

# Perspectives

AUGUST 2021

OUR VIEW ON INSURANCE CAPITAL MANAGEMENT TOPICS

## IN THIS ISSUE ►

Largest Annual Investment  
Income (%) Decline

[Page 2](#)

Fixed Income Portfolio Details

[Page 3](#)

Key Takeaways

[Page 7](#)

For more information on this topic,  
contact the authors:



**Mark Yu**

Head of Enterprise Capital Strategy  
[mark.yu@neamgroup.com](mailto:mark.yu@neamgroup.com)



**Tobias Gummersbach**

Enterprise Capital Strategist  
[tobias.gummersbach@neamgroup.com](mailto:tobias.gummersbach@neamgroup.com)



**Phil Lee**

Enterprise Capital Strategist  
[phil.lee@neamgroup.com](mailto:phil.lee@neamgroup.com)

[neamgroup.com](http://neamgroup.com)

## 2020 U.S. Life Industry Investment Highlights: *Liquidity Strengthened Amid the Pandemic while Low-Yield Challenges Remain*

The lower-for-longer interest rate environment continues to present challenges for the life industry.

### EXECUTIVE SUMMARY

The U.S. life insurance industry strengthened its liquidity amid the pandemic uncertainty. The broad sector allocations remained stable, with bonds and mortgage loans combined representing 83% of the total invested assets. Allocations to alternative (Schedule BA) assets continued to trend upward, but are predominately owned by large organizations.

Fixed income durations stayed relatively unchanged over the last five years, likely driven by asset-liability matching requirements. Over the last decade, fixed income credit quality gradually declined, while industry book yield decreased by 128 basis points (bps). The pandemic crisis and central bank actions have created a lower-for-longer interest rate environment that will continue to challenge the life insurance industry.

### BROAD SECTOR ALLOCATIONS LARGELY UNCHANGED

The U.S. life insurance industry's statutory asset allocation across broad sectors remained mostly unchanged during 2020 [see Table 1]. Faced with the pandemic crisis and business uncertainty in 2020, the industry enhanced its liquidity through additional cash and short-term holdings. Bonds remained the largest sector, although the allocation continued to decline year over year. The allocation to mortgage loans, the second largest sector, decreased for the first time over the last decade. The allocation to Schedule BA assets reached a new high of 5.5% in 2020 and remained highly concentrated among large organizations.

**Table 1. Broad Sector Asset Allocation**

Holdings	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Bonds	70.2%	71.1%	72.4%	72.9%	73.5%	73.8%	73.8%	74.5%	74.5%	75.2%
Mortgage Loans	12.6%	13.0%	12.7%	11.8%	11.3%	11.0%	10.3%	10.2%	9.9%	9.6%
Cash/Short-Terms	3.2%	2.7%	2.5%	2.5%	2.6%	2.7%	2.7%	2.7%	3.1%	2.8%
Equities	2.5%	2.4%	2.3%	2.6%	2.5%	2.3%	2.4%	2.5%	2.5%	2.5%
Real Estate	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Contract Loans	2.8%	3.0%	3.1%	3.2%	3.3%	3.4%	3.6%	3.7%	3.8%	3.8%
Derivatives	2.6%	1.8%	1.4%	1.4%	1.6%	1.5%	1.6%	1.1%	1.2%	1.3%
Other [Sch.BA]	5.5%	5.3%	5.1%	5.0%	4.7%	4.7%	5.0%	4.7%	4.4%	4.1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: NEAM, S&P Capital IQ Pro

### LARGEST ANNUAL INVESTMENT INCOME (%) DECLINE

Table 2 highlights the industry's earned investment income on a gross and net basis. Over the last decade, total cash and investments grew 39% from \$3.3 trillion to \$4.7 trillion, while net investment income (\$) only increased by 12% from \$166.4 billion to \$186.0 billion. In 2020, the industry's annual net investment income (%) decreased by 27 bps, which was the largest annual decline over the last 10 years.

