

Perspectives

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OUR VIEW ON INSURANCE CAPITAL MANAGEMENT TOPICS

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An Uneven Landscape: Fraternal Insurers' Investment Trends

We revisited¹ fraternal insurers to examine how they have recently shaped their investment strategies in an increasingly competitive environment.

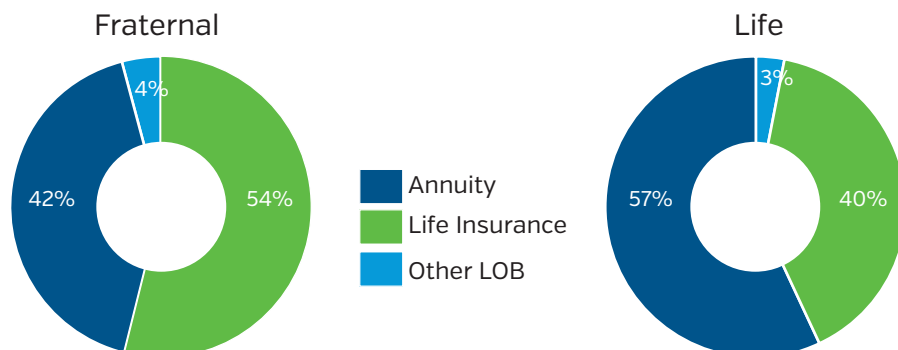
EXECUTIVE SUMMARY

In 2024, fraternal insurers' net investment income (as a percentage of invested assets) surpassed that of the broader life insurance industry, driven by stronger returns from alternative investments. However, these alternative investments were largely concentrated among a small number of large fraternal writers. Despite this outperformance at the total portfolio level, the book yield of the fraternal composite's fixed income portfolio remained below that of the life industry, with the gap widening since interest rates began rising in 2022. Notable differences in the duration and sector allocation within the fraternal composite's fixed income holdings likely contributed to the lag in book yields, despite comparable credit quality between the two groups.

SCOPE OF ANALYSIS

We use a composite of 64 companies operating as of year-end 2024, all classified as "fraternal" filers by the NAIC. This fraternal composite is compared to a U.S. life industry composite consisting of 316 firms that write life insurance, annuities, or other lines of business (including accident and health), excluding those in the fraternal group. All exhibits are based on statutory data as of December 31, 2024, sourced from S&P Capital IQ Pro and supplemented by data from NEAM and ICE BofA. As shown in Exhibit 1, the fraternal composite had a higher concentration in life insurance than in annuities, compared to the broader life industry.²

Exhibit 1. Reserves Breakdown by Line of Business in 2024



Source: NEAM, S&P Capital IQ Pro

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FRATERNAL COMPOSITE'S ENTERPRISE PROFILE

Lower Investment Leverage Compared to the Life Industry

Table 1 compares statutory surplus, total invested assets, and loss reserves between the fraternal composite and the broader life insurance industry over the past four years. Compared to other life insurance carriers, fraternal insurers tended to operate with lower investment leverage (measured as invested assets-to-surplus) and were generally smaller in terms of invested assets, with 90% of fraternal companies holding less than US\$2b as of 2024. Over the past three years, the fraternal composite experienced stronger growth in surplus and reserves, while the life industry saw more pronounced growth in invested assets.

