Annual Report on the Insurance Industry

FEDERAL INSURANCE OFFICE, U.S. DEPARTMENT OF THE TREASURY

Completed pursuant to Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act

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GLOSSARY

A&H	....	Accident and Health
ABS	....	Asset-Backed Securities
ACRSM	....	Advisory Committee on Risk-Sharing Mechanisms
CLO	....	Collateralized Loan Obligation
CMBS	....	Commercial Mortgage-Backed Securities
CML	....	Commercial Mortgage Loan
CRE	....	Commercial Real Estate
Dodd-Frank Act	....	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EGRRCPA	....	Economic Growth, Regulatory Relief, and Consumer Protection Act
FACI	....	Federal Advisory Committee on Insurance
Federal Reserve	....	Board of Governors of the Federal Reserve System
FEMA	....	Federal Emergency Management Agency
FIA	....	Fixed Index Annuities
FIO	....	Federal Insurance Office
FSOC	....	Financial Stability Oversight Council
Health	....	Health Insurance Sector (includes companies licensed solely as health insurers or as health maintenance organizations)
IAB	....	Industry Advisory Board
IAIS	....	International Association of Insurance Supervisors
ICS	....	Insurance Capital Standard
IFTRIP	....	International Forum of Terrorism Risk (Re)Insurance Pools
IMR	……..	Interest Maintenance Reserve

Investment Framework	……..	NAIC Framework for Regulation of Insurer Investments (under development)
IPO	....	Initial Public Offering
IRDAI	....	Insurance Regulatory and Development Authority of India
IUCRC	....	Industry-University Cooperative Research Center
L&H	....	Life and Health
M&A	....	Mergers & Acquisitions
NAIC	....	National Association of Insurance Commissioners
NSF	....	U.S. National Science Foundation
OECD	....	Organisation for Economic Co-operation and Development
OMB	....	Office of Management and Budget
P&C	....	Property and Casualty
PRT	....	Pension Risk Transfer
RBC	....	Risk-Based Capital
RILA	....	Registered Index Linked Annuities
RMBS	....	Residential Mortgage-Backed Securities
SEC	……..	U.S. Securities and Exchange Commission
Report	....	FIO, *Annual Report on the Insurance Industry* (2024)
S&P Global	....	S&P Global Market Intelligence
Secretary	....	Secretary of the Treasury
TRIA	....	Terrorism Risk Insurance Act of 2002, as amended
TRIP	....	Terrorism Risk Insurance Program
Treasury	....	U.S. Department of the Treasury

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I. INTRODUCTION

This Report is submitted by the Federal Insurance Office (FIO) of the U.S. Department of the Treasury (Treasury) pursuant to Section 502(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which requires the annual submission by FIO of a report to the President, the Committee on Financial Services of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate "on the insurance industry and any other information as deemed relevant by the [FIO] Director or requested by such Committees."[1]

A. The Structure of this Report and Summary of Findings

The FIO Annual Report focuses on the aggregate 2023 financial results of life & health (L&H), property & casualty (P&C), and health insurers licensed in the United States. This Report begins with an overview of FIO's statutory responsibilities, then summarizes certain of FIO's key activities since those described in its 2023 *Annual Report on the Insurance Industry*.[2] Section II presents a discussion and analysis of the insurance industry's financial performance in calendar year 2023 and its financial condition as of December 31, 2023. Section III concludes the Report with anticipated areas for FIO's focus in the coming year.

Overview: The U.S. insurance industry in 2023 remained on a strong financial footing. In 2023, insurers pivoted from a protracted low interest environment to one characterized by higher rates that had favorable impacts on the industry's investment income. Premiums increased, and the industry's surplus position improved, enhancing the industry's financial flexibility. The L&H sector stock index underperformed the S&P 500 for the year, while the P&C sector stock price index slightly outperformed it. U.S. insurers continued to access the capital markets for new capital throughout the year, primarily through debt issuance. The effects of inflation and higher interest rates slowed insurer mergers and acquisitions (M&A) activity in 2023. Based on preliminary data from 2024, the Report concludes that the industry will continue to adapt to, among other things, higher rates, an aging population, uncertainty about natural and climate-related catastrophe exposures, developments in the reinsurance market, and macroeconomic developments.

L&H Sector: For the L&H sector, surrender activity in 2023 was significant, but strong premium growth from continued annuity sales supported liquidity positions. In particular, individual fixed annuities had more consumer appeal due to higher interest rates. Total L&H sector expenses decreased due to lower benefit expenses and reserve increases, among other things. The sector's capital and surplus increased by nearly five percent, driven by the favorable impact to reserves stemming from a recovery of equity markets, accompanied by continued growth in investment holdings. Leverage ratios were consistent but may not have

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[1] Federal Insurance Office Act of 2010 (FIO Act), 31 U.S.C. § 313(n)(2).

[2] FIO, *Annual Report on the Insurance Industry* (2023), https://home.treasury.gov/system/files/311/FIO%20Annual%20Report%202023%209292023.pdf (*2023 Annual Report*).

captured the increasing use of offshore reinsurance by life insurers, which may be heightening credit risk and potentially exposing policyholder protection.

Beyond assessing its financial performance, FIO has been monitoring the ongoing transformation in the L&H sector characterized by evolving business models, changes in investment portfolios and strategies, and the increasing use of offshore reinsurance. The transformation of the L&H sector brings with it some challenges and potential risks. For example, the increased exposure of insurers to private credit may increase liquidity and credit risks, along with potential valuation uncertainty, while the increased use of unaffiliated offshore reinsurance may increase counterparty risk. In addition, this Report provides details on the growth in, and changes to, the annuities market and their impacts on the retirement savings gap (Box 2). FIO and insurance regulators are continuing to assess the ability of existing regulatory frameworks to address the implications of the life insurance sector's transformation.

P&C Sector: For the P&C sector, 2023 premium growth was strong, notably from the impact of rate increases for auto and homeowners multi-peril insurance. Commercial lines premiums also benefitted from hard market conditions (i.e., where premiums have increased, coverage terms are more restricted, and insurance capacity generally has decreased). While estimated insured property losses from U.S. catastrophic events were lower compared to 2022, regulatory constraints, inflationary pressure, and higher costs for reinsurance contributed to elevated overall losses. The P&C sector's combined ratio improved somewhat from the prior year, and the sector's net income doubled due to strong net realized capital gains, but significant underwriting losses continued. The hard P&C reinsurance market also had impacts on personal lines of insurance, as reinsurers de-risked in certain areas. Policyholders' surplus increased nearly six percent but leverage increased slightly. Nonetheless, liquidity remained strong, largely due to premium growth.

FIO has continued to assess P&C developments with respect to their implications for consumers, particularly with respect to climate-related risk and homeowners' insurance. FIO currently is analyzing homeowners' insurance data at a ZIP Code level in order to better understand how climate risk may be affecting insurance costs and availability. FIO's work on homeowners' insurance and climate-related financial risk will be addressed in a future report later this year. Other topics that FIO has focused on over this past year include catastrophic cyber risk exposures and a potential federal insurance response, artificial intelligence and the insurance sector, title insurance, and terrorism risk insurance. This Report provides additional details on FIO's work with the U.S. National Science Foundation (NSF) to establish an Industry-University Cooperative Research Center (IUCRC) (Box 1) to address terrorism and catastrophic cyber risks and recent developments with respect to pre-disaster mitigation and insurance (Box 3).

International: At year-end 2023, the United States remained the world's largest single-country insurance market, with a 45 percent share of global direct premiums written. Globally, direct premiums written increased by six percent from 2022, with the premium growth in emerging markets outpacing that in advanced economies.

FIO has continued its international engagement on insurance issues. Among other initiatives, this work includes representing the United States at the International Association of Insurance Supervisors (IAIS), participating in the EU-U.S. Insurance Dialogue Project, and bilateral discussions with authorities such as the Insurance Regulatory and Development Authority of India (IRDAI) and the Bermuda Monetary Authority.

Next Steps: FIO will continue to monitor, assess, and report on macroeconomic and market trends and other developments affecting the U.S. insurance industry and consumers.

B. Federal Insurance Office Overview and Activities

1. FIO Overview

In the United States, the primary regulators of the business of insurance are the 50 states, the District of Columbia, and the five U.S. territories.

The federal government also plays an important role in the insurance industry, including through FIO.[3] Title V of the Dodd-Frank Act established FIO within Treasury.[4] In addition to advising the Secretary of the Treasury (Secretary) on major domestic and prudential international insurance policy issues and having its Director serve as a non-voting member of the Financial Stability Oversight Council (FSOC), FIO is authorized to:

- monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system;
- monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance;
- recommend to FSOC that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the Board of Governors of the Federal Reserve System (Federal Reserve);
- assist the Secretary in the administration of the Terrorism Risk Insurance Program (TRIP), as established in Treasury under the Terrorism Risk Insurance Act of 2002, as amended (TRIA);
- coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS and assisting the Secretary in negotiating covered agreements;

[3] The federal government also may have a significant impact on insurers through, among other things, the regulation of financial products or markets that include insurance (e.g., regulation of securities by the U.S. Securities and Exchange Commission) and the taxation of insurers and their products.

[4] FIO Act, 31 U.S.C. § 313(a). Title V also designates the Secretary as advisor to the President on "major domestic and international prudential policy issues in connection with all lines of insurance except health insurance." *Id.* at § 321(a)(9).

- determine whether state insurance measures are preempted by covered agreements;
- consult with the states (including state insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance; and
- perform such other related duties and authorities as may be assigned to FIO by the Secretary.[5]

In addition, before the Secretary may make a determination as to whether to seek the appointment of the Federal Deposit Insurance Corporation as receiver of an insurer under Title II of the Dodd-Frank Act, the Secretary must first receive a written recommendation from the FIO Director and the Federal Reserve.[6] Also, FIO and the Federal Reserve coordinate on the performance of annual analyses of nonbank financial companies supervised by the Federal Reserve, particularly with respect to stress testing, to evaluate whether such companies have the capital, on a consolidated basis, necessary to absorb losses as a result of adverse economic conditions.[7]

FIO is authorized to collect data and information on and from the insurance industry and insurers, including through the use of subpoenas.[8] FIO is also authorized to analyze and disseminate data and information and issue reports on all lines of insurance, except health insurance.[9]

FIO also has several statutorily imposed reporting obligations. Beyond the reporting requirements in the Dodd-Frank Act (including for this annual report), the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) directs the Secretary and the Federal Reserve Chairman (or their designees) to submit an annual report to Congress on their efforts with respect to global insurance regulatory or supervisory forums.[10] The EGGRCPA also requires the Secretary and Federal Reserve Chairman (or their designees) to report to Congress on their efforts to increase transparency at IAIS meetings.[11] In addition, the EGRRCPA requires that, before supporting or consenting to the adoption of any final international insurance capital standard, the Secretary, the Federal Reserve Chairman, and the FIO Director—in consultation with the National Association of Insurance Commissioners (NAIC)—must complete a study and submit a report to Congress on the impact of any such standard on consumers and U.S. markets.[12]

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[5] FIO Act, 31 U.S.C. § 313(c)(1).

[6] Dodd-Frank Act, 12 U.S.C. § 5383(a)(1)(C).

[7] 12 U.S.C. § 5365(i)(1)(A).

[8] 31 U.S.C. § 313(e).

[9] 31 U.S.C. § 313(e).

[10] EGRRCPA, Pub. L. No. 115-174, § 211(c)(1)(A), 132 Stat. 1296 (2018).

[11] EGRRCPA § 211(c)(4).

[12] EGRRCPA § 211(c)(3)(A). State regulation of the insurance industry is coordinated through the NAIC, a voluntary organization whose membership consists of the chief insurance regulatory officials of the 50 states, the District of Columbia, and the five U.S. territories.

2. FIO Activities

FIO released its last Annual Report on September 30, 2023.[13] FIO's activities since those discussed in the last Annual Report include those summarized below.

The Federal Advisory Committee on Insurance (FACI) held public meetings on September 26, 2023, December 13, 2023, March 20, 2024, and June 2, 2024.[14] During these meetings, FACI discussed and heard presentations on (among other matters) climate-related financial risk, cyber risk, developments at the IAIS with respect to the Insurance Capital Standard (ICS) the Aggregation Method comparability assessment, artificial intelligence and insurance, homeowners insurance, and life insurance and retirement markets.

On September 30, 2023, FIO released its 2023 Preemption Report, noting that during the fiscal year ending September 30, 2023, FIO did not take any action regarding the preemption of any state insurance measures that were inconsistent with a covered agreement.[15]

With respect to covered agreements, on October 24, 2023, FIO participated in the sixth meeting of the Joint Committee established under the U.S.-EU Agreement on Prudential Measures Regarding Insurance and Reinsurance.[16] On February 20, 2024, FIO participated in the third meeting of the Joint Committee established under the U.S.-UK Agreement on Prudential Measures Regarding Insurance and Reinsurance.[17]

FIO continued to advance its data-focused efforts to better understand climate-related issues facing the U.S. homeowners insurance market that were first publicly announced on October 18, 2022.[18] On November 2, 2023, Treasury published notice of FIO's intent to proceed with its Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data, while also submitting FIO's data collection request to the Office of Management and

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[13] FIO, *2023 Annual Report.*

[14] FACI is a federal advisory committee tasked with making non-binding recommendations to FIO in performing its duties and authorities. FACI includes a cross-section of members representative of the views of state and nongovernment persons having an interest in the duties and authorities of FIO. More information on FACI—including its meeting agendas, minutes, and presentations—is available on Treasury's website. *See* "Federal Advisory Committee on Insurance (FACI)," Treasury, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/federal-advisory-committee-on-insurance-faci.

[15] FIO, *2023 Preemption Report – Federal Insurance Office* (2023), https://home.treasury.gov/system/files/311/2023%20FIO%20Preemption%20Report.pdf.

[16] Treasury, "United States and European Union Hold Sixth Joint Committee Meeting under the Bilateral Agreement on Prudential Measures Regarding Insurance and Reinsurance" news release, October 24, 2023, https://home.treasury.gov/press-releases/jy1838.

[17] Treasury, "United States and United Kingdom Hold Third Joint Committee Meeting under the Bilateral Agreement on Prudential Measures Regarding Insurance and Reinsurance" news release, February 21, 2024, https://home.treasury.gov/news/press-releases/jy2115.

[18] Treasury, "Treasury's Federal Insurance Office Takes Important Step to Assess Climate-related Financial Risk – Seeks Comment on Proposed Data Call," news release, October 18, 2022, https://home.treasury.gov/news/press-releases/jy1030.

Budget (OMB) for approval and public comment.[19] On January 4, 2024, the OMB approved FIO's proposed data collection.[20] On March 8, 2024, FIO instead launched a first-of-its kind collaboration with state insurance regulators and the NAIC.[21] In light of the agreement by the NAIC and state insurance regulators to provide FIO with timely data comparable to its proposed collection, and to help mitigate reporting burdens on relevant insurance companies, FIO decided to pursue its efforts as part of the data collection collaboration with the NAIC rather than issue the separate data collection that was approved by OMB. The deadline for data submissions to the NAIC under the joint data collection effort was June 6, 2024.[22] FIO currently is analyzing this ZIP Code level data and will discuss this work in a report to be issued later this year.

FIO also continued its work regarding insurance for catastrophic cyber risk. On November 17, 2023, FIO and the New York University Stern School of Business's Volatility and Risk Institute co-hosted a conference on Catastrophic Cyber Risk and a Potential Federal Insurance Response, which brought together industry and government participants in the initial phase of FIO's assessment of whether a federal insurance response to catastrophic cyber incidents is needed.[23] Following Treasury's decision in January 2024 to complete the initial phase of its assessment, FIO hosted a conference on May 16, 2024 to launch the second phase of Treasury's work exploring the appropriate form of such a response. The May 16 conference included participation by senior officials from Treasury, the U.S. Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, and the White House Office of the National Cyber Director, as well as senior insurance industry cyber executives and experts from major insurers, reinsurers, brokers, and cyber modeling firms.[24]

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[19] Federal Insurance Office Climate-Related Financial Risk Data Collection for U.S. Homeowners Multi-Peril Underwriting Data, 88 Fed. Reg 75,380 (November 2, 2023).

[20] *Federal Insurance Office Climate-Related Financial Risk Data Collection U.S. Homeowners Multi-Peril Underwriting Data*, ICR 202311-1505-001, OMB 1505-0280, https://omb.report/icr/202311-1505-001.

[21] Treasury, "U.S. Department of the Treasury and State Insurance Regulators Launch Coordinated Effort on Homeowners Insurance Data Collection to Assess the Effects of Climate Risk on U.S. Insurance Markets" news release, March 8, 2024, https://home.treasury.gov/news/press-releases/jy2162.

[22] "Property & Casualty Market Intelligence Data Collection," NAIC, https://content.naic.org/industry/data-call/property-ho.htm.

[23] FIO and New York University, *Agenda: Catastrophic Cyber Risk and a Potential Federal Insurance Response* (November 17, 2023), https://home.treasury.gov/system/files/311/Treasury-NYU%20Nov%2017%20cat%20cyber%20insurance%20conference%20agenda%20%28updated%20final%2014%20Nov%202023%29.pdf.

[24] FIO, *Agenda: Exploring Potential Forms of a Federal Insurance Response to Catastrophic Cyber Incidents* (May 16, 2024), https://home.treasury.gov/system/files/311/Agenda%20for%20May%2016%20cat%20cyber%20insurance%20conference%20%28final%20public%29.pdf.

With respect to FSOC, FIO staff contributed to the FSOC 2023 Annual Report.[25] FIO staff also continued to participate in various FSOC committees and the FIO Director attended meetings of FSOC principals.[26]

For TRIP, on December 19, 2023, Treasury issued a Federal Register notice advising that TRIP's insurance marketplace aggregate retention amount under TRIA for 2024 would be $48,537,421,582.[27] On January 25, 2024, Treasury published a final rule on inflation adjustments of civil monetary penalties, including penalties under TRIP.[28]

On December 20, 2023, the Federal Reserve published the joint report co-authored with FIO, "Engagement in Global Insurance Regulatory or Supervisory Forums in 2022."[29]

On February 26, 2024, Treasury and FIO hosted the first of two roundtables discussing how increased risks from climate change are affecting U.S. insurance markets. The first roundtable included experts and representatives from climate and consumer groups. Under Secretary for Domestic Finance Nellie Liang and other senior Treasury officials led discussions on climate change and its effects on insurance access and availability for single- and multi-family residences; pre-disaster risk mitigation and resilience efforts; and potential solutions to challenges in U.S. insurance markets, particularly efforts undertaken by states and localities.[30] The second roundtable, on March 19, 2024, included insurers, reinsurers, and modelers. Under Secretary Liang and other senior Treasury officials led discussions on challenges that climate change poses to the U.S. insurance industry and to American households. Participants also discussed the regulatory and policy responses that states and localities are undertaking to address those challenges, as well as potential market responses.[31]

Also on March 19, 2024, on FIO's behalf, Treasury published a request for comment from the insurance sector and other stakeholders on factors to be analyzed in the 2024 Report on the Effectiveness of the Terrorism Risk Insurance Program, as well as other issues relating to the effectiveness of TRIP.[32] That same day, Treasury also published a Federal Register notice

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[25] FSOC, *Annual Report* (2023), https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.

[26] *See* "Council Meetings," Financial Stability Oversight Council, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings.

[27] IMARA Calculation for Calendar Year 2024 Under the Terrorism Risk Insurance Program, 88 Fed. Reg. 87,843 (December 19, 2023).

[28] Inflation Adjustment of Civil Monetary Penalties, 89 Fed. Reg. 4,818 (January 25, 2024).

[29] Treasury and Federal Reserve, *Engagement in Global Insurance Regulatory or Supervisory Forums in 2022* (2023), https://home.treasury.gov/system/files/311/global-insurance-forums-20231220.pdf.

[30] Treasury, "U.S. Department of the Treasury Hosts Roundtable with Consumer and Climate Groups on Climate-Related Risks and U.S. Insurance Markets" news release, February 21, 2024, https://home.treasury.gov/news/press-releases/jy2123.

[31] Treasury, "U.S. Department of the Treasury Hosts Roundtable with Insurance Industry Stakeholders on Climate-Related Risks and U.S. Insurance Markets" news release, March 19, 2024, https://home.treasury.gov/news/press-releases/jy2192.

[32] 2024 Report on the Effectiveness of the Terrorism Risk Insurance Program, 89 Fed. Reg. 19,639 (March 19, 2024).

advising of the commencement of the annual TRIP data call.[33] FIO conducted its annual TRIP data call between March and May 2024, as required under TRIA. All insurers participating in TRIP were required to submit information, subject to certain reporting exemptions. On June 30, 2024, FIO released its Report on the Effectiveness of the Terrorism Risk Insurance Program, informed by the feedback received from the March 19, 2024 request for comment and the annual data calls.[34]

On April 23-25, 2024, FIO hosted the 2024 Annual Conference of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP).[35] IFTRIP is a forum of 15 nations, including the United States, supporting initiatives for closer international collaboration among sovereign-backed terrorism reinsurance pools. FIO began serving as chair of IFTRIP in 2024. During the closed session of the Annual Conference, IFTRIP member representatives provided updates on issues facing their organizations and discussed both emerging and ongoing issues, such as cyber terrorism risk, terrorist financing, terrorism risk modeling, and a projected joint IFTRIP-Geneva Association report on chemical, biological, radiological, and nuclear risk. The open session of the conference provided an opportunity for diverse stakeholders from the private sector, academia, and government to discuss the value of ongoing collaboration, emerging risks, workers' compensation, multi-risk pools, the current threat landscape, and how the insurance industry can assist in the fight against terrorism. During the IFTRIP Annual Conference, FIO announced a partnership with NSF to establish one or more new IUCRCs to provide research, analysis, and thought leadership to improve the insurance sector's modeling and underwriting of terrorism and catastrophic cyber risks.[36]

On June 11, 2024, Treasury's Bureau of the Fiscal Service published a final rule concerning companies that serve as sureties for obligations to the United States.[37] Among other aspects focused on modernization and reorganization of the surety regulations, the final rule allows for the recognition of additional companies that can provide reinsurance to a Treasury-certified surety. The final rule adopts criteria for recognition of reinsurers, as outlined in the Covered Agreements and in the NAIC Credit for Reinsurance Model Law and Regulation. In developing the final rule, the Bureau of the Fiscal Service coordinated with FIO.