**Table 2. Earned Investment Income \$ Billion and %**

Category	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Cash/Investments(\$)	4,655.4	4,338.8	4,112.3	4,059.0	3,877.4	3,687.0	3,614.8	3,469.8	3,390.5	3,345.0
Gross Earned Investment Income(\$)	199.6	200.8	200.3	194.3	184.2	181.4	181.8	177.8	176.0	176.4
Investment Expenses(\$)	13.7	14.3	13.3	12.6	11.8	11.1	10.7	10.5	10.2	10.0
Net Investment Income(\$)	186.0	186.5	187.0	181.7	172.5	170.3	171.1	167.3	165.7	166.4
Net Investment Income(%)	4.14%	4.41%	4.58%	4.58%	4.56%	4.67%	4.83%	4.88%	4.92%	5.10%

Source: NEAM, S&P Capital IQ Pro

Table 3 displays the industry's earned investment income contribution from broad asset sectors. Bonds and mortgage loans combined contributed 80% of the total, while the contribution from unaffiliated equities represented only 1%. The contribution from Schedule BA assets, which ranked behind bonds and mortgage loans, has doubled from 4% to 8% over the last decade.

**Table 3. Earned Investment Income Contribution by Sector**

Asset Class/Sector	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Bonds	67%	67%	65%	67%	70%	69%	70%	71%	74%	75%
Mortgage Loans	13%	13%	11%	11%	11%	11%	11%	11%	11%	11%
Unaffiliated Equities	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Affiliated Bonds/Equities	3%	4%	4%	4%	3%	3%	2%	3%	2%	2%
Cash/Short-Terms	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%
Real Estate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Contract Loans	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Derivatives	2%	1%	3%	4%	2%	2%	3%	3%	1%	1%
Other (Sch. BA)	8%	8%	8%	8%	7%	7%	7%	6%	5%	4%
Total Gross Earned	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: NEAM, S&P Capital IQ Pro

### FIXED INCOME PORTFOLIO DETAILS

The corporate sector represents nearly half of the aggregate fixed income portfolio (see Table 4). Private placements are the second largest sector, and the allocation has continued to increase over time. As noted in prior publications, unlike statutory Schedule D Part 1A reporting, our reported private placements category excludes any 144A securities that are publicly traded.

The allocation to structured securities (i.e., ABS, CMBS and RMBS) declined from a high of 30% prior to the financial crisis to approximately 20% in 2013 and has remained at that level. Within the structured securities, the ABS sector has continued to grow and partially offset the declining allocation from the RMBS sector.

The allocation to taxable municipal bonds rose from less than 1% prior to the financial crisis to 4.5% in 2015 and has remained at that similar level. The increase in this allocation began in 2009 and 2010, after the passage of the “American Recovery and Reinvestment Act.” This Act led to the creation of “Build America Bonds,” which allowed municipalities and municipal authorities to raise debt, with the federal government providing a direct subsidy of the interest cost.

**Table 4. Fixed Income Sector Allocation**

Asset Class/Sector	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gov't/Agcy	6.2%	6.5%	7.0%	7.5%	7.4%	7.5%	7.4%	7.3%	7.7%	7.9%
Corp	47.3%	47.3%	47.8%	47.1%	48.0%	48.0%	47.3%	47.6%	46.8%	45.5%
ABS	6.8%	6.4%	5.9%	5.1%	4.7%	4.7%	4.5%	4.0%	3.3%	3.2%
RMBS - Agcy	4.4%	5.3%	5.8%	6.0%	6.2%	6.5%	7.1%	7.3%	8.2%	8.8%
RMBS - Non Agcy	2.1%	2.3%	2.4%	2.5%	2.9%	3.1%	3.4%	3.5%	3.8%	4.3%
CMBS - Agcy	1.5%	1.7%	1.7%	1.4%	1.4%	1.2%	1.2%	1.1%	1.0%	0.8%
CMBS - Non Agcy	4.4%	4.6%	4.4%	4.2%	4.2%	4.4%	4.8%	5.0%	5.1%	5.6%
Munis - Taxable	4.4%	4.5%	4.5%	4.6%	4.5%	4.5%	4.2%	4.2%	4.0%	3.7%
Munis - Tax Exempt	1.3%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.0%	0.9%	0.9%
Privates	17.8%	16.9%	15.5%	14.9%	14.1%	14.2%	14.4%	14.4%	14.5%	13.7%
Foreign	0.6%	0.5%	0.5%	2.1%	0.8%	1.3%	1.4%	1.6%	2.2%	3.1%
Other	3.1%	2.9%	3.3%	3.4%	4.6%	3.5%	3.2%	3.0%	2.5%	2.5%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: NEAM, S&P Capital IQ Pro

Table 5 displays option-adjusted duration (OAD) by fixed income sector. The OAD statistics are based upon CUSIP-level holdings extracted from Schedule D statutory filings and exclude any bonds held at the holding company level, derivatives, and private placement securities.