Table 1. Surplus, Invested Assets, Premium, and Reserves Trend 2021-2024

Composite	Item	2024	2023	2022	2021	2024 Growth	3-Year CAGR*
Fraternal Composite	Surplus [\$B]	24.6	23.8	23.1	22.9	3.4%	2.5%
	Invested Assets [\$B]	167.3	162.8	159.0	157.2	2.8%	2.1%
	Company # [% of total #]	64	66	68	68		
	Invested Assets > \$2B	7 [11%]	7 [11%]	7 [10%]	7 [10%]		
	\$500M < Invested Assets < \$2B	13 [20%]	13 [20%]	13 [19%]	13 [19%]		
	Invested Assets < \$500M	44 [69%]	46 [70%]	48 [71%]	48 [71%]		
	Total Policy Reserves [\$B]	116.7	113.2	110.7	108.4	3.1%	2.5%
	Invested Assets-to-Surplus	6.8x	6.8x	6.9x	6.9x		
	Reserves-to-Surplus	4.7x	4.8x	4.8x	4.7x		
Life Industry Ex Fraternal	Surplus [\$B]	498.6	489.1	466.4	476.6	1.9%	1.5%
	Invested Assets [\$B]	5,449.9	5,182.1	5,033.2	4,883.1	5.2%	3.7%
	Company # [% of total #]	316	318	316	314		
	Invested Assets > \$2B	115 [36%]	114 [36%]	110 [35%]	113 [36%]		
	\$500M < Invested Assets < \$2B	44 [14%]	42 [13%]	44 [14%]	40 [13%]		
	Invested Assets < \$500M	157 [50%]	162 [51%]	162 [51%]	161 [51%]		
	Total Policy Reserves [\$B]	3,535.7	3,458.7	3,425.6	3,316.9	2.2%	2.2%
	Invested Assets-to-Surplus	10.9x	10.6x	10.8x	10.2x		
	Reserves-to-Surplus	7.1x	7.1x	7.3x	7.0x		

* Compound Annual Growth Rate

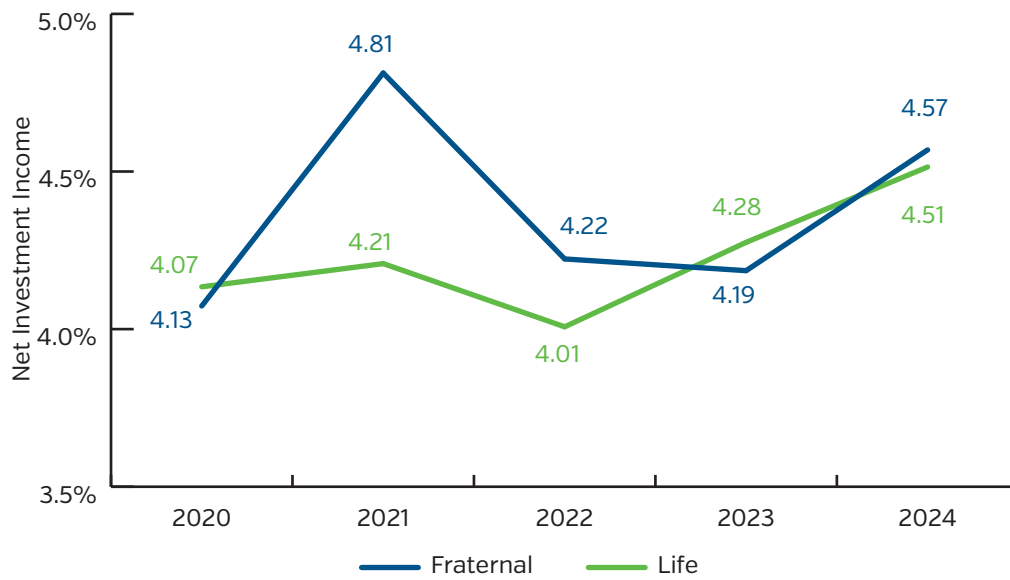
Source: NEAM, S&P Capital IQ Pro

FRATERNAL COMPOSITE'S ASSET CHARACTERISTICS

Net Investment Income³ (%) Comparable to the Life Industry

Exhibit 2 shows net investment income as a percentage of total invested assets for both the fraternal composite and the life industry. Net investment income was generally comparable between the two groups, except in 2021 when fraternal companies benefited from an outsized return on Schedule BA assets. That contribution faded through 2023 but rebounded in 2024, lifting the fraternal composite's net investment income 6 basis points (bps) above the life industry again.