On June 12, 2024, Treasury published a request for information (RFI) on the Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector.[38] FIO staff contributed to the RFI, which includes questions relating to insurance.

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[33] 2024 Terrorism Risk Insurance Program Data Call, 89 Fed. Reg. 19,640 (March 19, 2024).

[34] FIO, *Report on the Effectiveness of the Terrorism Risk Insurance Program* (2024), https://home.treasury.gov/system/files/311/2024ProgramEffectivenessReportFINAL6.28.2024508.pdf.

[35] Treasury, "U.S. Department of the Treasury's Federal Insurance Office Launches New Partnership with the National Science Foundation on Terrorism and Catastrophic Cyber Risks" news release, April 26, 2024, https://home.treasury.gov/news/press-releases/jy2300.

[36] For more on this IUCRC, see Box 1.

[37] Final Rule, "Surety Companies Doing Business With the United States," 89 Fed. Reg. 48,827 (June 10, 2024).

[38] Request for Information on Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector, 89 Fed. Reg. 50,048 (June 12, 2024).

On July 10, 2024, FIO hosted a roundtable to discuss the title insurance industry and analyze potential reforms. Senior Treasury officials led discussions that addressed the structure of the title insurance industry, the costs and benefits of title insurance, consumer awareness and protection, and various proposals for reforms to lower costs for homebuyers. Participants in the roundtable included representatives of groups that advocate for consumers and housing access, as well as title insurers and agents, lenders, state insurance regulators, academics, and other stakeholders.[39] FIO convened the roundtable in connection with President Biden's call for federal agencies to take all available actions to lower home closing costs and help more Americans access homeownership.[40]

On August 1, 2024, FIO convened a meeting of the Advisory Committee on Risk-Sharing Mechanisms (ACRSM).[41] At this public meeting, the ACRSM heard presentations covering FIO's partnership with NSF to establish one or more new IUCRCs, an update on FIO's work on the evaluation of a potential federal response to catastrophic cyber risk, and insights from the TRIP data calls since the commencement of mandatory data collection in 2017. The ACRSM also engaged in a roundtable discussion to provide industry insight on the effectiveness of TRIP, terrorism insurance market conditions, ideas for private market risk sharing mechanisms that can offset losses arising from acts of terrorism, and the administration of TRIP.

FIO continues to fulfill its statutory role representing the United States in the IAIS and in other forums on prudential international insurance measures. Throughout 2023 and 2024, FIO continued its involvement in IAIS activities, including as a member of the IAIS Executive Committee. FIO's work at the IAIS includes matters relating to the implementation of the Holistic Framework, the monitoring period for the ICS, the comparability work of the Aggregation Method to the ICS, and strategic planning for the IAIS. FIO also continued its engagement and leadership roles across multiple committees, working groups, task forces, and forums at the IAIS on a variety of other issues, including matters relating to resolution of insurers, financial crimes, operational resilience, cybersecurity, climate risk and protection gaps, financial inclusion, and diversity, equity, and inclusion.[42]

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[39] Treasury, "U.S. Department of the Treasury Hosts Roundtable with Consumer Groups and Industry Representatives on Title Insurance," news release, July 10, 2024, https://home.treasury.gov/news/press-releases/jy2457.

[40] The White House, "Fact Sheet: President Biden Announces Plan to Lower Housing Costs for Working Families," news release, March 7, 2024, https://www.whitehouse.gov/briefing-room/statements-releases/2024/03/07/fact-sheet-president-biden-announces-plan-to-lower-housing-costs-for-working-families/.

[41] The ACRSM provides advice and recommendations to FIO with respect to (1) the creation and development of non-governmental, private market risk-sharing mechanisms for protection against losses arising from acts of terrorism; and (2) FIO's administration of the Terrorism Risk Insurance Program. Additional information on the ACRSM, including meeting materials are available on the Treasury website: "Advisory Committee on Risk Sharing Mechanisms (ACRSM)," Treasury, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/terrorism-risk-insurance-program/advisory-committee-on-risk-sharing-mechanisms-acrsm.

[42] *See, e.g.*, "Activities and Topics," IAIS, https://www.iaisweb.org/activities-topics/.

FIO has remained engaged in the Insurance and Private Pensions Committee at the Organisation for Economic Co-operation and Development (OECD).[43]

FIO continues to serve on the EU-U.S. Insurance Dialogue Project's Steering Committee and to actively contribute to the Project's work. During this period, the Project continued to focus on climate risk financial oversight, climate risk and resilience, and innovation and technology issues, building upon the Project's work from prior years.[44]

FIO also has been continuing bilateral discussions with IRDAI pursuant to the 2019 Memorandum of Understanding between FIO and IRDAI.[45]

During 2023 and 2024, FIO continued to provide expertise to other federal agencies. For example, FIO provided technical assistance to the Federal Emergency Management Agency (FEMA) in connection with FEMA's transfer of $619.5 million of risk from the National Flood Insurance Program to the private reinsurance market in January 2024.[46] In addition, FIO continued to participate in the work of the Mitigation Framework Leadership Group and participates as a member of the Flood Resilience Interagency Working Group.[47]

Box 1: IUCRC

In 2024, FIO and NSF announced a partnership to establish one or more new IUCRCs that will bring together government, academia, the insurance industry, and other stakeholders to seek improvements to insurance modeling and underwriting of terrorism and catastrophic cyber risks. In April 2024, FIO and NSF invited the U.S. academic community to submit proposals to provide research, analysis, and thought leadership on these issues.[48]

The FIO-NSF IUCRC(s) may help strengthen the resilience of the U.S. economy by expanding insurance coverage for terrorism and catastrophic cyber risks through improved insurance modeling and underwriting. The IUCRC's research findings may also help inform FIO's statutory role assisting the Secretary of the Treasury in administering TRIP, as well as FIO's ongoing evaluation of a potential federal insurance response to catastrophic cyber risks. The FIO-NSF IUCRC(s) will work to provide insurers and other stakeholders with new data and

[43] The OECD serves as a source of public policy advice and analyses for global and regional forums, including the G20, as well as the general public, and collects and publishes statistical data and analyses on assorted topics. *See, e.g.*, "Insurance," OECD, https://www.oecd.org/finance/insurance/.

[44] FIO, *2023 Annual Report*, 6.

[45] For more information on the Memorandum of Understanding, see FIO, *Annual Report on the Insurance Industry* (2019), 67, https://home.treasury.gov/system/files/311/2019_FIO_Annual_Report.pdf.

[46] FEMA, "FEMA Announces Reinsurance Program to Manage Future Flood Risk in 2024," news release, January 4, 2024, https://www.fema.gov/press-release/20240103/fema-announces-reinsurance-program-manage-future-flood-risk-2024.

[47] "Mitigation Framework Leadership Group," FEMA, last updated September 12, 2024, https://www.fema.gov/emergency-managers/national-preparedness/frameworks/mitigation/mitflg.

[48] NSF, Dear Colleague Letter: IUCRC Proposals for Research and Thought Leadership on Insurance Risk Modeling and Underwriting Related to Terrorism and Catastrophic Cyber Risks: A Joint NSF and U.S. Department of the Treasury Federal Insurance Office Call (April 24, 2024), https://www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf24082.

improved modeling and underwriting tools, methodologies, and practices for insuring terrorism and catastrophic cyber risks. Potential benefits of the FIO-NSF IUCRC may include:

- helping insurers to estimate risk with greater certainty, thereby improving insurance pricing, coverage, and policyholder uptake;
- contributing to the capacity of commercial reinsurance and capital markets to help support these risks; and
- informing the treatment of terrorism and catastrophic cyber risks in government programs.

The IUCRC's research work will be guided by an Industry Advisory Board (IAB) so that the IUCRC's academic team conducts research of relevance to the insurance sector. IAB members may include private sector companies, government agencies, regulators, non-profits, and other parties interested in the IUCRC's research focus. The IAB will make recommendations on the IUCRC's proposed research projects and will collectively fund the IUCRC's research activities by pooling their membership dues.

In working to improve catastrophe models, the IUCRC may also help the insurance industry simulate a wider range of plausible terrorism and catastrophic cyber events than those that are encompassed by historical experience. This could give insurers and reinsurers a better ability to estimate a range of direct, indirect, and residual losses for ratemaking and other coverage decisions.[49]

[49] *See* FIO, *Study of Small Insurer Competitiveness in the Terrorism Risk Insurance Marketplace* (2023), 48-49, https://home.treasury.gov/system/files/311/2023%20TRIP%20Small%20Insurer%20Report%20FINAL.pdf.

II. INSURANCE INDUSTRY FINANCIAL OVERVIEW AND OUTLOOK

A. Domestic Insurance Marketplace Overview and Outlook

The financial analysis in this section, consistent with prior FIO annual reports, focuses on the U.S. insurance industry's financial performance and condition through December 31, 2023, the latest date for which detailed, comprehensive, and definitive data is available.[50] In a departure from previous years' reports, this year the analysis of the financial performance and condition of the L&H sector encompasses only the last five years instead of the last 10 years. This departure is due to the NAIC's 2019 combination of the Annual Statement reporting for fraternal benefit societies and L&H insurers into one consistent form; 2023 is the first reporting year for which S&P Global Market Intelligence is reflecting the combined Annual Statements, having allowed for the development and presentation of five years of historical data. Years prior to 2019 have not been adjusted to reflect this change in reporting, and thus are not comparable to the data from 2019 – 2023.[51] The aforementioned reporting change had no impact on financial reporting for the P&C sector; therefore, analysis of the financial performance and condition of the P&C sector continues to reflect the past 10 years.

The moderation in the rate of inflation continued over much of 2023, leading to an average rate of 4.1 percent for the year.[52] The Federal Reserve continued raising the minimum level of the federal funds rate from 4.25 percent at the end of 2022 to 5.25 percent by July 2023, where it remained at year end.[53]

Because inflation continued to remain above the Federal Reserve's two percent target in 2023, insurers were adjusting to a "higher for longer" interest rate environment by recalibrating pricing strategies, managing unrealized losses, and moving their investment portfolios to higher-yielding assets. Life insurers are returning to asset-intensive businesses, while P&C insurers are addressing increased reserve volatility due to rising costs.

After declining in 2022, growth in L&H capital and surplus resumed and eased balance sheet pressures in 2023, which was further bolstered by the admissibility of negative interest maintenance reserves during the year. The effects of elevated interest rates were evident,

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[50] Except as otherwise indicated, data cited in this section of the Report are as of December 31, 2023, as derived from S&P Global Market Intelligence (S&P Global) on July 22, 2024 and July 26, 2024. These data are presented on a statutory accounting basis. S&P Global continuously updates its data for corrections in filings. The 2023 data in this Report are based on updated data available as of July 22, 2024 and July 26, 2024, and thus may be different in some respects from corresponding figures reported in FIO's 2023 Annual Report. Due to certain conventions used by S&P Global for aggregation of industry data, some columns in the accompanying tables may not sum to the totals that have been separately accumulated by S&P Global from individual legal entity data. Some figures may not add to 100 percent due to rounding.

[51] As a result of the NAIC and S&P Global reporting changes, some of the numbers/ratios cited in FIO's 2023 Annual Report may differ from this report for the 2019-2022 period. According to S&P Global, fraternal insurers totaled 61 and wrote $8.9 billion of premium and annuities through the third quarter 2023.

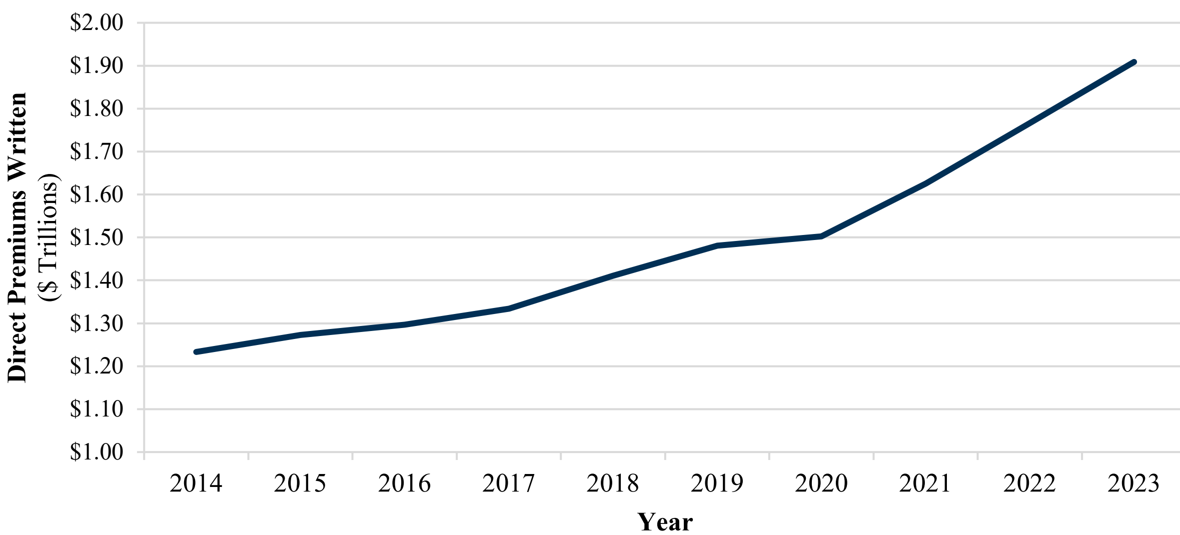
[52] U.S. Bureau of Labor Statistics, *Historical Consumer Price Index for All Urban Consumers (CPI-U)* (January 2024), https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-202312.pdf.

[53] "Effective Federal Funds Rate," Federal Reserve Bank of New York, https://www.newyorkfed.org/markets/reference-rates/effr (data retrieved from this webpage on August 2, 2024).

contributing to significant surrender activity in 2023. However, strong premium growth from another year of notable annuity sales reinforced L&H liquidity. For the P&C sector, a rebound in capital markets generated record investment income and a near doubling in net earnings led to a return on average equity of 8.42, the highest since 2015. P&C policyholder surplus grew by over six percent (after a near seven percent year-over-year decline in 2022), due in large part to the improvement in profitability. Finally, increased complexity and greater illiquidity in the investment portfolios of both sectors continued in 2023 even in the presence of higher interest rates.

The growth of the L&H and P&C sectors in 2023 is illustrated in Figure 1, showing direct premiums written. Direct premiums written are the amount paid for insurance by policyholders and are a measure of sales activity and growth. The U.S. insurance industry has shown positive year-over-year growth in direct premiums written in each of the past 10 years. In 2023, the combined total direct premiums written in the L&H and P&C sectors was $1.9 trillion, which represented an eight percent annual increase and a record high amount.

Figure 1: Total Direct Premiums Written in L&H and P&C Sectors



Source: S&P Global

1. Financial Performance and Condition Overview

This section addresses the financial performance and condition of the U.S. insurance industry, including the 718 L&H insurers, 2,624 P&C insurers, and 1,341 Health insurers licensed in the United States during 2023.[54] Insurers in the L&H sector offer products in two segments: (1) life insurance and annuities, which generally protect against the risk of financial loss associated with an individual's death, and provide income streams for retirement, respectively; and (2) accident and health (A&H) products, which cover expenses for health and long-term care or provide income in the event of disability. Insurers in the P&C sector offer products that generally protect

[54] *See* S&P Global; A.M. Best, *Best's Aggregates and Averages – Life/Health* (2024); A.M. Best, *Best's Aggregates and Averages – Property/Casualty* (2024).

against the risk of financial loss associated with damage to property or exposure to liability for individuals and families (personal lines) or for businesses (commercial lines). The Health sector includes companies licensed solely as health insurers or as health maintenance organizations. The detailed financial analyses in subsequent sections are limited to the L&H and P&C sectors.

Combined direct premiums written for the three sectors in 2023 were approximately $3.0 trillion. Direct premiums written for the L&H sector were approximately $943 billion in 2023, constituting 31 percent of direct premiums written for the combined L&H, P&C, and Health sectors. For the P&C sector, direct premiums written were approximately $964 billion, which is also approximately 32 percent of direct premiums written for the three sectors. The Health sector reported $1.1 trillion of direct premiums written for 2023, or approximately 37 percent of the combined total for the three sectors.

At the end of 2023, the L&H sector held approximately $8.7 trillion in total assets (including $3.0 trillion held in separate accounts), the P&C sector held approximately $2.8 trillion, and the Health sector held about $579 billion. As of December 31, 2023, capital and surplus in the L&H sector stood at approximately $513 billion; the P&C sector reported policyholders' surplus of approximately $1.0 trillion; and the Health sector reported approximately $317 billion of capital and surplus.

Figure 2 and Figure 3 show the 10 largest L&H insurance groups measured by direct premiums written, with the market share for life insurance (including annuities and other deposit-type contracts) and for A&H lines of business, respectively. Premiums shown in Figure 2 aggregate all L&H sector products and all geographies of the United States. Premiums shown in Figure 3 aggregate all A&H sector products and all geographies of the United States.

Figure 2: L&H Insurance Groups by 2023 U.S. Life Insurance Lines Direct Premiums Written

2023 Rank	Insurance Group	2023 Direct Premiums Written ($000)	Share of Total (%)
1	MetLife	$ 92,163,547	9.44
2	Equitable Holdings	84,801,090	8.69
3	Athene Holdings (U.S. only)	50,269,542	5.15
4	MassMutual	46,466,822	4.76
5	New York Life	43,585,141	4.47
6	Prudential Financial	38,113,449	3.90
7	Nationwide	37,770,966	3.87
8	Western & Southern Financial Group	32,707,190	3.35
9	Corebridge Financial	32,134,430	3.29
10	Great-West Financial (U.S. only)	28,009,818	2.87
	Combined Top 10	$ 486,021,995	49.79

Source: S&P Global (includes Life Insurance (No Annuity), Annuity Considerations, Deposit-type Contracts (State Page), Other Considerations (State Page))

Figure 3: L&H Insurance Groups by 2023 U.S. A&H Lines Direct Premiums Written

2023 Rank	Insurance Group	2023 Direct Premiums Written ($000)	Share of Total (%)
1	CVS Health Corp.	$ 48,850,373	18.23
2	UnitedHealth Group	45,387,864	16.94
3	Cigna	28,163,894	10.51
4	MetLife	14,337,909	5.35
5	Unum Group	11,725,680	4.38
6	Mutual of Omaha	7,515,190	2.81
7	Guardian	6,955,110	2.60
8	Hartford Life & Accident Ins Co.	6,821,138	2.55
9	New York Life	6,411,535	2.39
10	Aflac	6,407,330	2.39
	Combined Top 10	$ 182,576,023	68.15

Source: S&P Global

The data presented in Figure 2 and Figure 3 for life and annuity and A&H business, and in the comparable figures for other lines of business, are aggregated at a group level from filings made with state insurance regulators by individual legal entity insurers writing those lines. For example, premiums shown for MetLife include premiums written and reported by all of its life insurance subsidiaries (reporting legal entities, not including onshore captive reinsurers) in the United States but not business written by affiliated entities in non-U.S. jurisdictions.

For life insurance and annuity writers, the aggregate market shares of the top 10 firms decreased by approximately three percentage points in 2023 to 49.8 percent from 52.8 percent.[55] The premium growth of Athene Holdings (no. 3) moved it up three spots from 2022 and ahead of MassMutual (still no. 4) and New York Life (now no. 5) for the year. Great-West Financial entered the top ten at number ten.

Figure 3 shows A&H premiums written by insurers (legal entities) authorized to offer both life and health insurance; it excludes premiums written by insurers that are authorized to offer only health insurance (health-only insurers are addressed in Figure 7). For example, the data presented in Figure 3 for UnitedHealth Group does not reflect its total health insurance premiums on a consolidated basis, but rather only those premiums written by UnitedHealth subsidiaries licensed to offer both life and health insurance. Among the top 10 writers of A&H lines of business in 2023, CVS Health Corp. replaced long-time leader UnitedHealth Group (now no. 2) for the top position, Aflac dropped to tenth place while Guardian and Hartford Life & Accident Insurance moved up to seventh and eight places, respectively, and New York Life entered the top

[55] As noted above, beginning in 2019, the NAIC merged life/health and fraternal annual statement filings into one statement type, and beginning with 2023 data, S&P Global now presents the consolidated financial statements. Fraternal insurers, or fraternal benefits societies, are non-profit, member-owned organizations offering life, health, and related insurance products to their members. Market share measures for prior years may not be directly comparable.

ten in ninth place. The aggregate market share of the top ten writers of A&H lines dropped by about three percentage points from 2022.

P&C insurers offer a variety of products, generally categorized as either personal lines or commercial lines.[56] Figure 4 reports P&C market share information on a combined personal and commercial lines basis, while Figure 5 and Figure 6 break the P&C sector into personal and commercial lines of business, respectively. On a combined basis, there was little year-over-year change in the composition of the top 10 P&C groups, although those top 10 firms had slightly higher aggregate market share for 2023 in comparison to 2022. For personal lines, the composition of the top 10 P&C writers was little changed from 2022, and their total market share was similar when compared to 2022. Similarly, the top 10 writers of commercial lines were little changed, as was their aggregate market share.

