total at year-end 2019. (Refer to Chart 2.)

Chart 2: U.S. Insurers' Reinvested Collateral, 2019–2023 ($Bil BACV)



Cash and cash equivalents continue to represent the largest portion of collateral held by U.S. insurers for securities lent at about 48% of the total at year-end 2023, an increase from 42% at year-end 2022. (Refer to Chart 3.) The second-largest asset types were asset-backed securities (ABS), residential mortgage-backed securities (RMBS), and commercial mortgage-backed securities (CMBS), together totaling 17% of reinvested collateral at year-end 2023 — the same as year-end 2022. Short-term investments remained at 10% of total reinvested collateral at year-end 2023 compared to 2022, while corporate bonds decreased to 13% of the total at year-end 2023, from 16% at year-end 2022. The two most liquid asset types—cash and cash equivalents and short-term investments—together comprised about 60% of total reinvested collateral at year-end 2023. Municipal bonds and U.S. government bonds together accounted for 5% of total collateral, down from 7% at year-end 2022.

Chart 3: U.S. Insurers' Reinvested Collateral Asset Types as of Year-End 2023



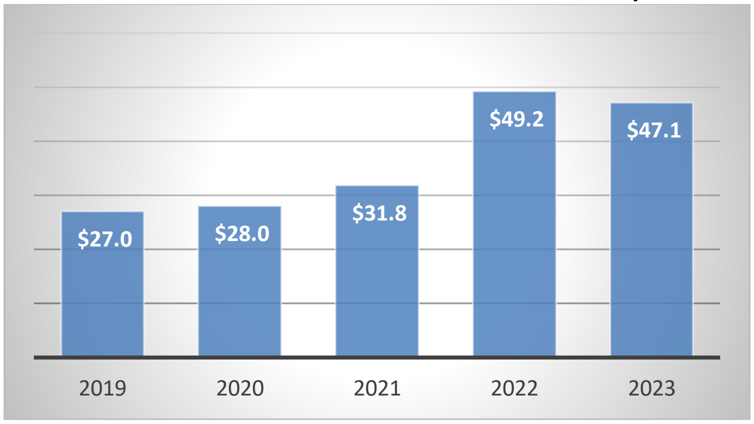
Similar to the year prior, at year-end 2023, life companies accounted for about 80% of U.S. insurers' exposure to reinvested collateral, and P/C companies accounted for 15%. In addition, large U.S. insurers, or those with more than $10 billion in assets under management, accounted for almost 90% of the industry's total securities lending reinvested collateral at year-end 2023, and those with $5 billion to $10 billion assets under management accounted for another 5%. About 70% of U.S. insurers' reinvested collateral were reported to have NAIC 1 and NAIC 2 designations, evidencing high credit quality, and about 75% were scheduled to mature in 10 years or less.

Repos and Reverse Repos

Detailed reporting on U.S. insurers' repo and reverse repo activity is reported in Notes 5L(1)c through 5L(1)f in the Notes to the Financial Statements and, based on accounting guidance, is also the source of repo and reverse repo exposure for the purpose of this special report. Similar to securities lent, U.S. insurers identify the total amount of securities *associated* with repo and reverse repo activity (and not the actual amount) in the investment schedules, i.e., Schedule D, Part 1; Schedule D, Part 2, Section 2; and Schedule DA.

The total amount of securities associated with repo and reverse repo activity reported by U.S. insurers was $47.0 billion in BACV at year-end 2023, representing a small decrease from $49.2 billion at year-end 2022. About $6 billion, or 13% of the year-end 2023 total, was in reverse repos, compared to $7.5 billion at year-end 2022. Even though U.S. insurers' exposure to repos and reverse repos has traditionally been less than 1% of total cash and invested assets, over the last few years it has become an increasing form of short-term secured financing. For the five years ending 2023, U.S. insurers' exposure to repos and reverse repos increased by about 74%. (Refer to Chart 4.) Almost all repo and reverse repo activity was conducted by life companies (96%) with the remainder performed by P/C companies.

Chart 4: U.S. Insurers' Securities Associated with Repos and Reverse Repos, 2019–2023 ($Bil BACV)



At year-end 2023, the majority of securities associated with repos and reverse repos held by U.S. insurers were corporate bonds, followed by a smaller allocation to U.S. government bonds. This trend is similar to previous years. Note that the ability of the counterparty to source the same or substantially the same securities to return to the insurer at the end of the repo agreement poses a potential risk despite the relative liquidity of corporate bonds.

Securities Lending and Repo Market Trends

According to the International Securities Lending Association (ISLA), the global securities lending market totaled approximately $3 trillion as of Sept. 30, 2024, up from $2.18 trillion as of Sept. 30, 2023. In January 2025, the U.S. Securities and Exchange Commission (SEC) approved a Financial Industry Regulatory Authority (FINRA) rule known as the Securities Lending Transparency Engine, or SLATE, which is intended to enhance transparency and efficiency in the securities lending market. SLATE will take effect in January 2026, and it is expected to facilitate the collection of specific securities loan information, enabling access to market participants, the public, and regulators.

The Financial Stability Oversight Council (FSOC) 2024 annual report noted an interconnectedness between leveraged funds and the broader financial system such that hedge funds have been increasingly obtaining leverage through securities lending and repurchase agreements.[i] As of the second quarter of 2024, total repo borrowing totaled about $6.2 trillion, down slightly from $6.8 trillion in the second quarter of 2023.

The NAIC has reporting requirements and Statement of Statutory Accounting Principles (SSAPs) disclosures for U.S. insurers that are intended to help monitor the solvency of individual insurance entities. U.S insurers are required to provide maturity information of securities lending collateral received, as well as collateral reinvested, to address any mismatch in the maturity of reinvested collateral and when a borrower can demand a return of the cash it posted, as indicated in the applicable securities lending agreement.

Additional information on securities lending was published in a primer by the NAIC Capital Markets Bureau.

The NAIC Capital Markets Bureau will continue to monitor trends in the securities lending and repo markets and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at CapitalMarkets@naic.org.

[i] FSOC 2024 Annual Report, page 62