Exhibit 2. Net Investment Income (%) Comparison



Source: NEAM, S&P Capital IQ Pro

Table 2 presents the contribution of major asset sectors to earned investment income. Bonds remained the largest source of income for both the fraternal composite and the life industry. Schedule BA assets contributed the second-highest income for the fraternal composite, while mortgage loans held that position for the life industry. Equities accounted for a modest 3% of income for both groups.

As previously noted, the contribution of Schedule BA assets to the fraternal composite's income peaked in 2021, declined to 11% in 2023, and rebounded to 16% in 2024. Table 3 shows that these assets were highly concentrated among the larger insurers within the fraternal composite, with the three largest firms (representing the top 5%) accounting for 95% or more of total Schedule BA holdings and related income in 2024.

Table 2. Gross Earned Investment Income Contribution by Asset Class

Asset Sector	Fraternal Composite					Life Industry				
	2024	2023	2022	2021	2020	2024	2023	2022	2021	2020
Bonds	68%	72%	67%	59%	73%	66%	67%	65%	63%	67%
Mortgage Loans	9%	9%	9%	8%	10%	14%	14%	13%	12%	13%
Cash/Short Term	2%	2%	1%	0%	0%	4%	3%	1%	0%	1%
Equities	3%	3%	5%	3%	3%	3%	3%	3%	3%	4%
Real Estate	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%
Contract Loans	2%	2%	2%	2%	3%	3%	3%	3%	4%	4%
Derivatives	0%	0%	0%	0%	0%	-1%	-3%	2%	3%	2%
Other [Sch. BA]	16%	11%	16%	27%	10%	10%	11%	11%	13%	8%

Source: NEAM, S&P Capital IQ Pro

Table 3. Schedule BA Asset Holding/Gross Earned Investment Income Concentration in 2024

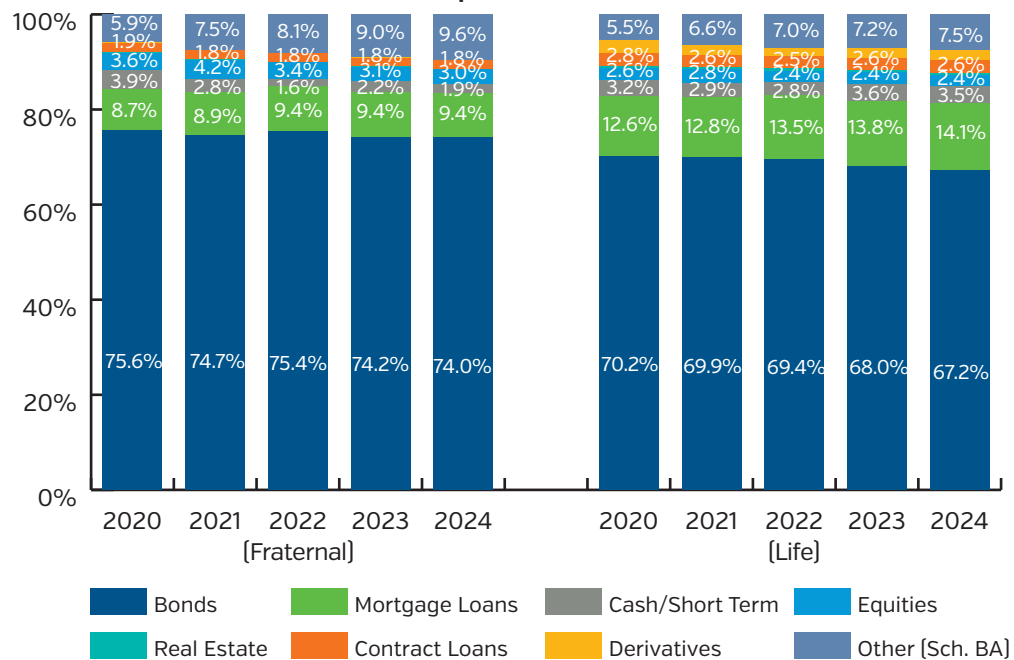
By Invested Assets (# of Companies)	Fraternal Composite		By Invested Assets (# of Companies)	Life Industry	
	Sch BA Holding [% of Total]	Sch BA Income [% of Total]		Sch BA Holding [% of Total]	Sch BA Income [% of Total]
Top 5% [3]	95.5%	98.1%	Top 5% [16]	36.8%	33.6%
Top 10% [6]	97.7%	98.7%	Top 10% [32]	83.2%	82.4%
Top 20% [13]	99.6%	99.7%	Top 20% [63]	96.2%	96.7%
Total [64]	100.0%	100.0%	Total [316]	100.0%	100.0%