Figure 4: P&C Insurance Groups by 2023 U.S. Combined Lines Direct Premiums Written

2023 Rank	Insurance Group	2023 Direct Premiums Written ($000)	Share of Total (%)
1	State Farm	$ 93,787,274	9.73
2	Progressive	62,711,707	6.50
3	Berkshire Hathaway	59,668,420	6.19
4	Allstate Corp	50,041,693	5.19
5	Liberty Mutual	45,794,528	4.75
6	Travelers	38,596,540	4.00
7	USAA	32,002,400	3.32
8	Chubb	31,873,268	3.31
9	Farmers Insurance	27,220,677	2.82
10	Nationwide	19,766,499	2.05
	Combined Top 10	$ 461,463,006	48.01

Source: S&P Global (includes all lines of business)

[56] P&C sector total direct premiums written may include small amounts of Accident & Health business and other adjustments.

Figure 5: P&C Insurance Groups by 2023 U.S. Personal Lines Direct Premiums Written

2023 Rank	Insurance Group		2023 Direct Premiums Written ($000)	Share of Total (%)
1	State Farm	$	85,371,543	17.91
2	Progressive		51,208,473	10.74
3	Allstate		46,435,157	9.74
4	Berkshire Hathaway Inc.		39,514,782	8.29
5	USAA		30,193,961	6.33
6	Liberty Mutual		24,117,443	5.06
7	Farmers Insurance		22,202,797	4.66
8	Travelers		14,399,923	3.02
9	American Family Insurance		13,998,504	2.94
10	Nationwide		10,090,949	2.12
	Combined Top 10	$	337,533,532	70.79

Source: S&P Global

Figure 6: P&C Insurance Groups by 2023 Commercial Lines Direct Premiums Written

2023 Rank	Insurance Group		2023 Direct Premiums Written ($000)	Share of Total (%)
1	Chubb	$	26,129,921	5.45
2	Travelers		24,196,617	5.05
3	Liberty Mutual		21,553,885	4.50
4	Berkshire Hathaway Inc.		19,394,750	4.05
5	Zurich		18,118,718	3.78
6	AIG		14,774,238	3.08
7	CNA		13,337,725	2.78
8	The Hartford		12,806,504	2.67
9	Progressive		11,482,962	2.40
10	Fairfax Financial		10,451,181	2.18
	Combined Top 10	$	172,246,501	35.95

Source: S&P Global

As shown in Figure 7, the aggregate market share of the top 10 writers in the Health sector remained constant in 2023, with the aggregate market share of the top 10 writers at 64.4 percent. UnitedHealth Group remained at the top, and slightly increased its market share compared to 2022. Molina Healthcare Inc. (no. 9) dropped two spots in 2023, passed by both GuideWell Mutual Holding Corp. and Independence Health Group, Inc.

Figure 7: Health Insurance Groups by 2022 Direct Premiums Written

2023 Rank	Insurance Group	2023 Direct Premiums Written ($000)	Share of Total (%)
1	UnitedHealth Group Inc.	$ 200,898,807	18.06
2	Elevance Health, Inc.	106,734,170	9.59
3	Centene Corp.	100,686,555	9.05
4	Humana Inc.	99,618,202	8.95
5	HealthCare Service Corp.	55,191,982	4.96
6	CVS Health Corp.	46,735,037	4.20
7	GuideWell Mutual Holding Corp.	28,739,801	2.58
8	Independence Health Group Inc.	28,340,388	2.55
9	Molina Healthcare Inc.	27,796,095	2.50
10	Kaiser Fndtn Health Plan Inc.	22,181,136	1.99
	Combined Top 10	$ 716,922,173	64.43

Source: S&P Global

2. Life and Health Sector

a) Financial Performance

This section presents additional analysis of the financial performance of the L&H sector in 2023, and then assesses the L&H sector's overall financial condition as of December 31, 2023. As discussed in Section II.A, the timeframe under analysis focuses on the last five years due to a recent reporting change.[57]

i. Net Premiums Written

Direct premiums written is a principal measure of the sales activity and growth of an insurer. In 2023, direct premiums written of $943 billion for the L&H sector increased by seven percent from the $879 billion reported in 2022, marking a new record high for annual direct premiums written for this sector. Direct premiums written have increased in each of the past five years. Growth in 2023 direct premiums written was again driven by a strong increase in individual annuity premiums and considerations, particularly fixed deferred annuities and fixed-indexed annuities coupled with higher crediting rates for consumers (see Box 2).[58] The resilient U.S.

[57] As noted above, FIO is shortening the timeframe due to a reporting change to include fraternal insurers that S&P Global began reflecting in its database in September 2023. As a result, some of the numbers/ratios cited in FIO's *2023 Annual Report* may differ from this report for the 2019-2022 period. According to S&P Global, fraternal insurers totaled 61 and wrote $8.9 billion of premium and annuities through the third quarter 2023.

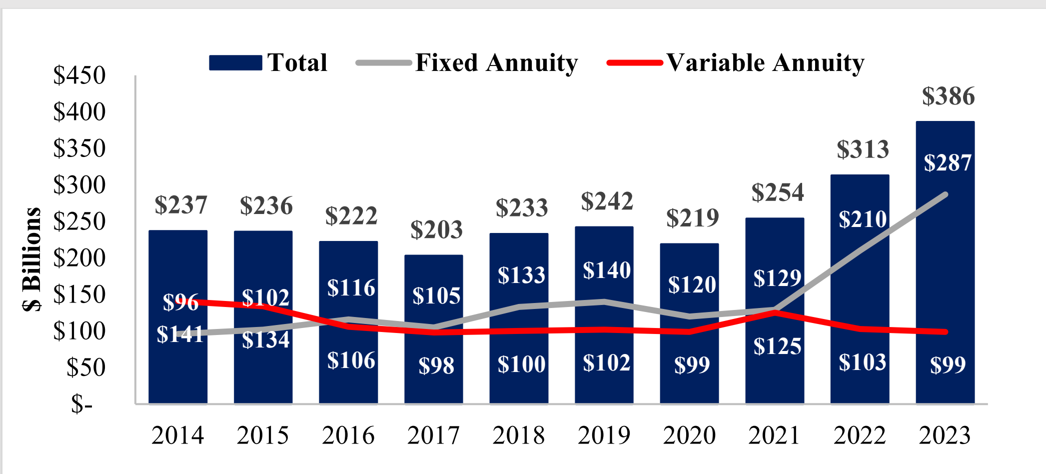
[58] Jason Hopper, *Best's Special Report: Benefits and Reserves Outpace Revenue Growth, Dampening Earnings for Publicly Traded US L/A Insurers.* (2024), available through https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=342073&altsrc=.

economy, strong equity markets, and an ample supply of available and new products also contributed to the gain in annuity sales.[59]

Box 2: Growth in Annuities Markets and the Retirement Savings Gap

In 2023 the life insurance industry continued to see record sales in the annuities market segment. Total annuity sales grew approximately 60 percent from 2019 to 2023—from $242 billion to $386 billion—driven by growth in fixed annuity sales, which increased 105 percent over that period.[60] Following the 2008-2009 financial crisis, the subsequent decade of low interest rates saw life insurers exiting certain capital-intensive products. Weaker consumer demand for annuities in this low interest rate environment also contributed to this decrease. In the past few years, however, there has been a shift in macroeconomic trends, as well as transformations in the life insurance sector. Since 2022, higher interest rates, higher equity markets, and increased market volatility, have increased consumer demand for guaranteed long-term income streams. In addition, there has been an increasing demographic challenge in the United States with slowing population growth and a rapidly aging population, which has led to growing demand for guaranteed income for retirement. Additionally, there are an increasing number of new entrants into the life insurance sector, such as alternative investment-backed insurers that are selling guaranteed income productsto meet growing demand. Sales have grown via product innovations, such as registered index linked annuities (RILAs) and fixed index annuities (FIAs) which have been driving the increased sales of annuities overall, while sales of traditional variable annuities have declined slightly since 2014.[61] FIAs and RILAs are less capital intensive for annuity writers since they offer lower guaranteed crediting rates, essentially shifting more of the risk to the consumer.

Figure B1. Annuity Sales



Source: LIMRA's proprietary tabulations

[59] Tim Zawacki, "2023 US Life Statutory Results: Individual Annuity Growth Hits 21-Year High," *S&P Global*, March 13, 2024, https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=80802546&redirected=1.

[60] *See* LIMRA, *LIMRA Annuity Sales Estimates*, https://www.limra.com/siteassets/newsroom/fact-tank/sales-data/2023/q4/q4-title/2014-2023-annuity-sales-final.pdf.

[61] *See* LIMRA, *LIMRA Annuity Sales Estimates*.

The shifting demographics in the United States, towards an aging population with longer life expectancy, are driving a significant demand for retirement assets that feature income guarantees and high returns. However, there has been a decline in guaranteed minimum rates over time, which affects individuals' level of guaranteed income.

A number of life insurers have modified their operating and investment strategies to support these new changes in product sales. Some traditional life insurers have de-emphasized market-sensitive and interest-sensitive products with guarantees, leading to the emergence of a new, spread-based business model driven by private credit and utilization of offshore reinsurance where fixed annuities are a core product offering. These changes can improve the capacity of insurers to offer new products by improving their level of free cash flow, increasing margins, and reducing earnings volatility. Additionally, the investment portfolios have an increased percentage of private credit assets, including complex structured securities, in order to generate higher expected rates of return.[62] Further, the increasing amounts of offshore reinsurance with both affiliated and unaffiliated reinsurers are contributing to the de-risking of insurer balance sheets.[63]

The transformation in the life insurance sector is helping to address the retirement savings gaps of Americans, however, these changes are not without challenges and potential risks. For example, the increased exposure of insurers to private credit may increase liquidity risk and credit risk, along with increased potential valuation uncertainty. Further, the increased use of unaffiliated offshore reinsurance arrangements may increase counterparty risk, while the greater use of affiliated offshore reinsurance may result in higher enterprise risk through increased opacity and complexity of insurance group structures. The NAIC and state regulators, as well as other international supervisors, are assessing the ability of their respective regulatory frameworks to address the implications of this transformation.[64]

Considerations for pension risk transfer (PRT) activity—in which a defined-benefit plan divests some or all of its obligation to pay guaranteed retirement income and/or benefits to plan participants by shifting the obligations to insurers through the purchase of one or more annuities—were about $46 billion in 2023, or a decrease of 13 percent from the record level set in 2022. PRT activity remained elevated, boosted by the higher interest rate environment [65] Higher interest rates improve pension funding levels, making transfer to insurers easier.[66] Net

[62] For more on private credit, *see, e.g.*, International Monetary Fund (IMF), *Global Financial Stability Report* (2024), chapter 2, https://www.elibrary.imf.org/display/book/9798400257704/9798400257704.xml?BookTabs=booktoc.

[63] For more on reinsurance, *see, e.g.*, Swiss Re Institute, *sigma: Life Insurance in the Higher Interest Rate Era: Asset-Savvy is the New Asset-Light* (2024), https://www.swissre.com/dam/jcr:73c636f8-1d47-4779-b757-845023332971/sigma-2-2024-life-annuity-insurance.pdf.

[64] *See, e.g.*, Section II.A.2.b.i (discussion of "RBC Developments").

[65] Ronan McCaughey, "U.S. Pension Risk Transfer Volumes Reach $45.8 Billion in 2023," *Insurance ERM*, March 28, 2024, https://www.insuranceerm.com/news-comment/us-pension-risk-transfer-volumes-reach-$458bn-in-2023.html.

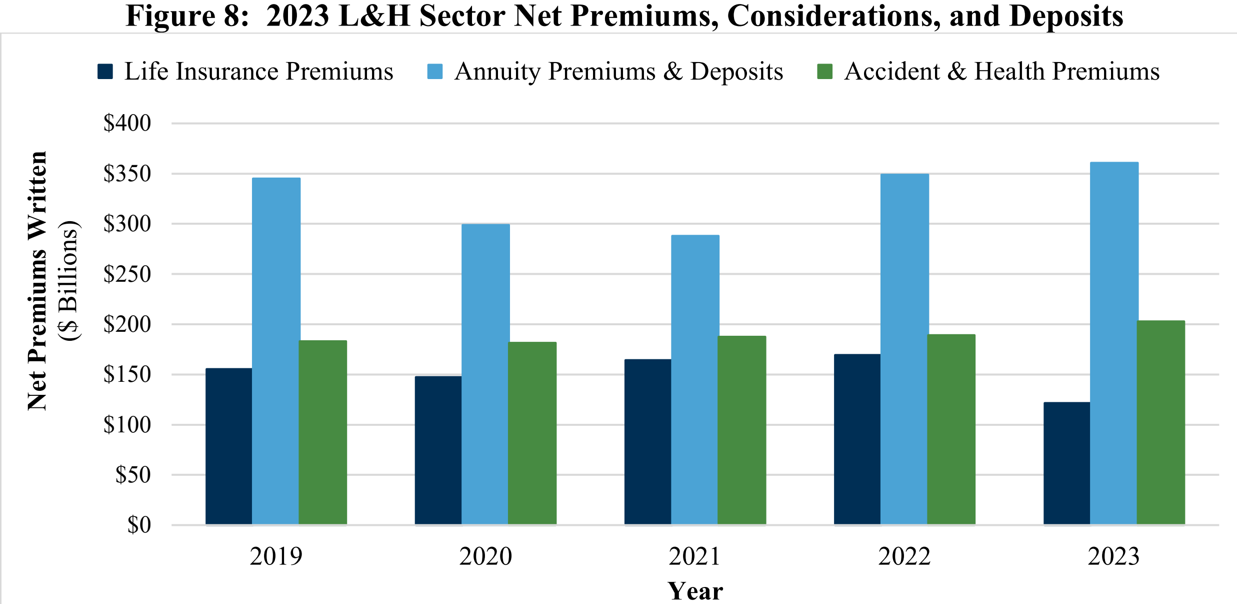
[66] Tim Zawacki, "2023 US Life Statutory Results: Individual Annuity Hits 21-Year High," *S&P Global Intelligence Market*, March 20, 2024, https://www.spglobal.com/marketintelligence/en/news-insights/research/2023-us-life-statutory-results-individual-annuity-growth-hits-21-year-high.

ceded reinsurance for the sector increased 43 percent in 2023 as compared to 2022, at $260 billion, driven by offshore reinsurance transactions.

Net premiums written, the sum of direct premiums written and net ceded reinsurance premiums, is a basic measure of the amount of risk retained by an insurer. Figure 8 shows net premiums written, considerations, and deposits over the past five years for the L&H sector, while Figure 9 shows the 2023 composition of net premiums and considerations. L&H sector net premiums written dropped to $686 billion in 2023, marking an almost four percent decrease from the $711 billion reported in 2022. The decrease in net premiums written was due to increased cessions from primary insurers to offshore reinsurers.[67] Net premiums written have contributed on average 69 percent of total L&H sector revenues over the past five years, but only constituted 66 percent of revenues in 2023, continuing a declining trend that began in 2020.

An increase of 10 percent in net investment income limited the decrease in total revenue in 2023 to one percent, or less than the decline in net premiums written. Net annuity premiums and deposits increased by three percent, while life insurance premiums decreased by 28 percent, and A&H premiums increased nearly eight percent. The drop in life insurance net premiums written was mainly due to several large block reinsurance transactions by Lincoln Financial and MetLife, Inc.[68] For 2023, annuity premiums and deposits constituted 53 percent of total net premiums written, as shown in Figure 9. Sales of traditional life insurance products accounted for 18 percent of 2022 L&H sector net premiums written, while the remaining 30 percent was comprised almost entirely of A&H sector premiums.

Figure 8: 2023 L&H Sector Net Premiums, Considerations, and Deposits

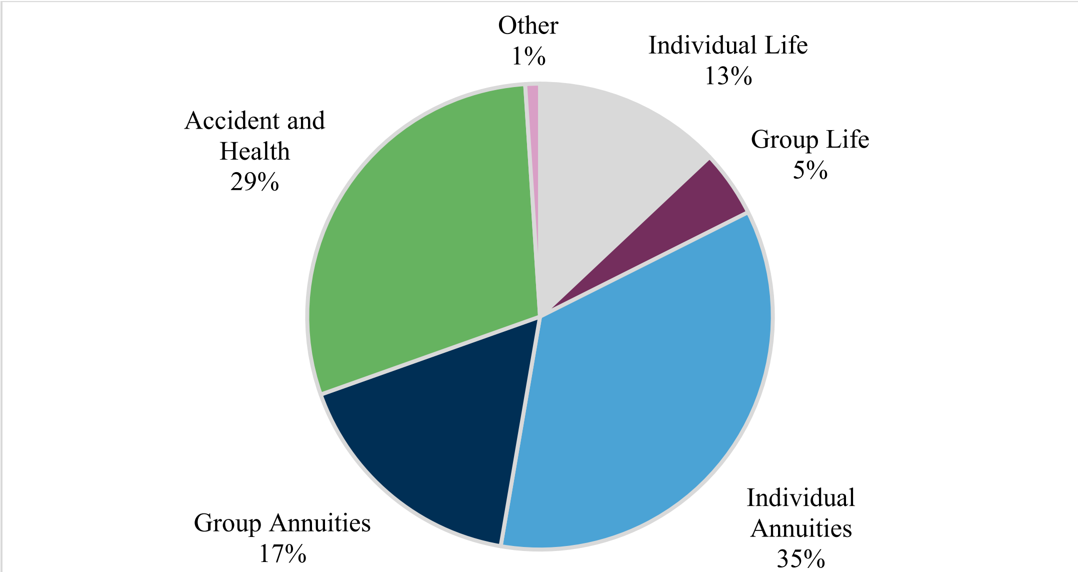


Source: S&P Global

[67] Source: S&P Global and FIO research.

[68] Tim Zawacki, "Statutory Results to Show Significant Effects from Life Reinsurance Deals," *S&P Global Market Intelligence*, March 6, 2024, https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=80708477&redirected=1.

Figure 9: 2023 Composition of Net Premiums and Annuity Considerations for the L&H Sector



Source: S&P Global

ii. Policyholder Contract Benefits, Surrenders, and Other Expenses

Policyholder contract benefits are claims or other obligations of L&H insurers under life insurance, annuity, and other insurance contracts and policies. Contract surrenders occur when a policyholder or contract holder elects to cancel a policy or contract before the end of the contractual term and thus receives its accumulated cash value (if any). Surrenders may or may not be accompanied by a fee. Contract benefit payments (i.e., Total Benefit Payments in Figure 10) and contract surrenders (i.e., Total Surrenders in Figure 10) comprise the majority of total expenses for L&H insurers in any given year. Other expenses include general administrative and overhead expenses, expenses incurred in acquiring business (particularly producer commissions and deferred acquisition costs associated with annuities), and expenses related to payments made under contractual provisions of policies, including loss verification and adjustment expenses. Figure 10 shows aggregate L&H sector benefit payments, surrenders, reserve increases, and all other expenses for recent years.

Figure 10: L&H Sector Expenses

($ in thousands)	2019	2020	2021	2022	2023
Total Benefits Payments	306,388,988	318,033,943	343,364,997	327,823,043	347,675,073
Total Surrenders	344,522,943	327,921,729	367,482,764	353,038,354	416,237,299
Total Reserve Increases	123,148,589	110,347,308	89,304,603	131,649,007	67,901,438
Total Trsfrs. to Sep. Accts	(72,688,085)	(70,043,333)	(76,282,414)	(51,129,319)	(82,769,942)
Commissions	61,676,786	60,507,960	65,200,708	68,244,151	78,082,849
General & Administrative Expenses	69,270,233	68,352,741	71,082,576	72,342,409	77,584,807
Insurance Taxes, Licenses and Fees	9,342,770	11,503,722	10,127,707	10,483,707	10,890,762
Other Expenses	14,448,772	6,271,812	14,963,497	61,668,073	35,662,156
Total	**856,110,995**	**832,895,883**	**885,244,439**	**974,119,425**	**951,264,443**

Source: S&P Global

Total L&H sector expenses decreased by two percent in 2023. Expenses attributable to total benefits payments increased by six percent and those attributable to total contract surrenders increased by 18 percent. In a rising interest rate environment an increase in surrenders may be reflective of surrenders of annuities with low crediting rates that have passed the surrender penalty period in exchange for a contract with higher crediting rates.[69] However, a significant 48 percent decrease in Total Reserve Increases (also impacted by large block reinsurance transactions noted above) and a 62 percent increase in net amounts transferred from separate accounts limited the increase in total expenses.[70] Other expenses decreased by 42 percent. The 2022 increase in benefits payments was largely due to increased annuity benefits payments.[71]

iii. Investment Income

Net investment income of $225 billion constituted about 22 percent of aggregate L&H sector revenues in 2023 and increased 10 percent from 2022 levels. Yields on new fixed income investments have benefited from the rising level of interest rates across the yield curve. Investment income earned increased across all asset classes except for preferred stocks, derivatives, and "other invested assets" (which includes investments in assets such as hedge funds and private equity). Higher allocations to private credit securities likely also contributed to the gain in net investment income. Figure 11 shows L&H sector net investment income from invested assets (excluding net realized gains and losses) and the net investment yield for recent years. The net yield on invested assets for 2023 increased to 4.27 percent from 4.01 percent in

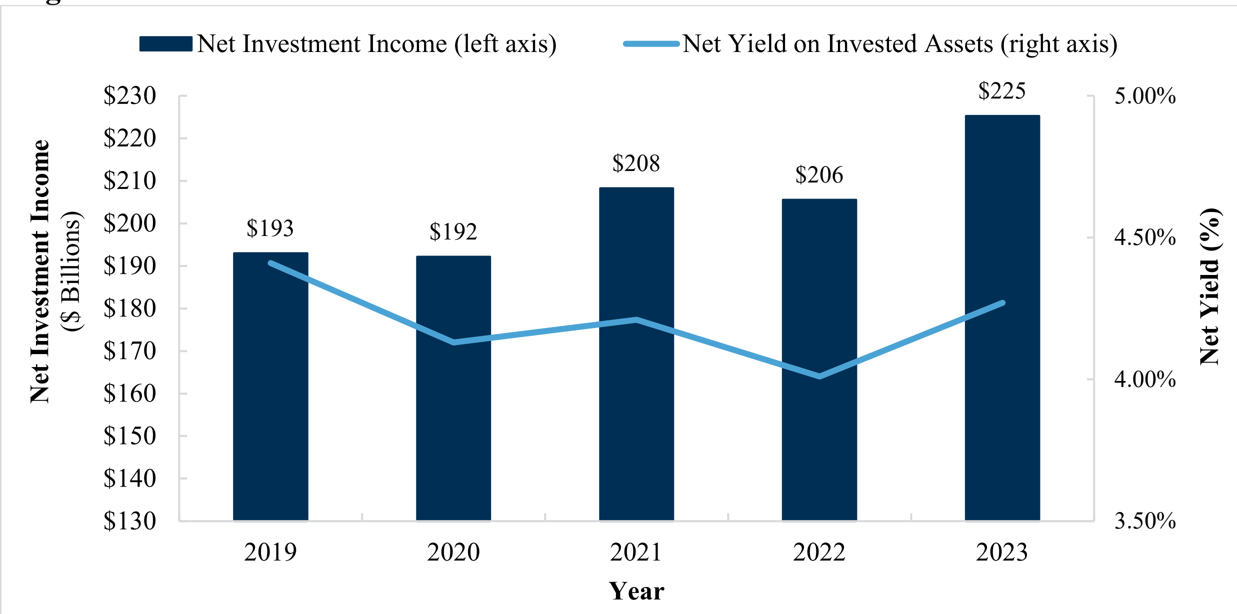
[69] Mary Pat Campbell, "Is Continuing Illiquidity in the Life/Annuity Portfolio a Cause for Concern?" *Insurance News Net*, August 5, 2024, https://insurancenewsnet.com/innarticle/is-continuing-illiquidity-in-the-life-annuity-portfolio-a-cause-for-concern.