The industry's OAD was 5.5 years right before the 2008 financial crisis and then gradually extended to 7.5 years through 2015. From 2015 to 2019, the industry's OAD remained relatively unchanged, *likely* driven by asset liability matching requirements. The marginal duration lengthening of 0.5 years observed in 2020 coincided with duration extensions seen in broad corporate and government bond indices, driven by lower rates resulting from central banks' actions to cope with the pandemic crisis.

**Table 5. Fixed Income Sector Option Adjusted Duration (Years)**

Sector	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gov't/Agcy	12.1	11.6	11.2	11.3	11.8	10.9	10.8	11.2	10.8	10.5
Corp	9.2	8.4	7.9	8.1	7.8	7.5	7.5	7.4	7.5	7.1
ABS	3.2	3.8	4.0	4.5	3.2	4.2	2.2	3.2	3.2	2.7
RMBS - Agcy	4.7	5.5	6.4	6.3	6.8	5.3	5.2	6.3	2.5	1.7
RMBS - Non Agcy	3.5	4.1	4.2	4.2	3.9	2.7	3.2	2.7	4.4	4.4
CMBS - Agcy	4.5	5.7	6.5	6.2	6.2	6.8	7.0	6.9	6.8	4.8
CMBS - Non Agcy	4.6	5.0	5.1	5.6	5.4	4.8	4.0	3.6	3.3	3.2
Munis - Taxable	10.0	9.0	8.5	9.1	9.4	9.5	9.9	10.0	10.7	10.7
Munis - Tax Exempt	9.4	9.8	10.4	10.0	10.2	9.6	9.1	9.4	8.4	8.3
Foreign	7.1	6.9	6.6	8.6	14.4	14.3	14.3	14.6	14.8	12.1
Industry OAD	8.3	7.8	7.6	7.9	7.8	7.5	7.3	7.4	7.3	6.9

Source: NEAM, S&P Capital IQ Pro

The industry's book yield declined steadily by a total of 128 bps over the last decade [see Table 6]. In 2020, the overall book yield experienced the largest annual decline of 32 bps, with ABS showing the most reduction of 100 bps. Yield declines were observed virtually across all sectors. Cumulative reductions of 191 bps in the book yields of Agency and Non-agency CMBS since 2011 reflect the runoff of seasoned pre-crisis exposures with higher embedded book yields.