Source: NEAM, S&P Capital IQ Pro

More Allocations to Fixed Income and Less to Mortgage Loans

Exhibit 3 illustrates the asset allocations of the fraternal composite and the life industry. Compared to the life industry, the fraternal composite was overweight in bonds and Schedule BA assets and underweight in mortgage loans as of year-end 2024. Bonds remained the largest asset sector for the fraternal composite, although allocations declined modestly in recent years. In contrast, allocations to Schedule BA assets continued to grow, rising from 5.9% in 2019 to 9.6% in 2024.

Exhibit 3. Invested Assets Sector Composition

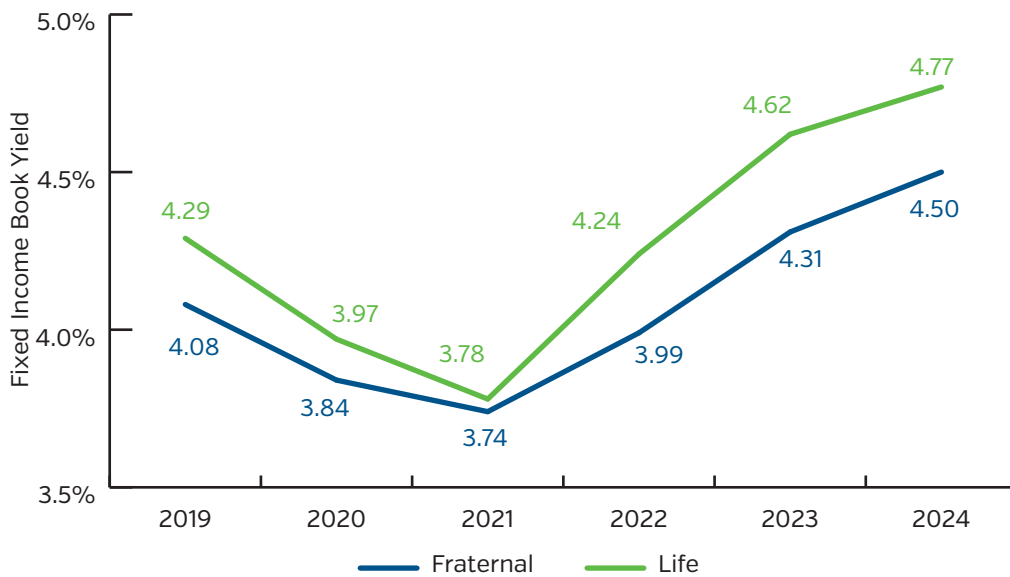


Source: NEAM, S&P Capital IQ Pro

Fixed Income Book Yield Trailing the Life Industry

Exhibit 4 shows that the fraternal composite's fixed income portfolio book yield has consistently trailed that of the life industry. After narrowing to just 4 bps in 2022, the gap widened to 27 bps by 2024. Both groups experienced three consecutive years of rising book yields, supported by a sustained high-interest-rate environment. Since 2021, the life industry achieved a 99 bps increase in book yield, while the fraternal composite saw a 76 bps increase over the same period.