[70] A separate account is a segregated set of financial statements held by a life insurer, maintained to report assets and liabilities for specific products that are separated from the insurer's general account. The product features of a separate account can vary but generally allows an investor to choose an investment category according to risk tolerance and desire for performance. Separate account investments and related risks flow to the investor (i.e., the policyholder or annuitant) while the general account and its related risks are owned by the insurer.

[71] Matthew Coppola, *Best's Special Report: First Look: 2023 US Life/Annuity Results* (2024), available at https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=341848&altsrc=23.

2022. This was the highest level of net investment yield since 2019. The increase in net yield was primarily the result of the 10 percent increase in net investment income, coupled with a lower, three percent increase in total cash and invested assets.

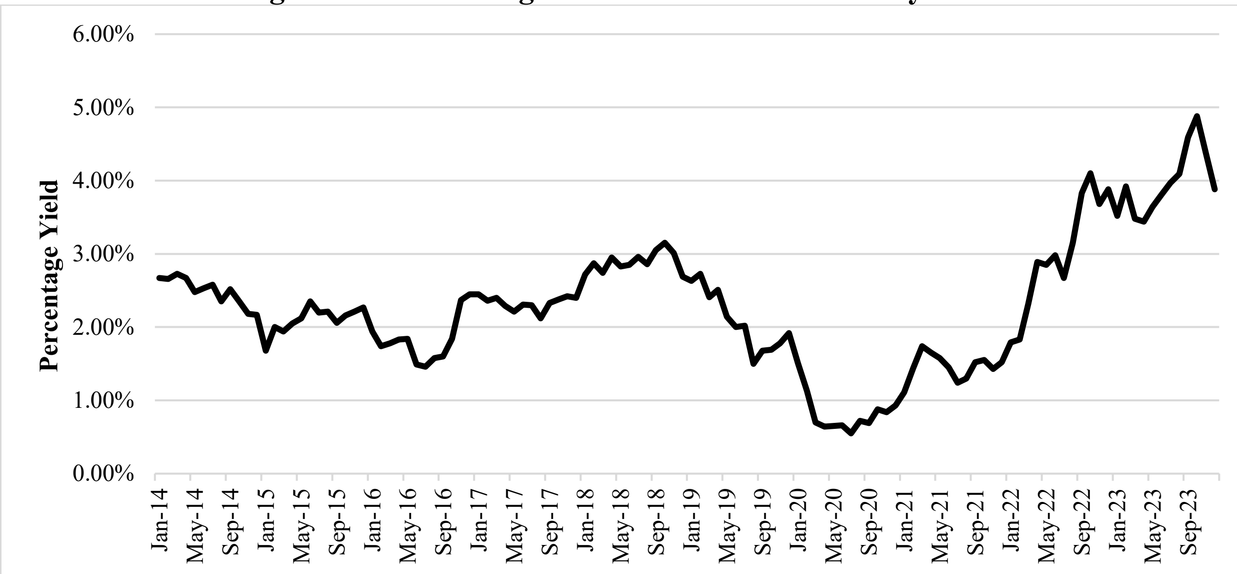
Figure 11: L&H Sector Annual Net Investment Income and Net Yield on Invested Assets



Source: S&P Global

Longer term interest rates on 10-year Treasury notes ended 2023 at the same level at which it began (see Figure 12). At the end of 2023, the rate on 10-year U.S. Treasury bonds stood at 3.88 percent, identical to the prior year-end level. The U.S. Treasury yield curve became inverted early in the second quarter of 2022 and remained so throughout 2023. This interest rate environment allowed insurers to both invest new money and reinvest proceeds from maturities and sales at generally higher yields compared to most of the existing fixed income portfolio.

Figure 12: Percentage Yield on 10-Year Treasury Notes



Source: S&P Global

iv. Net Income and Return on Equity

Figure 13 presents a summary income statement for the L&H sector. Total revenues in the L&H sector of $1.04 trillion in 2023 marked a decrease of one percent from the $1.05 trillion reported in 2022. Decreases in net premiums and the reinsurance allowance were the primary drivers of the overall drop in revenue in 2023 but were largely offset by the gain in net investment income. Total expenses decreased by two percent to $951 billion, contributing to a 15 percent increase in pre-tax operating income. Net income decreased two percent to $38 billion in 2023, largely because of an increase in federal income taxes and significantly higher net realized capital losses.

In 2023, the L&H sector net realized capital losses increased by 44 percent to $15.4 billion from $10.6 billion in 2022 (see Figure 13). This followed a 39 percent increase in net realized capital losses experienced in 2022 compared to 2021. The continued deterioration in 2023 appears to be caused to some extent by higher realized losses on fixed income securities as interest rates rose, higher losses on derivatives (almost exclusively used for hedging transactions), and lower realized gains on other invested assets. Losses on fixed income securities may have been generated by sales of lower-yielding securities, with the proceeds reinvested in higher-yielding securities to improve overall book yield. The NAIC's temporary guidance on interest maintenance reserve (IMR) may have served as a catalyst for insurers to engage in opportunistic rate-related trading activity.[72]

[72] *See, e.g.*, Tim Zawacki & Jason Woleben, "Implications of Temporary IMR Guidance on the Life Industry Investment Strategy, *S&P Capital IQ*, April 16, 2024, https://www.capitaliq.spglobal.com/apisv3/spg-webplatform-core/news/article?id=80992914&redirected=1. For more on IMR, see Section II.A.2.b.i.

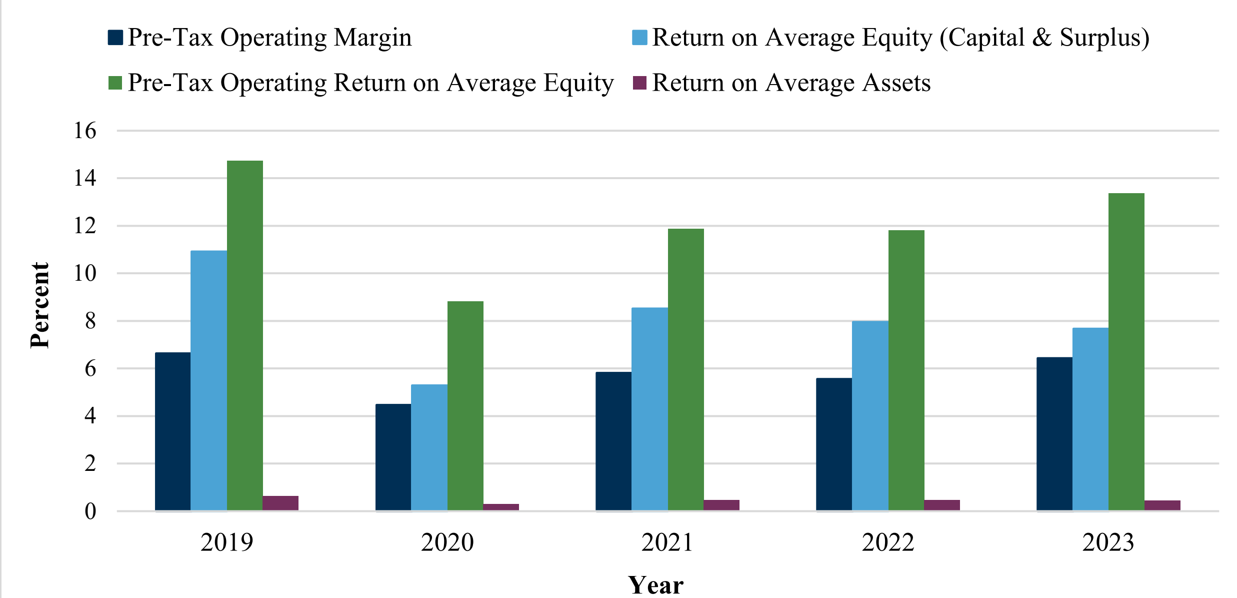
Figure 13: L&H Sector Net Income ($ thousands)

	2019	2020	2021	2022	2023
Premiums, Consideration & Deposits	687,243,878	631,572,601	643,311,184	710,848,598	685,820,906
Net Investment Income	192,962,909	192,182,660	208,294,544	205,556,405	225,276,262
Reinsurance Allowance	(29,735,709)	(22,847,428)	8,388,598	38,218,066	28,590,385
Separate Accounts Revenue	37,475,072	38,087,213	41,833,625	39,153,433	38,092,298
Other Income	49,069,239	52,355,698	57,633,043	59,186,373	63,339,388
Total Revenue	**937,015,388**	**891,350,744**	**959,460,994**	**1,052,962,874**	**1,041,119,240**
Total Expenses	856,110,995	832,895,883	885,244,439	974,119,425	951,264,443
Policyholder Dividends	18,761,739	18,608,320	18,350,177	20,343,810	22,838,502
Net Gain from Operations before FIT	62,142,655	39,846,541	55,866,377	58,499,639	67,016,295
Federal Income Tax	9,379,211	5,239,816	8,152,676	8,450,964	13,149,180
Net Income before Cap Gains	52,763,443	34,606,724	47,713,702	50,048,675	53,867,115
Net Realized Capital Gains (Losses)	(6,727,627)	(10,678,766)	(7,634,241)	(10,644,188)	(15,374,471)
Net Income	**46,035,816**	**23,927,959**	**40,079,461**	**39,404,488**	**38,492,644**

Source: S&P Global

Figure 14 shows key operating ratios for the L&H sector. The L&H sector's 2023 pre-tax operating margin increased to 6.4 percent from 5.6 percent in 2022. The increase in operating income, coupled with slower growth in equity (discussed below), led to an increase in the sector's pre-tax operating return on average equity to 13.4 percent, compared to the 11.8 percent recorded in 2022. The return on average equity decreased to 7.7 percent in 2023 from 8.0 percent in 2022. The return on average assets remained constant at 0.45 percent in 2023 versus 0.46 percent in 2022. While the 2023 operating performance demonstrated by these metrics is mixed, as was also the case in the past few years, these results are a significant improvement over the COVID-19 pandemic-impacted 2020 metrics and are consistent with a trend toward more normalized results for the L&H sector.

Figure 14: L&H Sector Operating Ratios



Source: S&P Global

b) Financial Condition

This section presents information on the 2023 financial condition of the L&H sector, providing insight into the sector's financial safety and soundness by highlighting certain financial indicators and trends in recent years and their related implications. The timeframe under analysis focuses on the last five years due to a recent reporting change (*see* Section II.A).

i. Capital and Surplus

The L&H sector grew its capital and surplus in 2023, showing the effects of favorable equity markets, further enhanced by the admissibility of negative IMR. After four separate 25 basis point increases in 2023, with the last increase in July 2023, the Federal Reserve since maintained its benchmark rate in the 5.25 to 5.5 percent target range through the end of 2023. Because inflation continued to remain above the Federal Reserve's two percent target in 2023, insurers were adjusting to a "higher for longer" interest rate environment by reassessing pricing strategies, managing unrealized losses, and moving their investment portfolios to higher-yielding assets.

Surplus Performance and Drivers

While some easing of balance sheet pressures was evident in 2023, it was the considerable increase in net unrealized capital gains that largely restored growth in the L&H sector's capital position from last year-end. In 2022, the L&H sector reported a substantial increase in net unrealized capital losses when inflationary pressures triggered the start of a program of monetary tightening, contributing to market volatility and uncertainty, and negatively affected surplus that year.[73] Recent capital levels achieved by the L&H sector are detailed in Figure 15. The favorable impact to reserves stemming from a recovery of equity markets, accompanied by continued growth in investment holdings, largely boosted capital levels from the previous year.[74]

Figure 15: L&H Sector Capital and Surplus Position

($ in thousands)	2019	2020	2021	2022	2023
Capital & Surplus	$ 442,949,502	$ 460,385,040	$ 499,738,583	$ 489,519,537	$ 512,655,222
Year-Over-Year Growth	10.8%	3.9%	8.5%	-2.0%	4.7%
General Account Assets	$4,734,349,182	$5,070,895,918	$5,324,605,447	$5,506,231,335	$5,712,078,126
Year-Over-Year Growth	8.6%	7.1%	5.0%	3.4%	3.7%
Separate Account Assets	$2,833,386,836	$3,084,831,564	$3,348,163,286	$2,769,010,332	$3,031,958,914
Year-Over-Year Growth	15.0%	8.9%	8.5%	-17.3%	9.5%

Source: S&P Global

Note: Annual percentages for 2019 exclude fraternal insurers in 2018 data, as noted above. According to the American Council of Life Insurers, the 75 fraternal insurers in 2018 contributed less than 1.7 percent to total life premium income and less than 2.5 percent to the life asset base. It therefore is unlikely that the 2019 percentages would have been materially affected if fraternal insurers had been included in the 2018 data.

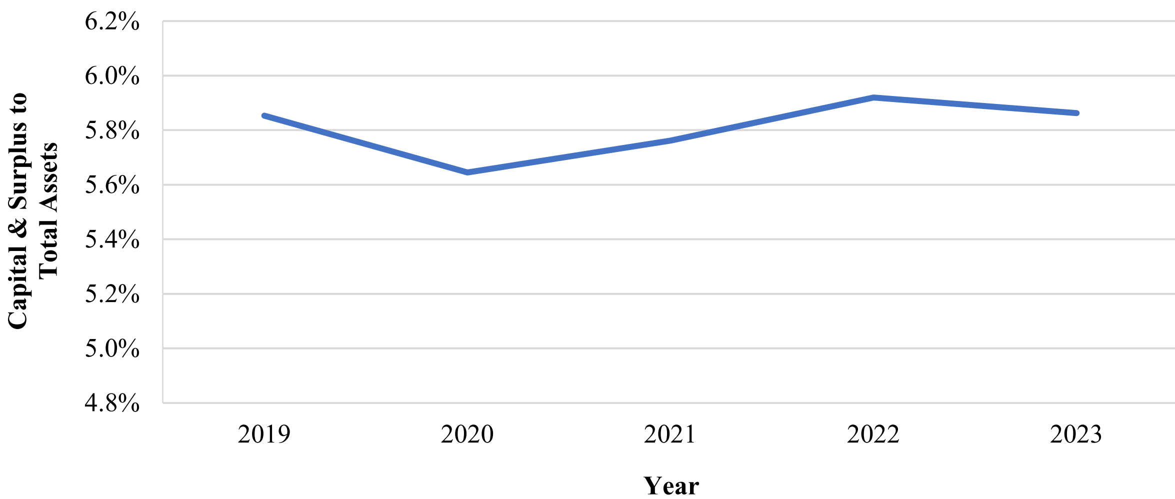
Premium earned from record annuity sales in 2023 was primarily behind the annual growth in general account assets. The growth in separate account assets generally fluctuates from year to year, as performance is based on targeted investment strategies. As inflation slowed over the course of 2023 and business conditions improved, recovering stock and bond markets were further strengthened by rising consumer confidence. The ratio of capital and surplus to total assets (general and separate account assets combined) is an indicator of the L&H sector's capacity to withstand adverse investment and mortality experience. Figure 16 shows that this ratio remained stable at 5.86 percent at year-end 2023, compared to 5.92 percent at year-end 2022 and 5.76 percent at year-end 2021.[75]

[73] The Federal Reserve raised interest rates on seven separate occasions in 2022, resulting in the federal funds rate residing in the 4.25-4.50 percent range by year end. The Federal Reserve initiated three additional increases in 2023; the benchmark rate was in the range of 5.00-5.25 percent as of July 2023. Michael Adams & Paul Katzeff, "Fed Funds Rate History 1990 to 2024," *Forbes Advisor*, May 20, 2024, https://www.forbes.com/advisor/investing/fed-funds-rate-history.

[74] Due to the reporting change, average growth rates in the L&H balance sheet analysis are calculated over the period of 2020-2023 and do not extend to year-end 2019 as the 2018 data points exclude fraternal business.

[75] The higher ratio in 2022 was caused by the greater year-over-year decrease in total assets relative to that in capital and surplus.

Figure 16: Strength of L&H Sector Capital & Surplus



Source: S&P Global

Capital infusions such as surplus notes are another contributing factor to aggregate capital and surplus. The L&H sector issued surplus notes of $51.3 billion in 2023, up from $49.7 billion in 2022, which was the highest amount for the recent five-year period. While marking a peak in issuance levels, year-over-year growth continued to decelerate in 2023, slowing to 3.3 percent from 3.9 percent in 2022. The slowdown can be attributed to elevated interest rates, increasing the cost of funding. By comparison, 2020 and 2021 showed double-digit issuance growth when interest rates were at historical lows because of the Federal Reserve's response to the effects of the COVID-19 pandemic.[76] Annual issuance levels grew by 11.9 percent and 14.5 percent in 2021 and 2020, respectively. Despite the recent slowdown in the issuance of surplus notes, annual growth in surplus notes or debt capital continues to be material, averaging at a rate of 8.4 percent over the last four years.[77] By contrast, growth of non-debt capital has only averaged 3.3 percent for that same period.

Because of their relative share of capital and surplus, removing surplus notes from total capital and surplus does not substantially change the pro forma growth of capital and surplus, suggesting that the L&H sector in the aggregate is able to generate capital from its core operations without reliance on external capital.[78] Surplus notes accounted for 10 percent of aggregate capital and surplus at year-end 2023, compared to 10.2 percent at year-end 2022.

The L&H sector has consistently been reporting net operating gains (pre-tax income from operations before capital gains and losses) that have boosted capital and surplus. The

[76] The fed funds rate declined to 0.05 percent in April 2020 and remained close to zero for the remainder of the year through 2021. *See* "FRED: Economic Data," Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org.

[77] Though treated as equity under state insurance regulations, surplus notes are debt-like instruments that are subordinated to policyholder obligations and other current and future borrowings.

[78] In 2023, the pro forma growth rate of capital and surplus would result in a difference of 20 basis points.

sector's strong underwriting performance in 2023 can largely be attributed to reduced expenses from net transfers from separate accounts and reduced additions to reserves. Net income (before capital gains) contributed 11 percent to the growth of capital and surplus from the previous year end.

In 2023, insurers engaged in sales of their securities with lower book yields and reinvested these proceeds at higher rates, contributing to an increase in net realized capital losses of $15.4 billion compared to $10.6 billion of net realized capital losses in 2022. Realized losses also were generated from derivative instruments and unaffiliated other bonds in 2023.[79] The impact to capital of those realized losses was mitigated by the ability of life insurers to defer a certain amount of realized losses to their IMR accounts.

Realized capital losses, moreover, were nearly offset by an increase in net unrealized capital gains of $8.8 billion, strengthening the sector's capital position. Reduced inflationary pressures in 2023 contributed to lower expectations of future interest rate hikes, fueling market optimism—unlike the economic uncertainty in 2022 that contributed to depressed asset values and an increase in net unrealized capital losses of $29.9 billion that year for the L&H sector.

Ongoing pressures in the commercial real estate market (CRE) will have some implications for life insurers. Because commercial mortgage loan (CML) cash flows align with long-dated liabilities and produce attractive yields, life insurers have significant CML exposures, both directly and through commercial mortgage-backed securities (CMBS). Rising interest rates and refinancing risk combined with maturing CRE debt are affecting commercial property valuations, particularly for the office segment, and straining market liquidity. According to S&P Global, life insurers' CMBS impairments of $299.7 million in 2023 represented the highest level over the last decade but fell significantly below the peak of $1.16 billion (unadjusted for inflation) in 2011 after the 2008 financial crisis. Additionally, the ratio of fair value to carrying value (original cost) of CMBS holdings increased only marginally in 2023 from 88.5 percent at year-end 2022, a decrease from 101.5 percent at year-end 2021.[80] However, CMBS accounted for less than four percent of the L&H investment portfolio at year-end 2023 and exhibited the highest credit quality, limiting the effects of potential impairments on the sector's surplus.