**Table 6. Fixed Income Sector Book Yield [%]**

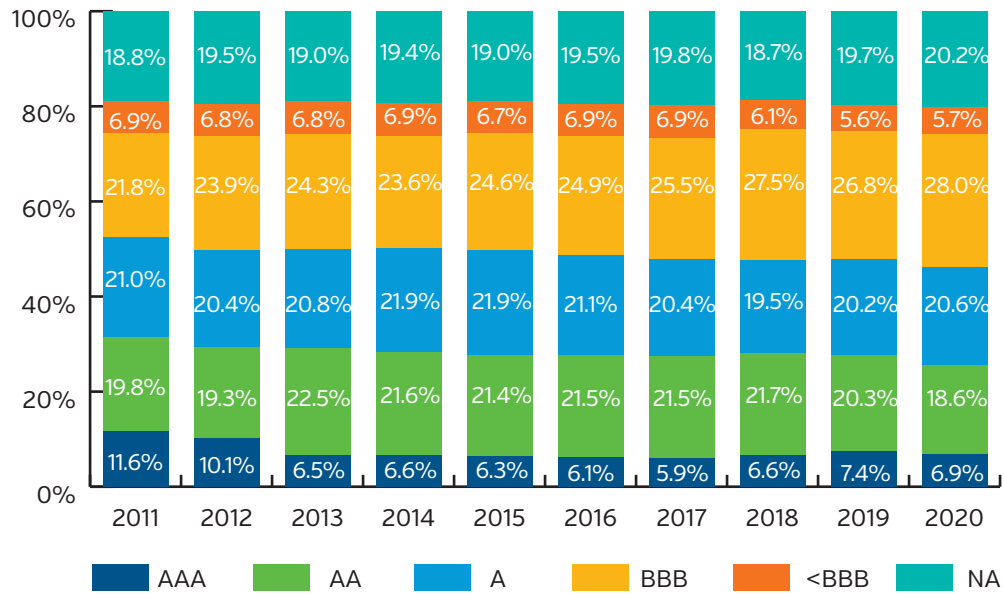
Sector	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gov't/Agcy	3.00	3.55	3.60	3.44	3.46	3.54	3.64	3.72	3.61	3.85
Corp	4.23	4.47	4.57	4.57	4.72	4.90	5.02	5.13	5.34	5.65
ABS	3.08	4.08	4.34	3.84	3.78	3.68	3.52	3.56	3.42	3.56
RMBS - Agcy	3.42	3.64	3.70	3.67	3.79	4.01	4.14	4.28	4.47	4.88
RMBS - Non Agcy	4.55	5.10	5.85	6.03	6.22	5.80	5.82	6.04	6.00	5.91
CMBS - Agcy	3.37	3.50	3.47	3.41	3.61	3.85	3.96	4.02	4.28	4.78
CMBS - Non Agcy	3.58	3.78	3.90	3.83	4.09	4.46	4.67	4.95	5.30	5.53
Munis - Taxable	4.40	4.73	4.94	4.99	5.08	5.19	5.32	5.42	5.50	5.70
Munis - Tax Exempt	3.77	3.93	4.02	3.92	4.04	4.16	4.24	4.17	4.22	4.40
Privates	4.04	4.30	4.34	4.36	4.53	4.71	4.93	5.15	5.38	5.62
Foreign	3.59	3.34	3.48	2.26	2.67	2.56	2.67	2.71	2.70	2.86
Grand Total	3.97	4.29	4.41	4.31	4.44	4.61	4.72	4.85	5.02	5.25

Source: NEAM, S&P Capital IQ Pro

Over the last 10 years, the allocation to AAA, AA, and A securities (NAIC 1 category) decreased from 52.4% to 46.1%, while the BBB category increased from 21.8% to 28.0% [see Chart 1]. The BBB allocation grew sizably over the last year, outpaced only by the increase that occurred from 2011 to 2012. The below investment grade (<BBB) allocation declined from highs of 6.9% from 2011 to 2017 to the lowest 5.7% at year-end 2020.

The NA category consists of mostly "true" private placement securities, which accounted for 17.8% of total fixed income holdings in 2020 [see Table 4]. Based on historical statutory filings, about half of the industry's private placement securities fell into the BBB (NAIC 2) rating category. This is much higher than the BBB allocation observed in public fixed income securities [see Chart 1].

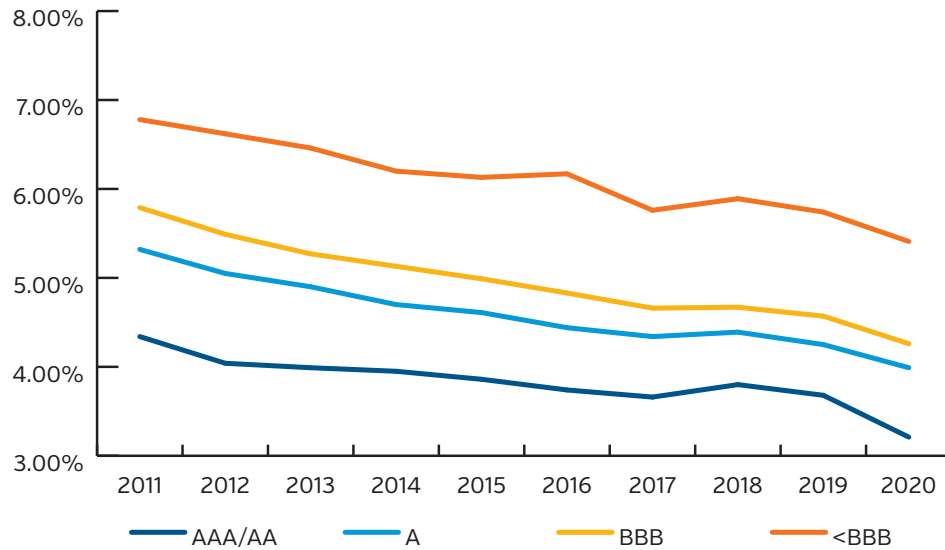
**Chart 1. Fixed Income Credit Quality**



Source: NEAM, S&P Capital IQ Pro

Chart 2 displays the book yields for public fixed income securities by credit rating category. **In 2020, total fixed income book yields declined across all rating categories.** Over the past 10 years, the higher rating categories, AAA and AA, experienced the least reduction [113 bps], while the BBB category experienced the most [153 bps].