Exhibit 4. Comparison of Fixed Income Portfolio Book Yield 2019-2024

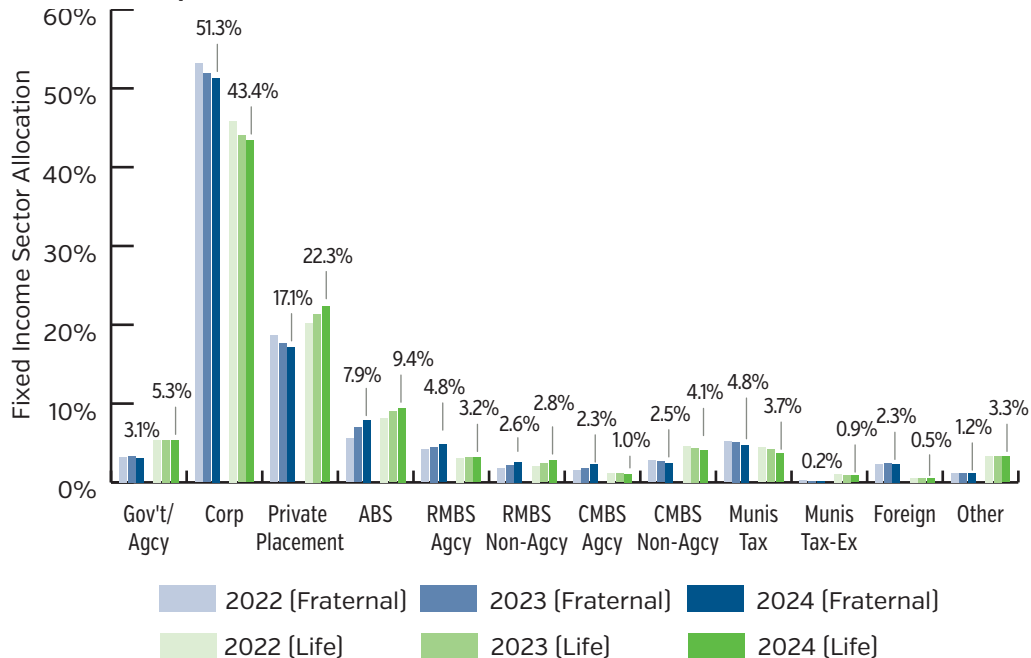


Source: NEAM, S&P Capital IQ Pro

Overweight in Corporates and Underweight in Privates

Exhibit 5 shows the fixed income sector allocations for the fraternal composite and the life industry. Compared to the life industry, the fraternal composite was overweight in corporate bonds and underweight in private placements. In recent years, the fraternal composite increased its allocations to structured securities, particularly asset-backed securities (ABS), while reducing its exposure to corporate bonds and private placements.

Exhibit 5. Comparison of Fixed Income Sector Allocations



Source: NEAM, S&P Capital IQ Pro

Table 4 illustrates fixed income allocation and book yield by sector in 2024 for both the fraternal composite and the life industry. Book yield attribution was calculated by multiplying each sector's allocation percentage by its respective book yield, with the sum representing the total book yield. Compared to the life industry, the fraternal composite saw higher attribution

from corporate bonds, due to its greater allocation in the sector, and from agency commercial mortgage-backed securities (CMBS), due to both higher allocation and stronger book yield. In contrast, the life industry recorded greater attribution from most other sectors, particularly private placement and ABS.