Stockholder dividends, another element of the sector's capital position, have the effect of partially offsetting potential surplus growth.[81] In 2023, stockholder dividends were $35.3 billion, compared to $36.7 billion in 2022. To help ensure that insurers' assets adequately protect policyholders, all dividends issued by insurance entities are subject to review by state insurance regulators. Additionally, in the case of extraordinary dividends, insurers must seek regulatory approval prior to distribution. Overall, stockholder dividends have reduced capital and surplus by almost 7.0 percent on average annually since 2020. By contrast, net

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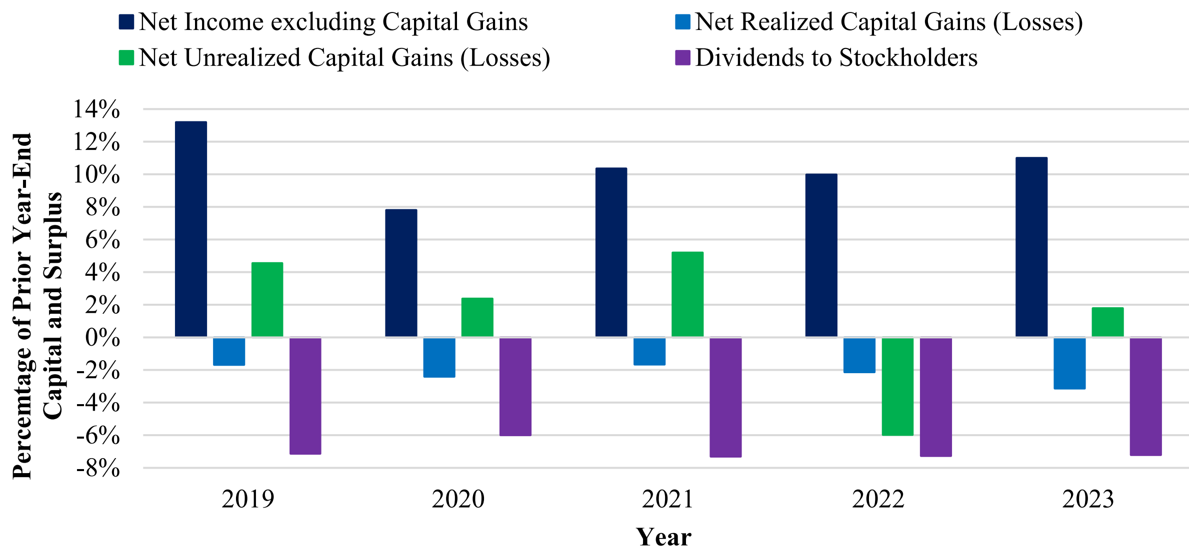
[79] NAIC, *U.S. Life and Health Insurance Industry | 2023 Annual Results*, https://content.naic.org/sites/default/files/topics-industry-snapshot-analysis-reports-2023-annual-report-life.pdf.

[80] Tim Zawacki, "Meltdown Not Apparent in Largest of Life Insurers' $152B CMBS Holdings," *S&P Global*, August 8, 2024, https://www.spglobal.com/marketintelligence/en/news-insights/research/meltdown-not-apparent-in-largest-of-life-insurers-152b-in-cmbs-holdings.

[81] Stockholder dividends refer to the dividends paid by insurance entities.

income before capital gains and losses have increased capital and surplus by 9.8 percent on average over the same period. Figure 17 presents the key drivers of capital and surplus for the L&H sector from 2019 through 2023.

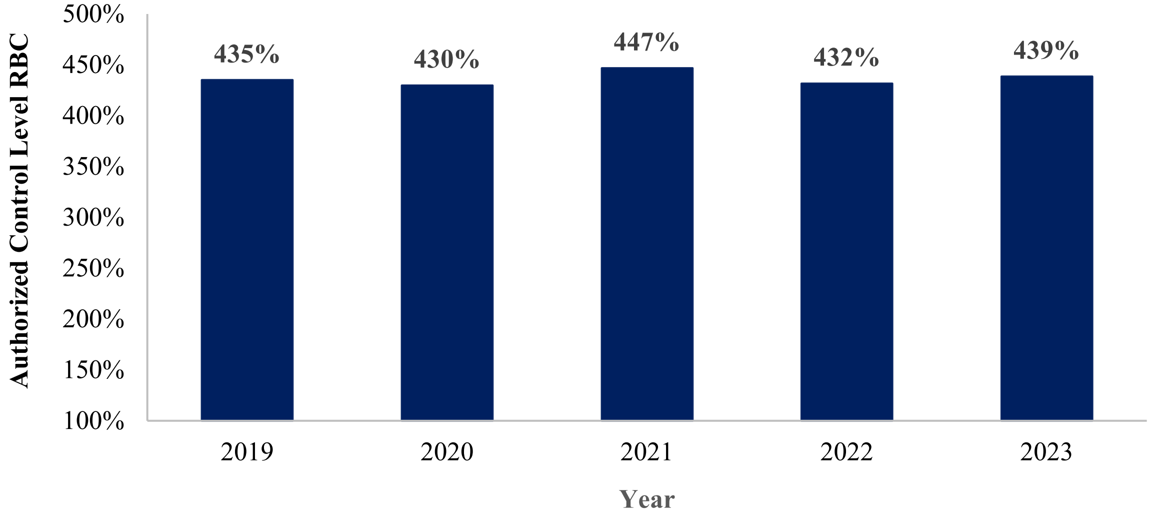
Figure 17: Leading Determinants of Capital and Surplus for the L&H Sector



Source: S&P Global

Given the near five percent annual growth in aggregate capital and surplus, the risk-based capital (RBC) ratio for the L&H sector also improved in 2023. Figure 18 shows that in the aggregate, statutory capital and surplus in 2023 for the L&H sector was 4.39 times the level of minimum required regulatory capital, compared to 4.32 and 4.47 times the required levels in 2022 and 2021, respectively.

Figure 18: Risk-Based Capital Ratios for the L&H Sector



Source: S&P Global

RBC Developments

Regulatory developments by the United States in 2023 included continued enhancements to the RBC framework.[82] In August 2023, as part of its Framework for Regulation of Insurer Investments (Investment Framework), the NAIC changed the RBC formula to better monitor life insurer investments. The changes require residual tranches of structured securities to receive a 30 percent factor for 2023 and a 45 percent factor for 2024 in year-end RBC filings. The NAIC's Risk-Based Capital Investment Risk and Evaluation (E) Working Group has stated that it may adjust the 2024 factor, , as it continues to work on a long-term solution for appropriate RBC charges for Collateralized Loan Obligation (CLO) tranches.[83] The Investment Framework project is also considering how to model CLOs for RBC purposes without relying on prior approaches, and creating guiding principles surrounding RBC arbitrage to be used in developing a CLO methodology.

Additionally, effective with year-end 2023 reporting is an RBC formula change that the NAIC adopted in April 2023, refining C-2 mortality factors for group and long-duration individual policies that would result in higher capital requirements.[84]

[82] NAIC, *Framework for Regulation of Insurer Investments – A Holistic Review* (August 15, 2023), https://content.naic.org/sites/default/files/committee_related_documents/Framework%2520for%2520Investments%2520Exposed%2520by%2520E%2520Committee_0.pdf.

[83] NAIC, "NAIC Adopts Change to Better Monitor Life Insurer Investments," news release, August 16, 2023, https://content.naic.org/article/naic-adopts-change-better-monitor-life-insurer-investments.

[84] "Capital Adequacy Task Force – Adopted Modifications to Risk-Based Capital Formulas," NAIC, last updated August 5, 2024, https://content.naic.org/capital_adequacy_task_force.htm.

Regulatory Accounting Changes

With rapidly rising interest rates in 2022, some companies that sold fixed income assets for a loss saw their IMR balances decrease or even become negative.[85] To reduce the impact of losses from sales of investments due solely to interest rate movements, in 2023 the NAIC implemented a temporary change in the statutory treatment of IMR balances, allowing them as admitted assets.[86] Specifically, the temporary guidance allows negative IMR of up to 10 percent of regulatory capital to be treated as an admitted asset, effective for year-end 2023 through 2025. As companies realized fixed income and derivative losses in the face of rising interest rates, some life insurers began treating their negative IMR balances as an asset after regulators adopted the temporary guidance. This change had the effect of bolstering the sector's statutory surplus in 2023, while IMR balances decreased.

Leverage Levels

Leverage measures the degree to which an insurer's surplus is exposed to risks from underwriting and investment activities and presents another indicator of relative surplus strength for the L&H sector. Leverage ratio trends can be indicative of an insurer's ability to successfully navigate through market pressures. The greater financial flexibility illustrated by steady (or declining) leverage ratios, for example, can better enable insurers to fulfill policyholder obligations by (1) generating a profit by investing the premiums received from underwriting activities; and (2) limiting the risk exposure from the policies underwritten due to enhanced capacity. Insurers may also employ reinsurance to move some of the risks off their own balance sheets and onto the balance sheets of reinsurers (thereby improving, i.e., decreasing) leverage.

Figure 19 provides a view of the L&H sector's general account leverage for the last five years. After exhibiting an increase in 2022, the three leverage ratios in 2023 returned to levels more consistent with previous years. The L&H leverage ratios over the last five years exhibited the lowest level in 2021 and the highest level in 2022. The peak in 2022 can mainly be attributed to the decline in capital and surplus that year.

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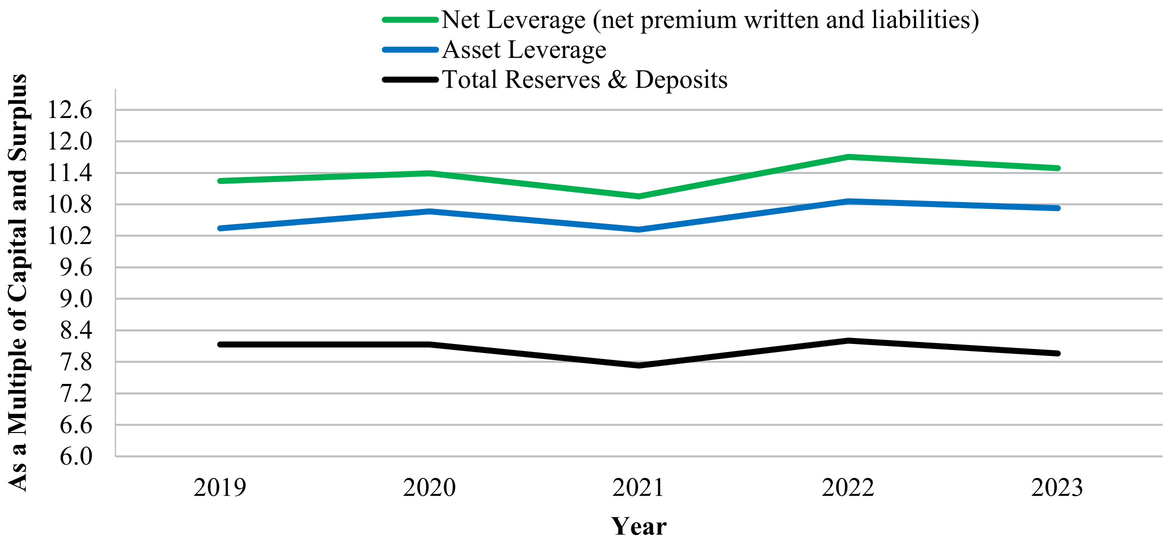
[85] The IMR is a statutory accounting requirement for insurance companies, which applies to fixed-income investments and some interest-rate sensitive derivative investments. The provision mandates the amortization of realized gains and losses from interest-rate movements in the IMR over an asset's remaining life.

[86] NAIC, *INT 23-01 Net Negative (Disallowed) Interest Maintenance Reserve* (2023), https://content.naic.org/sites/default/files/inline-files/22-19a%20-%20INT%2023-01%20-%20IMR%20clean.pdf.

Figure 19: L&H Sector Leverage Ratios



Source: S&P Global

The net leverage ratio was 11.5 in 2023, down from 11.7 in 2022, suggesting reduced reliance on reserve funds, as well as reduced strain on the L&H sector's ability to absorb losses from claims and estimated future liabilities.[87] Year-over-year growth of 3.6 percent in general account liabilities slowed from a 4.0 percent annual growth rate in 2022. General account liabilities totaled $5.2 trillion in 2023, compared to $5.0 trillion and $4.8 trillion in 2022 and 2021, respectively. Partially offsetting that growth was a 3.4 percent decline in net premiums, annuities, and considerations—the combined effects of which improved the net leverage ratio from the previous year. Net premiums and considerations were $685.8 billion in 2023, compared to $710.3 billion and $643.3 billion in 2022 and 2021, respectively.

Overall net premium growth dropped in 2023 due to reinsurance activity; however, rising interest rates and a stronger than expected economy drove individual annuity considerations to a 21-year high in 2023.[88] Annuity writers reported $347.7 billion in total individual annuity considerations in 2023, an increase from the $286.2 billion in 2022. Athene Holding Ltd. remained the market leader, writing $36 billion in direct individual premiums and considerations, a 74 percent annual increase. Mass Mutual Life Insurance Company ranked second in market share, writing $24.6 billion in direct individual premiums and considerations in 2023.

Fixed annuities comprised a significant percentage of individual annuity sales in 2023 with their promise of a guaranteed rate of return for a certain period with no direct market exposure for investors. Fixed annuities comprised 40.5 percent or $140.7 billion of the total

[87] Net leverage ratio is an indicator of the sector's exposure to pricing and estimation errors, determined by calculating total liabilities and net premiums, annuities, and considerations as a multiple of capital and surplus.

[88] Hailey Ross *et al.*, "US Individual Annuity Considerations Hit Record High in 2023 After 21.5% Jump," *S&P Global*, April 24, 2024, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-individual-annuity-considerations-hit-record-high-in-2023-after-21-5-jump-81261680.

annuity sales, while indexed annuities made up another 29.3 percent or $102 billion. Variable annuities of $84.3 billion contributed 24.2 percent to total individual annuities in 2023. In 2023, individual annuities accounted for 35.6 percent of L&H net premiums, annuities, and considerations compared to 23.5 percent in 2022, and emerged as the greatest share of the sector's business since 2019.[89]

The considerable level of PRT activity that continued in 2023 also impacted the net leverage ratio. Pension risk transfer sales in 2023 achieved an all-time high of 850 transactions, rising by 25 percent from 2022.[90] The total premium transferred amounted to $45.8 billion in 2023, compared to the record high of almost $52 billion in 2022.[91] Rising interest rates, with the effect of reducing the size of plan liabilities and improving funding levels, remained a catalyst for these transactions. As elevated interest rates continue and new market entrants participate, companies likely will be further encouraged to remove their pension obligations through PRT transactions.[92]

Furthermore, the net leverage ratio also considers the sector's reinsurance levels because reinsurance has the effect of improving surplus capacity. Surplus relief levels have steadily risen year-over-year, growing on average by nearly six percent annually over the last four years. In 2023, surplus relief was $29.1 billion, up by nearly 25 percent from $23.3 billion in 2019, and $27.4 billion in 2022. Despite increasing amounts of reinsurance, surplus relief has not changed considerably, accounting for 5.68 percent and 5.60 percent of capital and surplus in 2023 and 2022, respectively, up from 5.27 percent in 2019.[93] The share of gross premiums ceded to reinsurers increased substantially in 2023, resulting in a lower net retention rate of 61.3 percent in 2023 in comparison to 65.6 percent in 2022. Ceded premiums were $430.1 billion in 2023, up from $370.8 billion in the previous year. By contrast, the L&H sector assumed less premium in 2023, largely slowing the growth in gross premiums from 2022 levels. A 9.6 percent annual decline in assumed premium resulted in a ratio of assumed to gross premium of 15.4 percent at year-end 2023, down from nearly 18 percent at year-end 2022.

Turning to total policy reserves and deposit-type contract reserves, year-over-year growth has averaged 3.2 percent since 2020. Total policy reserves and deposit-type contract reserves were $4.1 trillion and $4.0 trillion for the years ending December 31, 2023 and 2022, respectively. The multiple of policy reserves and deposits to capital and surplus was 7.96 at year-end 2023, down from 8.21 at year-end 2022, remaining within the range

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[89] Data based on statutory filings compiled by S&P Global.

[90] LIMRA, "LIMRA: U.S. Pension Risk Transfer Premium Jumps 53% in Fourth Quarter 2023," news release, March 28, 2024, https://www.limra.com/en/newsroom/news-releases/2024/limra-u.s.-pension-risk-transfer-premium-jumps-53-in-fourth-quarter-2023/.

[91] The relatively higher premium volume in 2022 was mainly due to a single $16 billion buyout deal, involving IBM, Prudential Insurance Co. of America, and Metropolitan Life Insurance Company.

[92] LIMRA projects a similar path for pension risk transfer activity in 2024. LIMRA, "LIMRA: U.S. Pension Risk Transfer Premium Jumps 53% in Fourth Quarter 2023."

[93] The use of reinsurance for surplus relief is most common when an insurer begins to rapidly expand its volume of premiums written. "Surplus relief" refers to the amount of surplus not yet reported as income from commissions and expense allowances on reinsurance ceded during the current year. It captures the amounts related to A&H business as well as life and annuity business for general and separate accounts.

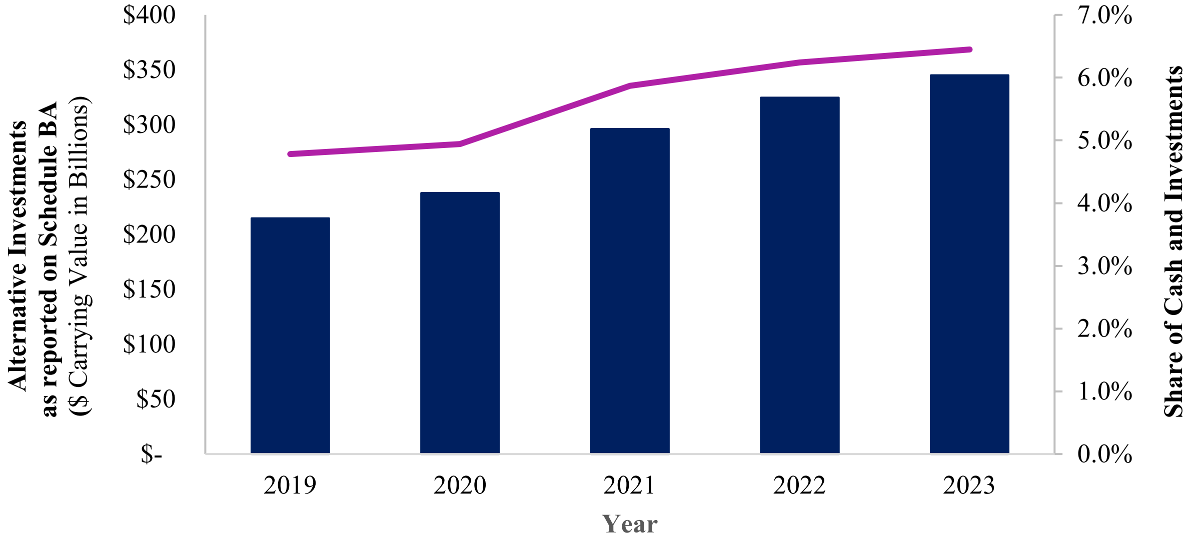
observed for the last five years and suggesting that the financial resources set aside by the sector have largely been in line with expected claims commitments.

Lastly, the asset leverage ratio aims to measure the potential impact on the balance sheet arising from the volatility and credit quality of the sector's investment portfolio, reinsurance recoverables, and agents' balances. The ratio is calculated as the sum of cash and invested assets plus reinsurance recoverables and agents' balances compared to capital and surplus. The higher the ratio, the more vulnerable the sector's capital is to market volatility and asset impairments. At year-end 2023, the L&H sector's asset leverage ratio was 10.73, which is 14 basis points lower than at year-end 2022. The recent improvement can primarily be attributed to the relative growth in capital and surplus of 4.7 percent. While the L&H sector raised its holdings of cash and invested assets from the prior year, their growth was less at 2.9 percent, contributing to the ongoing slowdown in growth of cash and invested assets observed over the last five years.

The asset leverage ratio in the last two years, however, has remained elevated compared to the previous years, as exposures to alternative assets as reported on Schedule BA and mortgage loans continue to widen relative to other asset holdings. The ongoing search for improved rates of return, which started with the decade of low interest rates and was further fueled by the monetary response to the pandemic, has encouraged insurers to shift their investment portfolios away from traditional holdings in favor of higher yielding but less liquid investments. The result has potentially heightened insurers' exposure to risks that can stem from a downward spiral in asset prices, increased issuer leverage, rising defaults, and potential funding risks. This shift in investment portfolios and surplus exposure for the sector continues to be closely monitored.

As Figure 20 shows, the L&H sector's holdings of alternative investments have been increasing since at least 2019. They totaled $344.9 billion at year-end 2023, up from $324.5 billion at year-end 2022, and constituted 1.6 times the value of these holdings at year-end 2019. While alternatives continue to take an ever-greater share of the sector's aggregate investment portfolio, their rate of growth has declined in the last two years. Annual growth rate of alternative investments over the last five years reached 24.5 percent in 2021, before slowing to 9.6 percent and 6.3 percent in 2022 and 2023, respectively. Though insurers are still seeking to maximize returns from alternative asset holdings, the L&H sector had an opportunity to rebalance its investment portfolio when interest rates began to rise in 2022.

Figure 20: Growth of L&H Sector Alternative Investments



Source: S&P Global

Implications of Reinsurance

The leverage ratios may not be capturing the implications of the increasing use of offshore reinsurance by life insurers to certain jurisdictions.[94] The increasing shift of business to Bermuda, Barbados, the Cayman Islands, and other jurisdictions in recent years may be heightening credit risk for the life sector, as growing amounts of U.S. life insurance liabilities are supported by offshore capital. According to some market participants, many of the transactions are driven by life insurers' efforts to de-risk their balance sheets.[95] These offshore reinsurance transactions often result in a release of capital by U.S. ceding insurers, enabling ceding insurers to enhance capital productivity and earnings growth.