**Chart 2. Fixed Income Book Yields by Credit Rating Category**



Source: NEAM, S&P Capital IQ Pro

Table 7 displays the OAD for public fixed income securities by credit rating category. High yield (<BBB) bonds typically exhibit shorter durations than investment grade bonds. Over the last decade, durations extended across all rating categories, except for the <BBB category where durations remained stable. Non-rated securities (primarily private placements), which accounted for 20.2% (see Chart 1) of total fixed income holdings in 2020, were not included in the aggregate duration calculation.

**Table 7. Fixed Income Duration by Credit Rating Category**

Rating	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
AAA/AA	7.7	7.5	7.8	8.2	8.4	7.8	7.3	8.1	7.2	6.6
A	9.2	8.8	8.2	8.6	8.5	8.5	8.5	8.0	8.1	7.5
BBB	8.6	8.0	7.6	7.7	7.3	7.0	7.1	7.0	7.1	6.8
<BBB	5.0	4.7	5.1	5.1	4.7	4.1	4.3	4.0	4.5	5.2
Total (ex. Non-Rated)	8.2	7.8	7.6	7.8	7.7	7.4	7.3	7.4	7.3	6.9

Source: NEAM, S&P Capital IQ Pro

## KEY TAKEAWAYS

- Faced with pandemic induced uncertainty, the life insurance industry strengthened its liquidity through increased cash and short-term holdings. The allocation to mortgage loans declined in 2020 for the first time in the last decade.
- The allocation to Schedule BA assets continued to rise amid the challenging low-rate environment. These alternative assets contributed to 8% of the industry's investment income and remained highly concentrated among large organizations.
- Within the fixed income portfolio, allocations to private placement securities and ABS continued to trend upward, while allocations to RMBS, government and agency bonds exhibited declines.
- In 2020, the industry's overall book yield experienced the largest annual decline of 32 bps over the last decade. Fixed income duration remained relatively unchanged over the last five years, presumably driven by asset liability matching requirements.
- Although the industry's high yield (<BBB) allocation reached a new low in 2019, the BBB allocation for public fixed income securities had risen steadily since 2011. Private placements, which represented 17.8% of the total fixed income holdings in 2020, comprise approximately 50% of BBB (NAIC 2) rated securities.
- The pandemic situation and central banks' actions have resulted in a challenging low-rate environment for the industry. Insurers should consider a holistic enterprise framework when considering taking additional risks in pursuit of investment returns.

Please contact us if you would like to receive a customized assessment, which facilitates in-depth comparisons and contrasts of enterprise characteristics of your company relative to peer organizations. The assessment supports decisions with enterprise risk preferences and investment strategy.

## ENDNOTE

<sup>1</sup> "True" private placement category excludes any 144A securities that are publicly traded.



[neamgroup.com](http://neamgroup.com)

Connecticut | California | Dublin | London

© 2021 New England Asset Management, Inc.

*All rights reserved. This publication has been prepared solely for general informational purposes and does not constitute investment advice or a recommendation with respect to any particular security, investment product or strategy. Nothing contained herein constitutes an offer to provide investment or money management services, nor is it an offer to buy or sell any security or financial instrument. While every effort has been made to ensure the accuracy of the information contained herein, neither New England Asset Management, Inc. ("NEAM, Inc.") nor New England Asset Management Limited (together, "NEAM") guarantee the completeness, accuracy or timeliness of this publication and any opinions contained herein are subject to change without notice. This publication may not be reproduced or disseminated in any form without express written permission. NEAM, Inc. is an SEC registered Investment Advisor located in Farmington, CT. This designation does not imply a certain level of skill or training. In the EU this publication is presented by New England Asset Management Limited, a wholly owned subsidiary of NEAM, Inc. with offices located in Dublin, Ireland and London, UK. New England Asset Management Limited is regulated by the Central Bank of Ireland. New England Asset Management Limited is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. This is not an offer to conduct business in any jurisdiction in which New England Asset Management, Inc. and New England Asset Management Limited are not registered or authorized to conduct business.*