Table 4. Comparison of 2024 Fixed Income Allocation and Book Yield by Sector

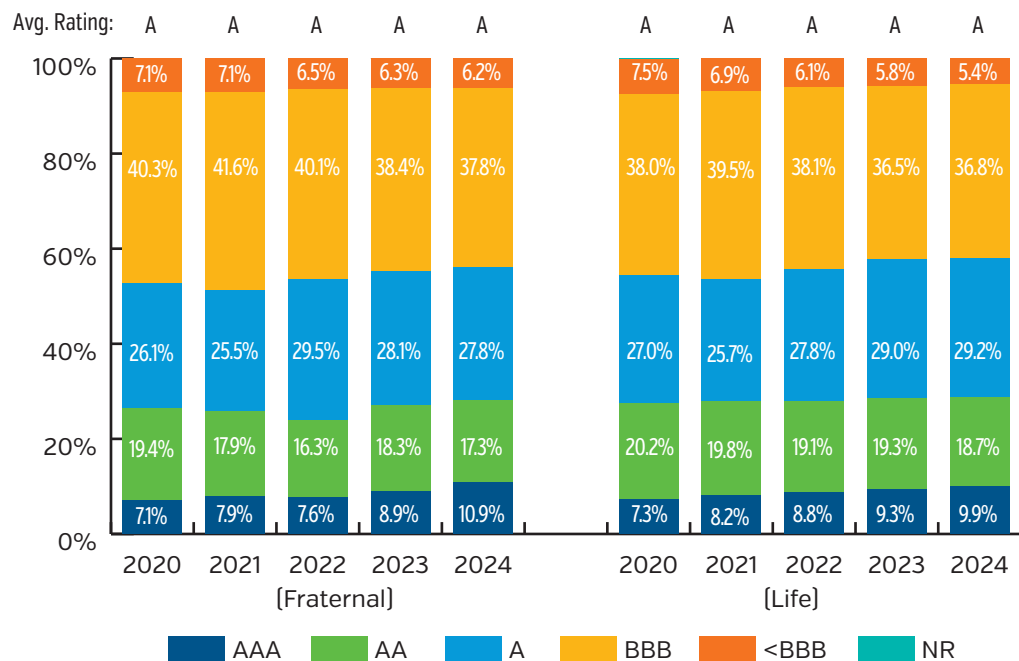
Sector	Allocation (%)			Book Yield (%)			Book Yield Attribution (%)		
	Frat.	Life	Diff.	Frat.	Life	Diff.	Frat.	Life	Diff.
Gov't/Agcy	3.1	5.3	[2.3]	3.16	3.57	[0.41]	0.10	0.19	[0.09]
Corp	51.3	43.4	7.9	4.58	4.58	[0.00]	2.35	1.99	0.36
Private Placement	17.1	22.3	[5.2]	4.26	4.93	[0.67]	0.73	1.10	[0.37]
ABS	7.9	9.4	[1.5]	5.59	6.06	[0.47]	0.44	0.57	[0.13]
RMBS - Agcy	4.8	3.2	1.6	3.91	4.02	[0.12]	0.19	0.13	0.06
RMBS - Non Agcy	2.6	2.8	[0.2]	5.06	5.59	[0.53]	0.13	0.16	[0.03]
CMBS - Agcy	2.3	1.0	1.3	4.68	3.49	1.18	0.11	0.04	0.07
CMBS - Non Agcy	2.5	4.1	[1.7]	4.02	4.75	[0.73]	0.10	0.20	[0.10]
Munis - Taxable	4.8	3.7	1.1	4.02	4.28	[0.26]	0.19	0.16	0.03
Munis - Tax Exempt	0.2	0.9	[0.7]	3.74	3.84	[0.10]	0.01	0.03	[0.03]
Foreign/Other	3.5	3.8	[0.3]	4.48	5.53	[1.05]	0.16	0.21	[0.05]
Grand Total	100.0	100.0	0.0	4.50	4.77	[0.27]	4.50	4.77	[0.27]

Source: NEAM, S&P Capital IQ Pro

Similar Credit Quality to the Life Industry

Exhibit 6 presents trends in credit quality across fixed income portfolios for both the fraternal composite and the life industry. Over the past five years, the credit quality distribution of the fraternal composite has remained largely consistent with that of the life industry. Both groups have reduced their allocations to below investment grade (<BBB) bonds and increased their holdings in AAA-rated bonds. Since 2022, when the Federal Reserve's tightening policy took effect, elevated market yields have become available even on high-quality bonds, diminishing the relative appeal of lower-rated assets from a risk-adjusted return perspective.