Increased reliance on offshore reinsurance may, however, also introduce potential recapture risk to a ceding company's balance sheet.[96] Additionally, regulators have raised concerns over the growth of asset-intensive reinsurance that is transferring risk to firms in countries where reinsurers may hold reserves below that which the reinsurer would be required to hold under U.S. standards, potentially resulting in regulatory arbitrage and affecting the level of

[94] According to Moody's, life insurance and annuity reserves ceded offshore rose to $0.8 trillion at year-end 2022, amounting to about 40 percent of the $2 trillion total reserves ceded to Bermuda. Moody's Investor Service, *Life Insurance: Strong Capital Levels Heading into Uncertain Economic Environment* (2023),.https://www.moodys.com/research/Life-Insurance-US-Strong-capital-levels-heading-into-uncertain-economic-Sector-In-Depth--PBC_1363354.

[95] InsuranceERM, "Asset-Intensive Re/Insurance and the U.S. Market" (Webinar), June 11, 2024, https://www.insuranceerm.com/content/webinars/asset-intensive-re/insurance-and-the-us-market.html.

[96] Recapture risk refers to the effects on the cedant company's balance sheet from regaining previously reinsured risk and arises when a recapture provision has been included in the reinsurance agreement or if the cedant's regulator determines that the reinsurance arrangement does not qualify for capital relief. A reinsurance counterparty default is an example of a recapture event.

policyholder protection.[97] The NAIC and state insurance regulators are in the process of examining U.S. offshore reinsurance activities, including a proposal to require asset adequacy testing for ceded reinsurance transactions.[98] Additionally, the NAIC adopted a reinsurance comparison worksheet in June 2023, which is intended as an optional disclosure form for insurers to provide state regulators with greater visibility into the economic impacts of offshore reinsurance transactions.[99]

ii. Assets

Total L&H assets were $8.7 trillion at year-end 2023, rising by nearly six percent from $8.3 trillion at year-end 2022, and contributed to further improvement of the sector's capital position. Strong capital markets and a rebound in the performance of longer-duration investment strategies in 2023 created favorable conditions for the sector. As noted in the previous section, the turnaround in separate account asset growth was a significant factor in bolstering asset growth, further supported by continued growth in general accounts.

Steady growth of general account assets has resulted in an average annual growth rate of 4.8 percent in the last four years. Given the structure of general account assets, shown in Figure 21, growth has closely mirrored that of investment holdings, with the latter expanding at an annual rate of 4.5 percent on average. Growth in the sector's investment portfolio during 2023 was largely driven by increased cash equivalents, mortgage loans, asset-backed and other structured securities, and other invested assets.[100] General account assets grew to $5.7 trillion in 2023 from $5.5 trillion in 2022, a 3.7 percent year-over-year increase. The pace of annual L&H sector investment portfolio growth has slowed in recent years, from a high of 7.1 percent year over year in 2020 to 2.9 percent in 2023 (with a year-end balance of $5.3 trillion).

Separate account assets of $3.0 trillion increased by 9.5 percent at year-end 2023, after exhibiting a more than 17 percent annual decline at year-end 2022. Significant uncertainty and market volatility were present in 2022, as inflationary pressures expanded and the Federal Reserve embarked on an aggressive path of monetary tightening. Despite the considerable decline in 2022, separate account assets have been expanding by 2.4 percent on average in each of the last four years.

General account assets have averaged nearly 64 percent of the total asset portfolio on a yearly basis since 2019, while separate account assets have averaged slightly more than 36 percent. Figure 21 shows the composition of the L&H sector's asset portfolio and distribution of cash and investments and demonstrates the gradual shift away from

[97] In broad terms, asset-intensive reinsurance refers to a business model that focuses on the use of private, illiquid, structured and/or complex investments to manage insurance liabilities.

[98] NAIC, *AAT Reinsurance Exposure 031724* (2024), https://content.naic.org/sites/default/files/inline-files/AAT%20Reinsurance%20Exposure%20031724.pdf.

[99] NAIC, *Draft Minutes of the Financial Stability (E) Task Force* (March 16, 2024), https://content.naic.org/sites/default/files/national_meeting/Minutes-FSTF%20%281%29.pdf.

[100] Other invested assets largely capture other long-term investments reported in Schedule BA of the statutory financial statement.

traditional L&H investments towards other, higher yielding and often more complex, asset classes like CLOs and other structured securities.

Figure 21: Composition of L&H Sector Asset and Investment Portfolio

	2019	2020	2021	2022	2023
General Account Assets / Total Assets	62.6%	62.2%	61.4%	66.5%	65.3%
Separate Account Assets / Total Assets	37.4%	37.8%	38.6%	33.5%	34.7%
Bonds (long-term)	71.2%	70.4%	70.0%	69.6%	68.1%
Preferred Stocks	0.3%	0.3%	0.4%	0.3%	0.3%
Common Stocks	2.3%	2.3%	2.4%	2.1%	2.1%
Mortgage Loans	12.9%	12.5%	12.7%	13.4%	13.7%
Real Estate	0.5%	0.5%	0.5%	0.4%	0.4%
Contract Loans	3.0%	2.8%	2.6%	2.5%	2.6%
Derivatives	1.8%	2.5%	1.9%	1.8%	1.9%
Cash & Short-Term Investments	2.7%	3.3%	2.9%	2.8%	3.5%
Other Investments	5.3%	5.5%	6.6%	7.1%	7.2%
Total Cash & Investments	100.0%	100.0%	100.0%	100.0%	100.0%
Share of General Account Assets	**94.9%**	**94.9%**	**94.8%**	**94.4%**	**93.6%**

Source: S&P Global

As shown in Figure 21, the L&H sector's general account asset portfolio reflects the structure of the investment portfolio. Cash and invested assets made up close to 94 percent or $5.3 trillion of general account assets at year-end 2023. Bond holdings (primarily corporate) have consistently made up the bulk of the L&H sector's investment portfolio, reflective of the significant role of life insurers in the corporate bond market because of their asset-liability matching strategy. The predictability of cash flows from bond investments enhances the ability of insurers to meet future policyholder obligations. Since 2019, close to 98 percent of bonds held by life insurers have been long-term in tenure—in line with the long-term obligations under life policies and annuity contracts.

Long-term bonds held by L&H insurers totaled $3.6 trillion at year-end 2023, not materially changed from the level reported at the prior year-end but comprising a smaller proportion of the sector's total investment holdings. Low interest rates, in the aftermath of the 2008 financial crisis and during the COVID-19 pandemic, caused life insurers to seek higher yield, which also eased balance sheet pressures created by capital-intensive products such as traditional, guaranteed return life insurance products. As a result, the prolonged low interest rate environment compelled insurers to realign their investment activities. As shown in Figure 21, the sector's allocation to long-term bonds has followed a downward trajectory over the last five years, falling from 71.2 percent at year-end 2019 to 68.1 percent at year-end 2023. Additionally, the L&H bond portfolio reflects the ongoing migration away from corporates and toward such non-traditional bonds as CLOs and other structured securities. (See also Section II.A.2.b.iii.)

By contrast, L&H exposure to alternative investments has increased. Allocations to other invested assets (largely alternative investments) and mortgage loans have expanded by 190 basis points and 80 basis points, respectively, over the last five years. Other invested assets have consistently shown year-over-year growth. At year-end 2023, they totaled $387.1

billion, increasing by 5.6 percent annually but slowing from double-digit growth rates in the previous three years.[101] The second largest L&H investment allocation has consistently been mortgage loans. They totaled $733.0 billion in 2023, increasing by 5.6 percent from $694.4 billion in 2022 and annually by 6.1 percent on average since 2020.[102] As with other classes of invested assets, growth in mortgage loan holdings slowed in 2023. Mortgage loans in 2022 grew by 8.5 percent from year-end 2021.

Commercial mortgage loans are a source of diversification and have consistently made up a significant portion of the L&H sector's mortgage loan exposure. Commercial mortgages of $613.6 billion comprised 83.5 percent of L&H mortgage exposure at year-end 2023, compared to $598.1 billion and 86.1 percent at the prior year-end.[103] The state of the CRE market has been of considerable focus in the current post-pandemic period and the higher interest rate environment. CRE debt outstanding was $5.9 trillion as of the fourth quarter of 2023, with insurance companies holding 12 percent or about $708 billion of that exposure.[104] Office properties (a major component of CRE), in particular, remain under pressure due in part to remote work trends, especially in some urban areas. Low occupancy rates, repricing risk, and lower rent are among the factors stressing office property valuations and increasing the potential for defaults. The multifamily space is also showing some signs of weakness due in part to supply imbalances and elevated interest rates.[105]

Current market distress can be seen with the escalation of mortgages in foreclosure held by the L&H sector. Mortgages in foreclosure of $1.8 billion at year-end 2023 rose by over 65 percent from year-end 2022 and is over three times the levels reported in 2020. Of those total foreclosures at year-end 2023, commercial mortgages comprised 60.3 percent or $1.1 billion, compared to 54.8 percent or $609.8 billion at year-end 2022. FIO, state regulators, and other market participants are monitoring this trend. Notably, over 99 percent of the sector's mortgage loan portfolio has persistently been (and remains) in good standing. Mortgages in foreclosure comprised only 0.36 percent of the L&H sector's capital and surplus at year-end 2023. Moreover, the L&H sector has taken a conservative, diversified approach to its CRE investments, resulting in a high credit quality of the related exposure.[106]

As already noted, bonds provide life insurers the ability to align their cash flow needs with their long-dated obligations and are the largest class of investment holding on the sector's balance sheet. Their make-up, however, reflects a gradual shift to more complex bond

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[101] Annual growth in other invested assets was 10 percent, 25.3 percent, and 11 percent in 2022, 2021, and 2020, respectively.

[102] Mortgage loan values cited refer to "admitted" amounts. With non-admitted amounts, mortgage loans totaled $734.5 billion and $695.1 billion in 2023 and 2022, respectively.

[103] S&P Global (Life Industry Schedule B Part 1 – Mortgage Loans Owned as of December 31 of Current Year).

[104] Federal Reserve, *Financial Stability Report* (2024), https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

[105] At year-end 2023, life insurer commercial mortgage portfolios were comprised of multifamily loans (31 percent), office loans (17 percent), industrial (16 percent), other mortgages (18 percent), retail (13 percent), hotel (3 percent), and mixed-use properties (2 percent).

[106] Carmi Margalit, *Commercial Real Estate Exposure at U.S. Life Insurers* (2024), https://www.spglobal.com/_assets/documents/ratings/research/101598543.pdf.

structures over the last five years. Corporate and municipal bonds constituted 61.6 percent and 5.7 percent of the bond portfolio, respectively, at year-end 2023, down from 62.7 percent and 6.0 percent, respectively, at year-end 2022.[107] At year-end 2019, the shares were 62.3 percent for corporates and 6.3 percent for municipal bonds. By contrast, asset-backed securities (ABS) and other structured securities of $493.7 billion made up 13.5 percent of the bond portfolio at year-end 2023, a substantial increase from 12.3 percent at year-end 2022 and 9.8 percent at year-end 2019.[108] As FIO has previously reported, the L&H sector has been expanding its holdings of ABS and other structured securities year after year, and the average annual growth rate is now in excess of 11 percent for the last five years. Exposure to this asset class in 2023 is 1.5 times that reported in 2019.[109]

The current trends suggest that even in the presence of higher interest rates, the sector is continuing its search for improved marginal rates of return and potential capital efficiencies—though perhaps this trend is slowing in the current macro environment. Economic volatility and other recent headwinds have also contributed to the continued desire of L&H insurers to diversify into additional asset classes. Structured securities may have increased complexity and—particularly in times of financial stress—increased illiquidity. Accordingly, such market developments suggest the need for close monitoring by regulators for their implications on insurer solvency and policyholder protection.

iii. Liquidity

Adequate risk management capabilities that properly address asset-liability and liquidity risk exposures are critically important for life insurers. Policyholder behavior, changing economic conditions, credit rating downgrades, and greater margin requirements on derivatives are among some of the drivers that can affect a life insurer's liquidity demands.

Though some weakening in liquidity (increased liquidity risk) was apparent in 2023, the L&H sector's ability to meet its cash flow needs remains sound, which can be attributed in part to strong premium growth from record annuity sales (see Section II.A.2.b). However, the effects of elevated interest rates and current inflationary pressures (receding from 2022 peak levels) contributed to rising surrenders and incentivized greater asset illiquidity in 2023. The current liquidity ratio, which is a measure of an insurer's immediate ability to pay its obligations, also declined further from prior year end.

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[107] Asset-backed and other structured securities include consumer ABS, CLOs, commercial ABS, and lease-backed securities. NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*, https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2023.pdf.

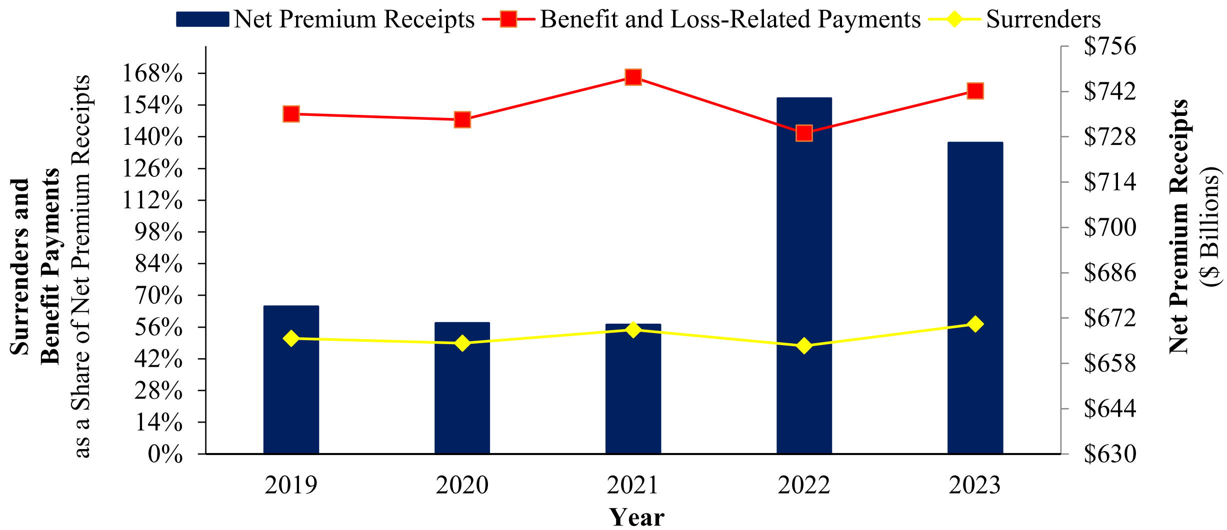
[108] NAIC Capital Market Special Report, *U.S. Insurers' Cash and Invested Assets Reach Almost $7 Trillion at Year-End 2019*, https://content.naic.org/sites/default/files/capital-markets-special-report-cash-invested-assets-2019.pdf.

[109] The greater granularity around the mix of assets, discussed in this report, is based on analysis performed by the NAIC. Unless otherwise cited, the numbers in this report are drawn from S&P Global. While S&P Global's insurance industry database is based on the statutory statements from the NAIC, there may be some differences between these sources.

Cash Flow

The L&H sector's liquidity profile has been characterized by positive net cash flows from operations year after year, which has been a consistent strength of the sector. Figure 22 illustrates the cash flows from L&H sector operations for each of the past five years, showing surrenders and benefit payments, each as a share of net premium receipts.[110]

Figure 22: Cash Flows from Operations for the L&H Sector



Source: S&P Global

Note: Net premium receipts make up about 70 percent of cash inflows

Largely due to the combined effects of significantly higher surrenders and benefit payments and reduced net premium receipts, net cash flows from operations in 2023 were noticeably lower than in 2022. Nevertheless, net cash flow from operations remained positive. In viewing the L&H sector's experience over the last five years, the level of surrender activity and benefit payments reached a high point in 2023, a change from the positive trends observed in 2022 (reflected by declining ratios and levels). This may be attributed to a potential lag between rising rates and policyholders seeking higher yielding product alternatives.

The ratios in Figure 22 are reflective of the broader market and macroeconomic conditions in 2023. As inflation moderated, with labor markets remaining strong, the Federal Reserve maintained the federal funds rate at an elevated but steady level (relative to previous years). Higher interest rates tend to expose life and annuity writers to greater lapse risk—for example, lapses for accumulation-oriented fixed-indexed annuity products doubled from six percent in 2022 to 12 percent in 2023, as policyholders surrendered their policies for more attractive yields

[110] This liquidity analysis is based on cash inflows and outflows from operations, as reflected in the cash flow statement, and specifically refers to premiums that were collected and benefit and loss-related payments made during the year. By contrast, the income statement presents a view of profitability for the year, reflecting the revenues and gains as well as the expenses and losses incurred during the reporting period. Timing differences differentiate the cash flow and income statement.

or richer policy benefits offered by other products.[111] In aggregate, the L&H sector reported double-digit growth in surrenders of almost 18 percent in 2023, totaling $416.2 billion, compared to surrenders of $353.0 billion in 2022.

Benefit and loss-related payments amounted to $747.1 billion in 2023, up from $694.7 billion in 2022, and were mostly driven by disability-related benefit payouts (as opposed to mortality benefits). The deterioration in these two key ratios (in Figure 22) was exacerbated by lower premium receipts in 2023. Though robust annuity sales were reported, net premiums collected were $726.2 billion in 2023, down by 1.8 percent from $739.9 billion in 2022, mainly due to the increased use of reinsurance in 2023.

Positive cash flows from operations have contributed to constant growth in cash and invested assets for the L&H sector, bolstering its liquidity position. This remained true in 2023—cash and invested assets of $5.3 trillion grew by 2.9 percent from the prior year. However, that growth has decelerated since 2020. Cash and invested assets grew annually by 3.0 percent, 4.9 percent, and 7.1 percent for 2022, 2021, and 2020, respectively. Growth in the investment portfolio, however, continued to closely track year-over-year growth in general account liabilities, as the latter has also slowed in the last four years and totaled $5.2 trillion at year-end 2023. Moreover, the ratio of cash and invested assets to general account liabilities has remained stable at slightly above an annual multiple of one, illustrating the sector's tightly matched asset-liability books.

Due to their longer duration liabilities, life insurers' portfolios are often heavily weighted with fixed-income securities because they provide greater certainty in asset cash flows. As such, bonds have consistently made up the bulk of L&H cash and investments. The sector has invested at least 94 percent of its bond portfolio in investment-grade debt each year since 2019, serving to mitigate its credit risk exposure and reinforce its liquidity. Bonds totaled $3.7 trillion at year-end 2023, increasing by 1.3 percent from the previous year end.

To align with the long-dated obligations on the L&H sector's balance sheet, about 40.5 percent or $1.5 trillion of the bond portfolio had maturities of 10 years or longer at year-end 2023, down from 41.2 percent at year-end 2022 but comparable to 40.4 percent at year-end 2021. Of the bonds with maturities of 10 years or longer, 51.2 percent had maturities greater than 20 years, down from 53.3 percent. This continued the downward trend observed since 2020 and reflects the sector's shift in investment strategies. Nearly 24 percent of the bond portfolio consisted of holdings with maturities between 5 and 10 years as of year-end 2023, compared to 26.3 percent as of the prior year-end. In summary, close to two-thirds of the sector's entire bond portfolio has steadily been allocated to medium- to long-duration investments in each of the last five years, supporting the longer time horizon of a life insurer's obligations.

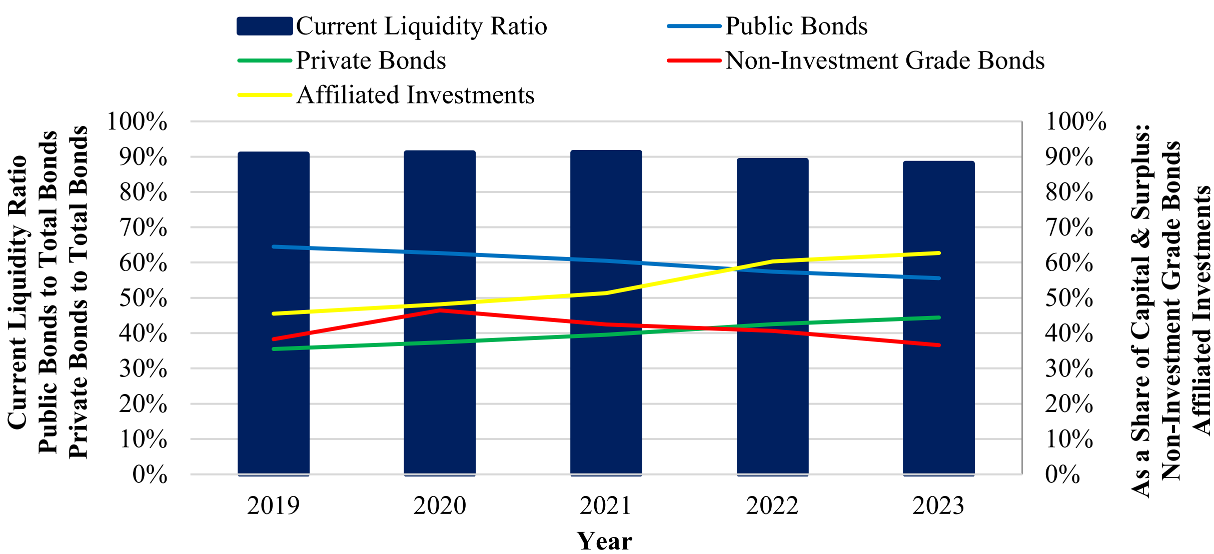
[111] Nicholas Carbo & Kelly Levin, "How Rising Interest Rates Impacted Fixed Annuity Lapses," *Oliver Wyman Insights*, July 2024, https://www.oliverwyman.com/our-expertise/insights/2024/jul/how-rising-interest-rates-impacted-fixed-annuity-lapses.html.