Exhibit 6. Fixed Income Credit Quality Distribution



Source: NEAM, S&P Capital IQ Pro

Duration Shorter than the Life Industry

Table 5 presents the option-adjusted duration (OAD) of fixed income portfolios for both the fraternal composite and the life insurance industry. Although the fraternal composite's overall OAD has consistently been lower than that of the life industry, the gap narrowed from 1.7 years in 2020 to just 0.6 years in 2024. Since 2021, the fraternal composite has experienced a modest shortening in OAD, in contrast to the more abrupt decline observed in the life industry. In 2024, the fraternal composite's overall OAD remained unchanged, while the life industry saw another year of duration shortening.

Table 5. Comparison of Fixed Income Portfolio Option-Adjusted Duration (OAD) by Sector

Asset Sector	Fraternal Composite					Life Industry				
	2024	2023	2022	2021	2020	2024	2023	2022	2021	2020
Gov't/Agcy	8.8	8.4	8.2	6.3	6.3	11.0	11.6	11.7	12.5	12.2
Corp	7.2	7.1	7.2	7.7	7.3	8.3	8.5	8.6	9.5	9.2
ABS	2.5	3.4	3.9	3.4	3.1	2.0	3.1	3.8	3.5	3.2
RMBS - Agcy	6.4	5.9	6.6	5.1	4.5	6.4	6.4	7.2	5.2	4.7
RMBS - Non Agcy	6.5	6.9	6.6	3.8	3.2	5.1	5.3	5.4	3.3	3.5
CMBS - Agcy	4.5	3.7	3.6	3.9	4.7	4.6	4.7	5.3	4.9	4.5
CMBS - Non Agcy	3.4	3.6	3.9	4.0	4.1	2.9	3.3	3.6	4.3	4.6
Munis - Taxable	8.8	9.0	9.0	8.2	8.0	9.0	9.3	9.4	9.9	10.0
Munis - Tax Exempt	8.8	7.7	7.7	4.5	6.4	10.8	10.8	11.2	8.8	9.5
Foreign	6.9	6.7	7.0	7.6	6.4	6.8	6.9	7.1	7.5	7.1
Grand Total	6.7	6.7	6.9	7.0	6.6	7.3	7.6	7.9	8.5	8.3

Source: NEAM, S&P Capital IQ Pro

KEY TAKEAWAYS

- Compared to the broader life insurance industry, fraternal companies were generally smaller in terms of invested assets and maintained a lower investment leverage.
- Net investment income [%] has been comparable between the two groups, with the fraternal composite surpassing the life industry in 2024 due to strong Schedule BA asset contributions, though these were heavily concentrated among three largest fraternal writers accounting for over 95% of related holdings and income.
- The fraternal composite's fixed income book yield has consistently trailed the life industry.
 - The gap between two groups, which had narrowed to 4 bps in 2021, widened to 27 bps in 2024.
 - As for fixed income sector allocations, fraternal insurers were generally overweight in corporate bonds and underweight in private placements.
 - Credit quality profiles for the two groups were largely similar, while the fraternal composite maintained a shorter duration profile.

ENDNOTES

¹ Perspectives, "Fraternal Investment Portfolios: Walking a Different Path" (January 2025): <https://www.neamgroup.com/insights/fraternal-investment-portfolios-walking-a-different-path>

² Perspectives, "Life Insurance Industry's Net Investment Spreads: Who Suffers the Least?" (April 2021): <https://www.neamgroup.com/insights/life-insurance-industrys-net-investment-spreads-who-suffers-the-least>

³ Includes after tax and expense-adjusted income earned from all investments, such as interest and dividends from bonds, stocks, mortgages, and real estate, excluding realized or unrealized capital gains.



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