Investment Trends

As noted earlier, the protracted low interest rate environment had contributed to balance sheet strains for life insurers, forcing them to search for higher yield from illiquidity premium and achieve capital efficiencies in support of the sector's product mix. This trend was driven in part by efforts to maintain competitiveness, given increased entrants in the life insurance space. Greater illiquidity, however, carries with it a potential widening of market and credit risk exposures, as described below. At present the L&H sector's continued ability to support its policyholder and funding commitments as they come due remains strong. Nevertheless, the increasing reliance on the illiquid private credit market has led to closer monitoring and recent regulatory developments by state regulators.

The ongoing use of complex, structured, and private and other alternative assets has gradually transformed the investment profile of the L&H sector, as illustrated in Figure 23. The investment allocations reflect a tradeoff between increased liquidity and complexity risk and higher expected yields. Specifically, the share of the bond portfolio allocated to private bonds has remained on an upward path, while public bond allocations have decreased by about 9 percentage points since 2019.[112] Additionally, other investment allocations, such as to non-investment grade bonds and affiliated holdings, continue to carry implications for the sector's reserves and capital that these assets support.

Figure 23: A View of L&H Sector Liquidity



Source: S&P Global

The L&H sector has been reducing its allocations to non-investment grade bonds with their use decreasing since 2020. Though steadily declining as a share of L&H capital and surplus since 2020, non-investment grade bonds still account for a significant portion—36.6 percent of capital and surplus at year-end 2023 compared to 40.7 percent and 42.5 percent for the years ending December 31, 2022 and 2021, respectively. Furthermore, affiliated investments have been on an

[112] At year-end 2019, public bonds of $2.1 trillion comprised almost 65 percent of the L&H aggregate bond portfolio.

upward trajectory, growing year-over year and accounting for a larger proportion of capital and surplus. Such investments are typically more illiquid, and thus can negatively impact the overall quality of available capital.

As shown in Figure 23, privately placed bonds have consistently accounted for a growing share of total bond holdings over the past five years, reaching 44.4 percent at year-end 2023. Private-label residential mortgage-backed securities saw the fastest growth of L&H bond holdings in 2023, with year-over-year growth of 12.1 percent.[113] The increase in allocations to private assets have allowed the L&H sector to diversify its investment portfolio and benefit from lower correlation to public markets. The growing reliance on private credit has also provided insurers the ability to generate additional spread earnings to compensate for the relative illiquidity assumed. This trend, however, has resulted in more complex assets on life insurers' balance sheets, presenting increased challenges in analyzing capital quality and the sector's liquidity position.

The following subsections discuss some key characteristics that may contribute to greater illiquidity of certain asset classes, as well as to the ongoing growth of non-traditional and affiliated exposures in 2023.

Private Assets

The risk exposures of private assets are more difficult to monitor and assess, due to the specialized expertise needed to understand and structure private assets, as well as the lower levels of external transparency associated with private as compared to public assets. Directly observable market prices for private assets are often absent, unlike for public markets where prices are readily available. As a result, estimating the value of private assets may require assumptions and projections that are difficult to validate. Furthermore, for the purposes of raising capital, the U.S. Securities and Exchange Commission does not require private placements to be registered, and therefore these offerings are not subject to disclosure and reporting requirements comparable to those for public issuers. Additionally, private placements are not typically assigned credit agency ratings, making it challenging for investors and regulators to compare the risk of these instruments to that of rated issues.

In large measure due to such challenges, issuers of private assets must be prepared to pay investors a premium in exchange for taking on the potential added risk. Life insurers' private placement holdings have progressively expanded in the last five years, accounting for 3.2 times the L&H sector's capital and surplus at year-end 2023 compared to a 2.6 multiple at year-end 2019.

Alternative Assets and Structured Securities

Growth in alternative assets was nearly five times the growth of the sector's aggregate bond portfolio at year-end 2023.[114] The trend towards investing in alternative and non-traditional asset classes by life insurers has not only raised the level of illiquidity embedded in capital and

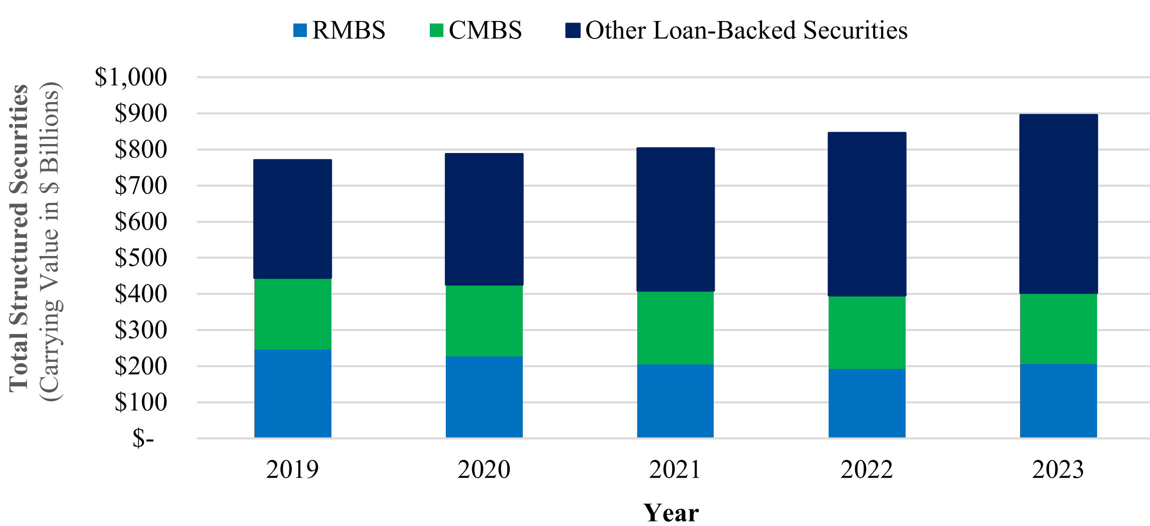
[113] NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[114] Alternative investment values are drawn from Schedule BA.

surplus but has amplified market risk exposures. The lower degree of credit and pricing transparency associated with these illiquid types of investments can result in heightened volatility. As illustrated in Figure 20, the L&H sector's exposure to alternative assets, as reported on Schedule BA, grew more slowly at 6.3 percent during 2023 compared to the annual growth reported in the previous three years. However, they comprised 67.3 percent of the sector's capital and surplus at year-end 2023, up from 66.3 percent at year-end 2022 and nearly 20 percentage points greater than at year-end 2019 (48.5 percent).

As noted, the L&H sector's bond portfolio extends beyond corporate and government bonds to include ABS and other structured securities (including CLOs). As indicated in Figure 24, total structured securities of almost $896 billion comprised 16.8 percent of the L&H sector's investment portfolio as of year-end 2023, a volume that has been steadily rising each year since 2019. The presence of such securities on insurers' books highlights the growth of non-traditional bond holdings for life insurers and points to insurers' search for portfolio diversification and higher yield. Structured securities amounted to 24 percent of total bonds as of year-end 2023, up from 22.9 percent and 22.3 percent for the previous two years ended 2022 and 2021, respectively. Like corporate and municipal debt instruments, structured securities are susceptible to credit pressures and interest rate movements. However, ABS and other structured asset classes, are more complex than traditional debt instruments. Therefore, they may amplify liquidity vulnerabilities in times of stress and may also be subject to other risk exposures that include valuation and prepayment risks.[115]

Figure 24: L&H Sector Portfolio of Structured Securities



Source: S&P Global

From 2019 through 2021, the L&H sector reported year-over-year growth in CMBS. In 2023, CMBS holdings were $195.7 billion, decreasing from $203.3 billion and $204.2 billion in 2022

[115] The degree and scope of the risks associated with these types of securities differ depending on their structure and other characteristics. The securities are structured to meet investors' risk appetites and can range from pass-through arrangements to complex tranching structures.

and 2021, respectively. Although CMBS holdings have been on a decline in recent years, they account for a considerable share of L&H capital and surplus, amounting to 38.2 percent at year-end 2023 compared to 41.5 percent at year-end 2022 and 40.9 percent at year-end 2021. Other loan-backed securities (primarily, collateralized loan obligations or CLOs) have shown substantial growth in the last four years, averaging nearly 11 percent annually. In 2023, they comprised over 55 percent or $493.2 billion of total structured securities, an increase from $450.4 billion and $394.1 billion in 2022 and 2021, respectively.[116] Furthermore, other loan-backed securities comprised 96.2 percent of L&H capital and surplus at year-end 2023, compared to 92 percent at the prior year-end. Because of their complexity, CLOs are less liquid and subject to greater volatility than corporate bonds, particularly during market disruptions. During periods of heightened interest rates, borrowing costs for corporations rise, exposing the underlying loans to greater default risk.

Finally, the L&H sector expanded its residential mortgage-backed holdings in 2023 with year-over-year growth of 7.5 percent to total $207 billion, reversing the downward trend observed in the previous four years.

Affiliated Exposures

The L&H sector continues to report year-over-year growth in affiliated investments, and although the pace has slowed in the last two years, the effects of affiliated exposures continue to be material. Affiliated investments were $321.5 billion and $295.2 billion in 2023 and 2022, respectively, amounting to an 8.9 percent year-over-year increase and making up 6.0 percent of L&H cash and investments. Due to the relatively illiquid nature of affiliated holdings, significant growth in affiliated investments may have the potential to adversely affect an insurer's capital base and ability to meet unexpected cash needs. Affiliated cash and invested assets made up 62.7 percent of capital and surplus as of year-end 2023, an increase from 60.3 percent of capital and surplus as of year-end 2022 and 51.3 percent as of year-end 2021.

The composition of the L&H sector's affiliated investment portfolio did not change from year-end 2022; affiliated alternative investments still comprised close to half (47.4 percent) of all affiliated holdings at year-end 2023. Affiliated alternative holdings have consistently comprised the bulk of the L&H sector's affiliated exposures in each of the last five years, with 2023 levels at 1.5 times the levels at year-end 2019.[117] At year-end 2023, affiliated alternatives of $152.2 billion accounted for 44.1 percent of total Schedule BA investments, compared to 43.1 percent and 42.7 percent for the years ending December 31, 2022 and 2021, respectively.[118] Affiliated bonds were the next largest affiliated exposure, totaling $79 billion at year-end 2023 relative to $72.9 billion at the prior year end, and continued to comprise close to 25 percent of the L&H affiliated portfolio. Finally, affiliated common stock of $72.5 billion accounted for 22.6 percent

[116] The source of data cited for structured securities in this section is S&P Global and because of timing differences the S&P data may differ slightly from the amounts reflected in NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[117] At year-end 2019, affiliated alternative investments were $100.5 billion.

[118] Cash, short-term investments, preferred stock, and mortgage loans combined to make up the remainder of affiliated holdings, representing 5.5 percent of affiliated exposures at year-end 2023.

of total affiliated holdings at year-end 2023, compared to $67.6 billion and 22.9 percent at year-end 2022.

Mitigants

As outlined above, there are signs of a potential weakening in the L&H sector's liquidity profile. However, there are several factors mitigating such concerns. First, the sector's ability to effectively manage its cash flow is reflected in its consistent growth of cash and invested assets. This suggests that the L&H sector has been able to prepare for and fulfill its policyholder and operational needs on an ongoing basis.

Second, there are signs of improved credit quality in L&H bond exposures. The allocation to investment-grade bonds increased by 38 basis points to 95 percent at year-end 2023. Investment-grade bonds have constituted about 94 percent of bond exposures in each of the last five years, providing a reliable source of liquidity for life insurers.

Third, FIO's analysis shows that structured securities relative to L&H capital and surplus and cash and invested assets have generally remained within the ranges observed in the last five years. The CMBS asset class is currently under some pressure, but the L&H sector allocated only 3.7 percent of cash and invested assets to CMBS at year-end 2023, reducing that proportion from 3.9 percent and 4.0 percent for the years ending 2022 and 2021, respectively. Further, the L&H sector's entire Schedule BA exposures comprised only 6.5 percent of total cash and investments as of year-end 2023 (up slightly from 6.2 percent at year-end 2022). As for CLOs, because these investments are floating-rate instruments, any market volatility generated by rising rates is mitigated to some extent. Because growth in CLOs has been meaningful for life insurers, however, this asset class has come under increased regulatory scrutiny. Specifically, the NAIC and state regulators are currently evaluating the appropriateness of RBC charges assigned to CLO holdings, and in particular, the capital treatment of residual (equity) tranches.[119]

Fourth, despite the continued growth in the L&H sector's holdings of affiliated cash and investments, the bulk of the investment portfolio, averaging 95 percent annually since 2019, has consistently been comprised of unaffiliated investments. Moreover, unaffiliated investments held by life insurers have been aligned with the sector's fundamental risk management philosophy of asset-liability matching, with bonds accounting for at least 71 percent of unaffiliated holdings in each of the last five years. Growing at an annual pace of 4.1 percent on average in the last four years, unaffiliated cash and invested assets were $5.0 trillion at year-end 2023, up from $4.9 trillion at year-end 2022 and $4.8 trillion at year-end 2021. Unaffiliated cash and invested assets have covered general account liabilities by a multiple of one in each of the last five years, while the contribution of unaffiliated investments to capital and surplus has remained steady and substantial at a yearly multiple of almost 10.

Affiliated transactions have also drawn the increased attention of the NAIC and state regulators. The NAIC adopted changes to its *Financial Analysis Handbook* in July 2024, providing additional guidance to regulators when reviewing affiliated investment management

[119] NAIC, "NAIC Adopts Change to Better Monitor Life Insurer Investments," news release, August 16, 2023, https://content.naic.org/article/naic-adopts-change-better-monitor-life-insurer-investments.

agreements.[120] The NAIC has also proposed revisions to add new regulatory considerations and guidance to assist regulators in assessing complex ownership structures.[121]

Finally, surrender activity in the last five years attained a high point in 2023. While rising interest rates heightens lapse risk for life insurers, strong premium growth has been a mitigant. Surrender values paid as a percentage of premium have been among the lowest levels since at least 2019, in part due to surrender charges and market value adjustments.[122] Moreover, the "higher for longer" interest rate environment makes savings products more appealing to consumers, further boosting the record annuity sales attained in 2023 and easing potential cash flow strains.

3. Property and Casualty Sector

This section presents additional analysis of the financial performance of the P&C sector in 2023 and then assesses the P&C sector's overall financial condition as of December 31, 2023, including a trend analysis of the last 10 years.

a) Financial Performance

i. Direct and Net Premiums Written

For 2023, total P&C sector direct premiums written reached a record level at $964 billion, marking the second consecutive year of a 10 percent annual increase. Figure 25 shows the 2023 composition of P&C sector direct premiums written by lines of business. Figure 26 shows a longer-term view of the amount and composition of direct premiums written by major lines of business. Direct premiums written for personal lines increased by 14 percent compared to 2022, while direct premiums written for commercial lines increased by seven percent. The relationship between personal lines and commercial lines premiums returned to its historical average with total personal lines premiums exceeding total commercial lines premiums. During 2023, each of the three largest lines of business experienced double-digit growth in direct premiums written.[123] Private passenger auto liability premiums (approximately 19 percent of total sector direct premiums written) increased by 11 percent in 2023, and auto physical damage premiums (16 percent of the sector total) increased by nearly 17 percent, largely driven by approved rate

[120] NAIC 2024 Spring National Meeting, Meeting Minutes of Statutory Accounting Working Group, March 16, 2024, https://content.naic.org/sites/default/files/inline-files/Packet%202%20SAPWG%203-24.pdf.

[121] "Tracking for the List of 13 MWG Considerations – PE Related and Other," NAIC, last updated August 2, 2024, https://content.naic.org/sites/default/files/inline-files/13%20MW%20Considerations%20-%20Status%208-13-24_0.pdf.

[122] A.M. Best, *U.S. Annuity Surrenders Up Through Third-Quarter 2023, Edging Out Premium Growth*, January 15, 2024, available through https://news.ambest.com/pr/PressContent.aspx?altsrc=2&refnum=34302.

[123] A.M. Best, *U.S. Property/Casualty – 2023 Direct Premiums Written by Line; Direct Premiums Written Increased 10.5%* (2024), available through https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=344082&_gl=1*wa3rg2*_ga*NDA2ODA4MTUuMTcxNzE1OTk3Ng..*_ga_VNWYD5N5NL*MTcyNjE2OTA4My43LjEuMTcyNjE5NDk2My4wLjAuMA.

increases, but also boosted by a 12 percent increase in new vehicle sales in the U.S.[124] According to Bureau of Labor Statistics data, average personal auto insurance premiums increased 17 percent for U.S. urban consumers in 2023, more than double the rate of increase in 2022 and the highest increase in the past 10 years.[125] Homeowners' average multi-peril insurance premiums (approximately 16 percent of sector total) increased by 14 percent in 2023 because of a variety of factors.[126] Commercial lines premium growth was driven by rate increases, with gains in premiums for commercial multi-peril, allied lines, fire, and commercial auto lines of business having the most significant effects.[127] Total net reinsurance cessions for the sector increased almost eight percent for 2023, resulting in net premiums written for the sector of a record $857 billion, which is an increase of 10 percent from 2022. Generally, primary insurers retained more business in 2023 given generally higher costs of reinsurance, and specifically in commercial property reinsurance.[128]

[124] *See, e.g.,* A.M. Best, *U.S. Private Passenger Auto – Industry's Direct Written Premiums Increased 14.5%* (2024), https://news.ambest.com/research/displaybinary.aspx?URatingID=2562038&TY=P&record_code=344687; A.M. Best, *U.S. Auto Liability – Industry's Direct Written Premiums Increased 10.9%* (2024), https://news.ambest.com/research/displaybinary.aspx?URatingID=2562038&TY=P&record_code=344680; A.M. Best, *U.S. Physical Damage – Industry's Direct Written Premiums Increased 16.8%* (2024), https://news.ambest.com/research/displaybinary.aspx?URatingID=2562038&TY=P&record_code=344681; Patrick Manzi, "NADA Market Beat: 2023 New Light-Vehicle Sales Reach 15.46 Million Units," *National Automobile Dealers Association (NADA)*, December 31, 2023, https://www.nada.org/nada/nada-headlines/nada-market-beat-2023-new-light-vehicle-sales-reach-1546-million-units.

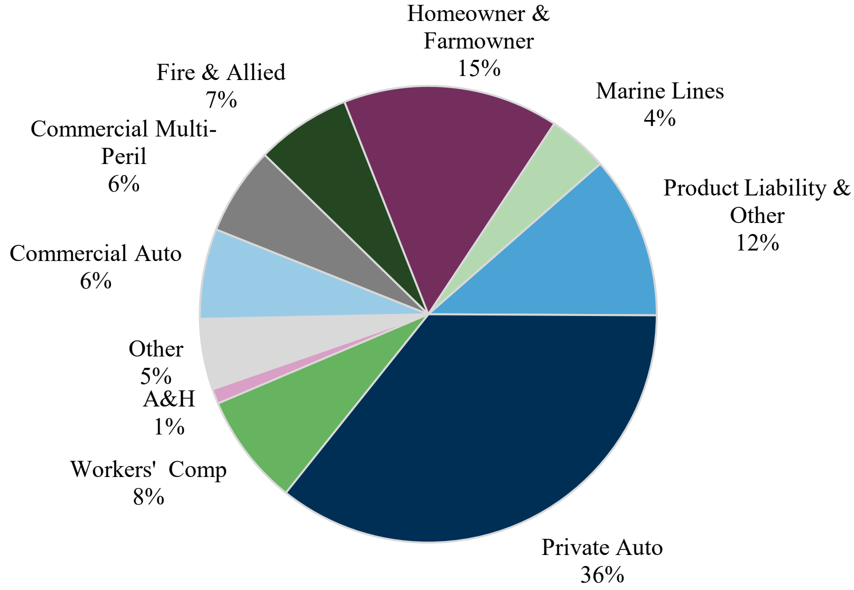
[125] "Databases, Tables, and Calculators by Subject: Series Title: Motor Vehicle Insurance in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted," U.S. Bureau of Labor Statistics, https://data.bls.gov/timeseries/CUUR0000SETE?output_view=data.

[126] A.M. Best, *Best's Rankings: U.S. Homeowners Multi-Peril – Industry's Direct Premiums Written Increased 14.1%* (2024), https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=346637.

[127] A.M. Best, *Best's Rankings: U.S. Property/Casualty – 2023 Direct Premiums Written by Line; Direct Premiums Written Increased 10.5%.*

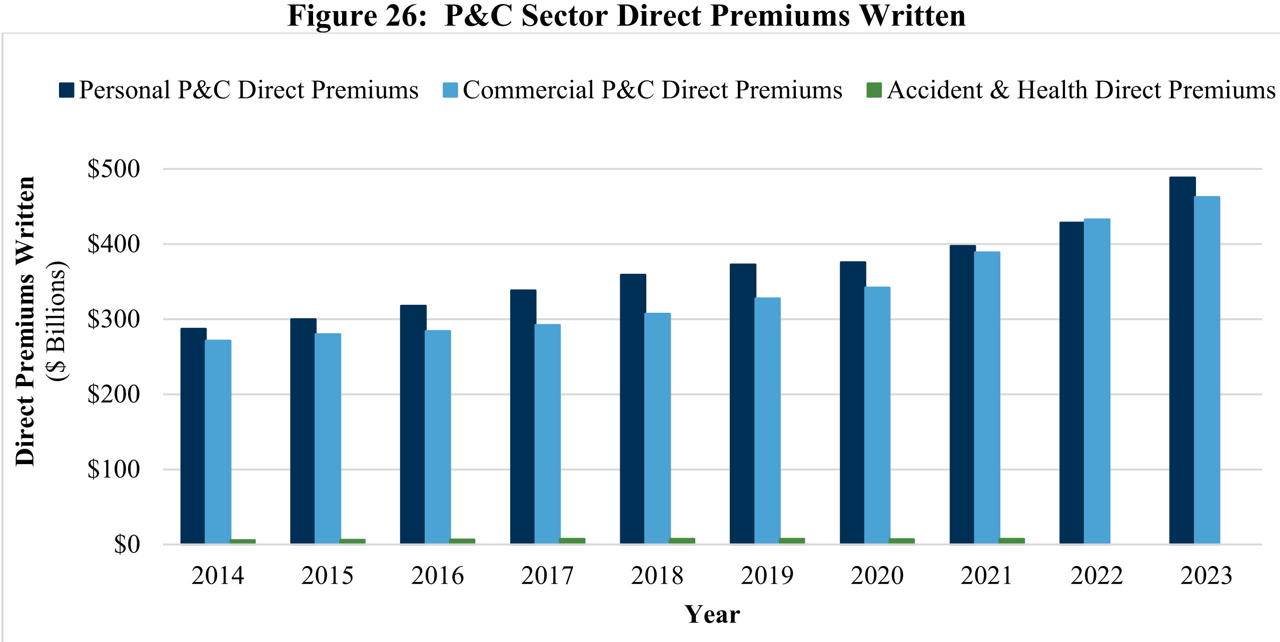
[128] Kane Wells, "Reinsurers See Strong Profits in 2023 Amid Market Reset & Hard Pricing: AM Best," *Reinsurance News*, August 14, 2024, https://www.reinsurancene.ws/reinsurers-see-strong-profits-in-2023-amid-market-reset-hard-pricing-am-best/.

Figure 25: 2023 P&C Sector Composite of Direct Premiums Written



Source: S&P Global

Figure 26: P&C Sector Direct Premiums Written



Source: S&P Global

ii. Underwriting Results

Figure 27 shows the combined operating ratio for the P&C sector and its composition for the past five years.[129]

Figure 27: P&C Sector Combined Operating Ratios

	2019	2020	2021	2022	2023
Loss Ratio	60.05	59.34	62.39	66.44	66.49
Loss Adjustment Expense Ratio	10.98	10.80	10.15	9.93	9.87
Loss and Loss Adjustment Expense Ratio	**71.03**	**70.14**	**72.54**	**76.37**	**76.36**
Net Commission Ratio	11.00	11.27	11.05	11.11	10.77
Salaries & Benefits Ratio	7.40	7.43	7.16	6.73	6.74
Tax, License & Fees Ratio	2.34	2.31	2.29	2.28	2.31
Administrative & Other Expense Ratio	6.45	6.46	6.02	5.81	5.16
Expense Ratio	**27.20**	**27.48**	**26.52**	**25.93**	**24.99**
Policyholder Dividend Ratio	0.78	1.19	0.67	0.44	0.44
Combined Ratio	**99.01**	**98.80**	**99.73**	**102.74**	**101.80**

Source: S&P Global

The combined ratio for the P&C sector decreased to 101.8 percent in 2023 from 102.7 percent in 2022, reflecting a slight decrease in underwriting losses.[130] Further, the continuing deterioration in underwriting results for both personal auto and homeowners lines was slightly offset by improvements in commercial lines. Higher natural catastrophe losses also hindered results.[131] Despite rate increases in personal lines, regulatory constraints, inflationary pressure, higher cost of reinsurance, and the higher frequency and severity of weather-related events contributed to elevated losses.[132] In personal auto lines, worsening loss severity continued to be a driver of rising loss costs, as well as in increased auto travel (measured in vehicle miles driven), which returned to pre-pandemic levels in 2023.[133] Severe convective storms contributed significantly to total insured natural catastrophe losses in 2023, amounting to about $53 billion, which represented the costliest year for severe convective storms in the United States.[134] Figure 28 shows losses from catastrophic events in the United States since 2019.

[129] S&P Global ratios include the policyholder dividend ratio because dividends represent a cash outlay.

[130] A combined ratio of greater than 100 percent indicates that premiums did not cover losses and expenses in a given period (i.e., underwriting operations made a negative contribution to net income) and, therefore, that a company did not generate an underwriting profit. Investment income, realized capital gains/losses, and income taxes are not considered in the combined ratio.

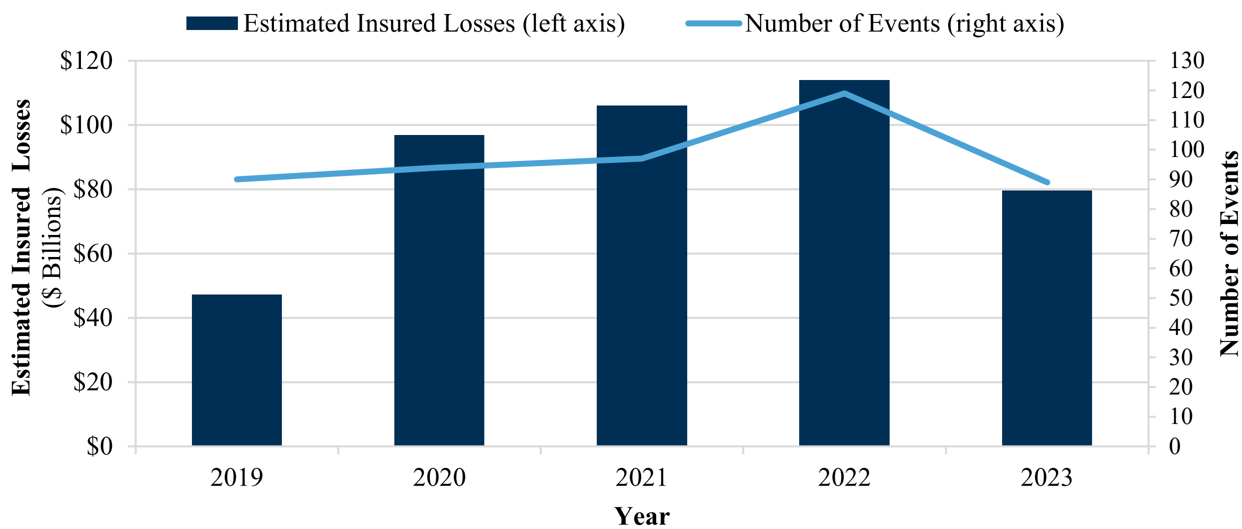
[131] AM. Best, *Best's Market Segment Report:* "U.S. Property/Casualty: Weather, Reinsurance, and Inflation Drive Results – Again (2024), through https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=340961#.

[132] Ryan, "U.S. Property/Casualty: Weather, Reinsurance, and Inflation Drive Results – Again."

[133] Federal Highway Administration, *Traffic Volume Trends* (December 2023), dot.gov/policyinformation/travel_monitoring/23dectvt/23dectvt.pdf.

[134] Michael Lorinc *et al.*, *2024 Climate and Catastrophe Insight* (2024), 33, https://assets.aon.com/-/media/files/aon/reports/2024/climate-and-catastrophe-insights-report.pdf.

Figure 28: Estimated Insured Property Losses, U.S. Catastrophic Events



Sources: Insurance Information Institute; Property Claim Services, a unit of ISO, a Verisk Analytics Company; U.S. Bureau of Economic Analysis

Note: Losses are adjusted for inflation by the Insurance Information Institute using the Gross Domestic Product implicit price deflator.

Box 3: Pre-Disaster Mitigation and Insurance

Property owners, insurers, state insurance regulators, federal and state lawmakers, advocates, and nonprofit organizations continue to focus on pre-disaster mitigation interventions for improved societal and structural resilience to repeated catastrophic events and to help lower insurance costs. Incentivized risk reduction has been commonplace for decades.[135] In addition, the integration of technology into insurer processes has become more prevalent for mitigation efforts. For example, smart home monitoring devices can alert a property owner, or even the insurer, of a significant event.[136] States also continue promoting mitigation, with many states incentivizing homeowners to incorporate retrofitting into structures.[137] For example, Florida runs the MySafe Florida home hurricane mitigation retrofitting grant programs and was one of the first states to require notice of premium discounts for homeowners' hurricane mitigation measures.[138] Multiple states—including Alabama, Georgia, Mississippi, North Carolina, Oklahoma, and South Carolina—support financial incentives or insurance discounts for

[136] *See, e.g.,* Nancy Driver, "Smart Homes, Smart Policies: How Smart Home Tech is Impacting Home Insurance," *LenderDock*, June 26, 2024, https://lenderdock.com/2024/06/26/smart-homes-smart-policies-how-smart-home-tech-is-impacting-home-insurance/.

[136] *See, e.g.,* Nancy Driver, "Smart Homes, Smart Policies: How Smart Home Tech is Impacting Home Insurance," *LenderDock*, June 26, 2024, https://lenderdock.com/2024/06/26/smart-homes-smart-policies-how-smart-home-tech-is-impacting-home-insurance/.

[137] *See, e.g.,* "CIPR State Resiliency Map," NAIC, https://content.naic.org/cipr_esiliency_map.htm (website with interactive state map with non-exhaustive list of resilience-related resources and programs).

[138] "Premium Discounts for Hurricane Loss Mitigation," Florida Office of Insurance Regulation, https://www.floir.com/Sections/PandC/HurricaneLossMitigation.aspx.

structures upgraded to FORTIFIED standards.[139] In 2024, for example, Oklahoma enacted the Strengthen Oklahoma Homes Act, through which the Oklahoma Insurance Department can establish a grant program to construct or retrofit homes to make them more resilient to winds, tornados, and hail.[140] California has implemented the Earthquake Brace and Bolt program, which awards grants for earthquake retrofitting of older homes.[141] Public-private partnerships also can support mitigation efforts. For example, the California Fire Chiefs Foundation has partnered with the private sector to develop a database to help make mitigation actions more visible to the insurance industry, with the aim of improving insurance availability and affordability.[142] In addition, many communities in fire-prone states are now part of the Firewise USA program, which encourages residents to mitigate ignition risks, create defensible spaces, work with their neighbors on fire mitigation, and form community-based committees to advance fire mitigation activities.[143] Many insurers offer Firewise USA discounts when coupled with state mitigation programs, although these discounts vary by insurers and state. In addition, the *National Resilience Guidance* issued by FEMA acknowledges the role of insurance as a potential funding mechanism, while promoting a common understanding of resilience and addressing the resilience roles of individuals, organizations, and all levels of government.[144] FIO will continue to monitor and support the local, state, and federal mitigation activities occurring across the country that help create resilient communities.

Reserve development was again favorable in 2023, albeit to a much lesser degree compared to the experience over the past 10 years. Favorable reserve development in property lines was nearly offset by unfavorable development in commercial liability lines.[145] Figure 29 shows reserve development over the last ten years.[146] Additionally, the 2023 expense ratio decreased by one percentage point from the 2022 level.

[139] "Financial Incentives," FORTIFIED – A Program of IBHS, https://fortifiedhome.org/incentives/.

[140] Oklahoma Insurance Department, "Governor Signs Strengthen Oklahoma Homes Act Into Law," news release, May 13, 2024, https://www.oid.ok.gov/release_051324/.

[141] *See, e.g.*, "The Earthquake Brace + Bolt Retrofit," California Residential Mitigation Program, https://www.californiaresidentialmitigationprogram.com/our-seismic-retrofit-programs/the-retrofits/ebb-retrofit.

[142] *See* Christopher Cundy, "Milliman Collaborates with California Firefighters to Develop Wildfire Mitigation Database," *Insurance ERM*, August 2, 2024, https://www.insuranceerm.com/content/in-brief/milliman-collaborates-with-californian-firefighters-to-develop-wildfire-mitigation-database.html.

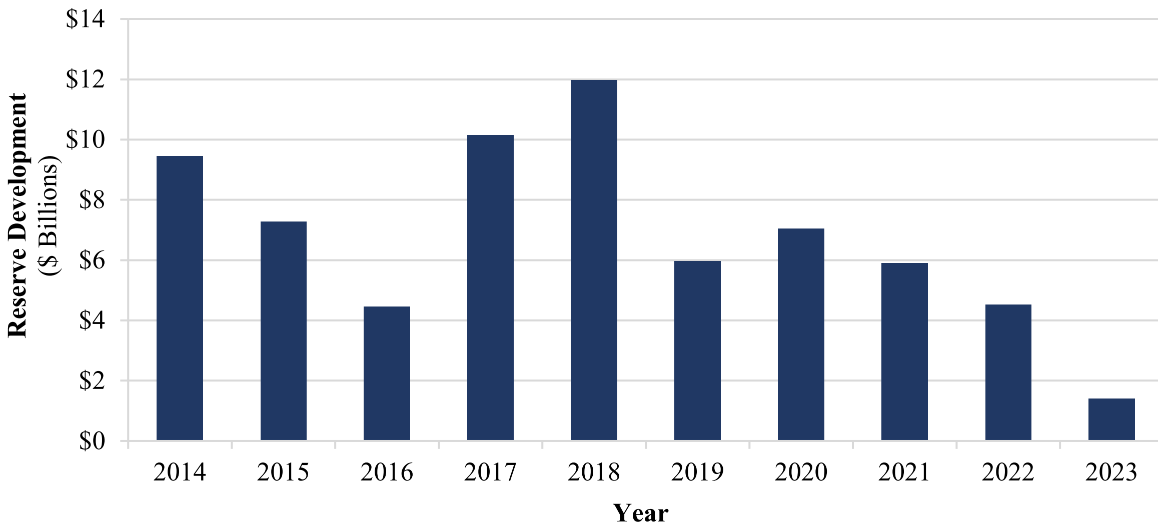
[143] *See* "Program Benefits," NFPA -Firewise USA, https://www.nfpa.org/education-and-research/wildfire/firewise-usa/become-a-firewise-usa-site/program-benefits; "Education and Research," NFPA - Firewise USA, https://www.nfpa.org/education-and-research/wildfire/firewise-usa.

[144] FEMA, *National Resilience Guidance: A Collaborative Approach to Building Resilience* (August 2024), https://www.fema.gov/sites/default/files/documents/fema_national-resilience-guidance_august2024.pdf.

[145] John Iten, "U.S. Property/Casualty Insurance Maintains Reserving Discipline Amid Higher Inflation," *S&P Global Market Intelligence*, May 31, 2024, https://www.spglobal.com/ratings/en/research/articles/240531-u-s-property-casualty-insurance-maintains-reserving-discipline-amid-higher-inflation-13127158.

[146] Favorable reserve development occurs when the current year actuarial estimates of losses arising from business written in previous years are less than the previous estimates for that year, thereby freeing reserves to contribute to the insurer's profitability.

Figure 29: Total One Year Reserve Development for the P&C Sector



Source: S&P Global

Note: Reflects total incurred net loss development for all accident years.

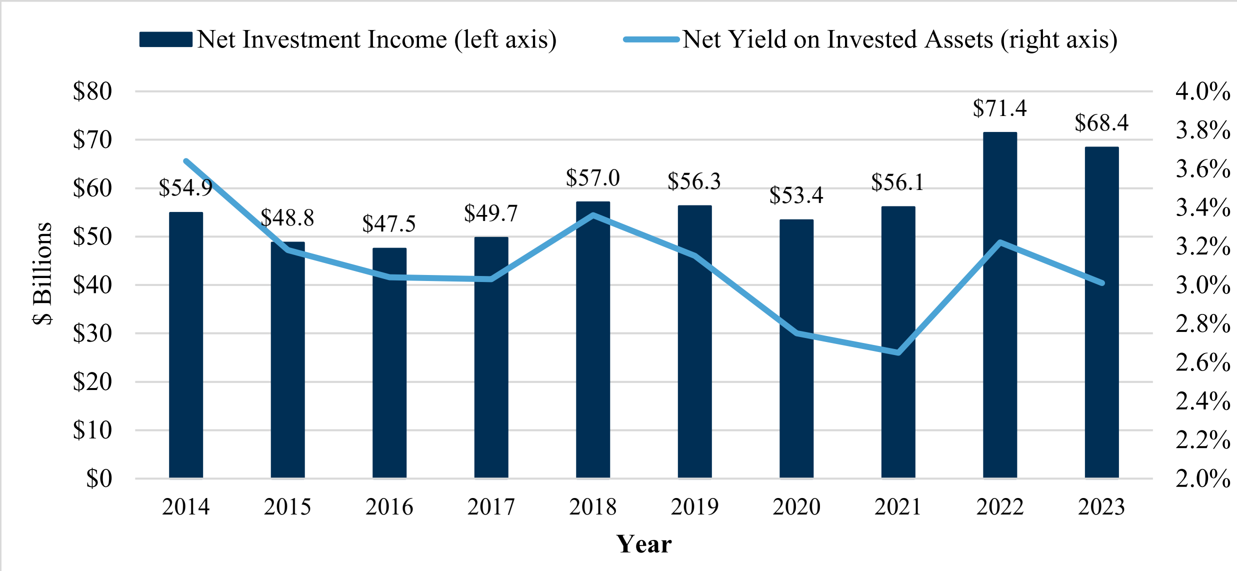
iii. Investment Income

Net investment income for the P&C sector decreased year over year by four percent to $68 billion in 2023, while cash and invested assets balances increased by almost seven percent to $2.3 trillion. As a result, the net yield on invested assets decreased by 21 basis points to 3.01 percent in 2023. Rising short-term interest rates and an inverted yield curve continued to favor the generally shorter-duration P&C asset portfolio (compared to the L&H investment portfolio), but significantly lower investment income from "other invested assets" (primarily alternative investments) and a decline in income from common stock muted the gains from fixed income investments.[147] Additionally, 2022 results included a one-time intercompany distribution of $11 billion that sharply reduced net investment income.[148] Figure 30 depicts a longer-term view of the trends in net investment income and net yield on invested assets for the P&C sector. Realized capital gains and losses are reported separately and are not a component of net investment income. Their effect on income is explained below. P&C insurers are less dependent than L&H insurers on net investment income to fund losses and expenses, given their shorter contract terms and shorter-tailed losses. Net investment income accounted for approximately eight percent of total P&C sector revenues in 2023, slightly less than the ten-year historical average of nine percent.

[147] Tim Zawacki, "Insurance Investments Market Report: Insurers Take Long View of the Short Game," *S&P Global*, May 15, 2024, https://www.spglobal.com/marketintelligence/en/news-insights/research/insurance-investments-market-report-insurers-take-long-view-of-the-short-game.

[148] Helen Andersen, "US P/C Insurers Achieve Record Investment Income in 2023," *A.M. Best & Company, Inc.*, May 28, 2024, available at https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=343153&altsrc= .

Figure 30: P&C Sector Annual Net Investment Income and Net Yield on Invested Assets



Source: S&P Global

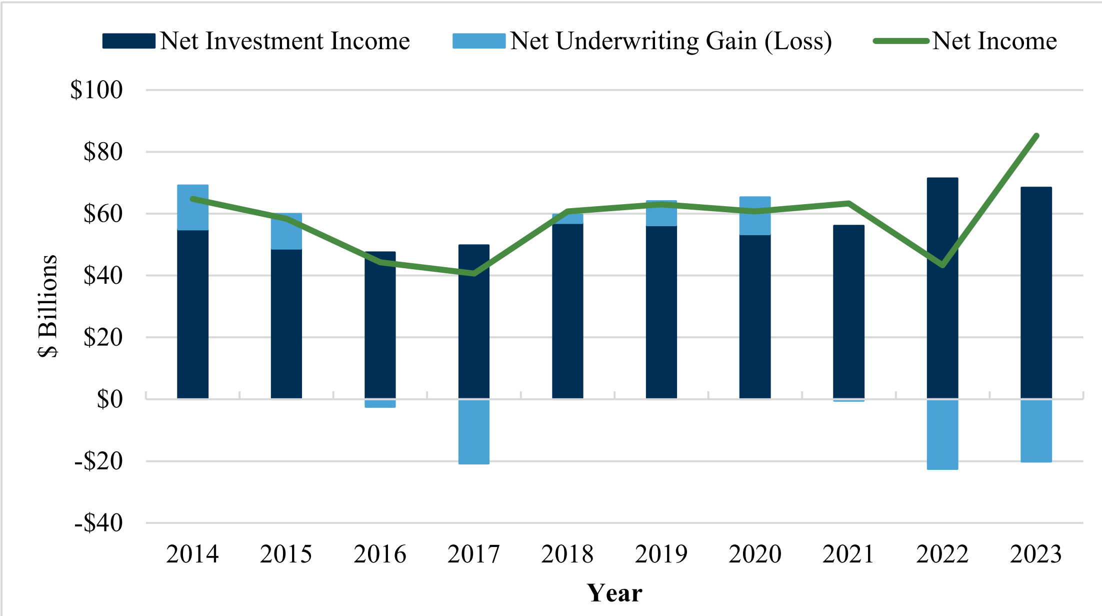
The decrease in net investment income was more than offset, however, by a very substantial increased in realized capital gains. However, this increase was largely attributable to a single insurer group (Berkshire Hathaway; see below). Realized capital gains on investments were almost $51 billion in 2023, compared to less than $2 billion in 2022. All fixed income and preferred stock categories recorded narrower net realized capital losses in 2023 as compared to 2022, and net gains on unaffiliated common stocks were also slightly lower. A one-time gain on Berkshire Hathaway's transfer of its holdings in Burlington Northern Santa Fe LLC out of an insurance subsidiary, however, contributed approximately $48 billion of the $51 billion net realized capital gains in 2023.[149]

iv. Net Income

The P&C sector's net income nearly doubled in 2023 to $85.2 billion from the $43.3 billion reported in 2022, as shown in Figure 31. Despite solid growth in net premiums earned in 2023 (up 10 percent as described above), the sector experienced a second consecutive year of significant underwriting losses at $20.2 billion as compared to a loss of $22.5 billion in 2022. The increase in net investment income and the significant increase in capital gains led to a 95 percent increase in pre-tax operating income to $96.2 billion in 2023 from $49.4 billion in 2022. An 80 percent increase in the amount of federal income taxes paid led to a 97 percent increase in net income.

[149] National Indemnity Company, Property and Casualty Companies (Association Edition) Quarterly Statement as of September 30, 2023, 6.3, available through https://www.capitaliq.spglobal.com.

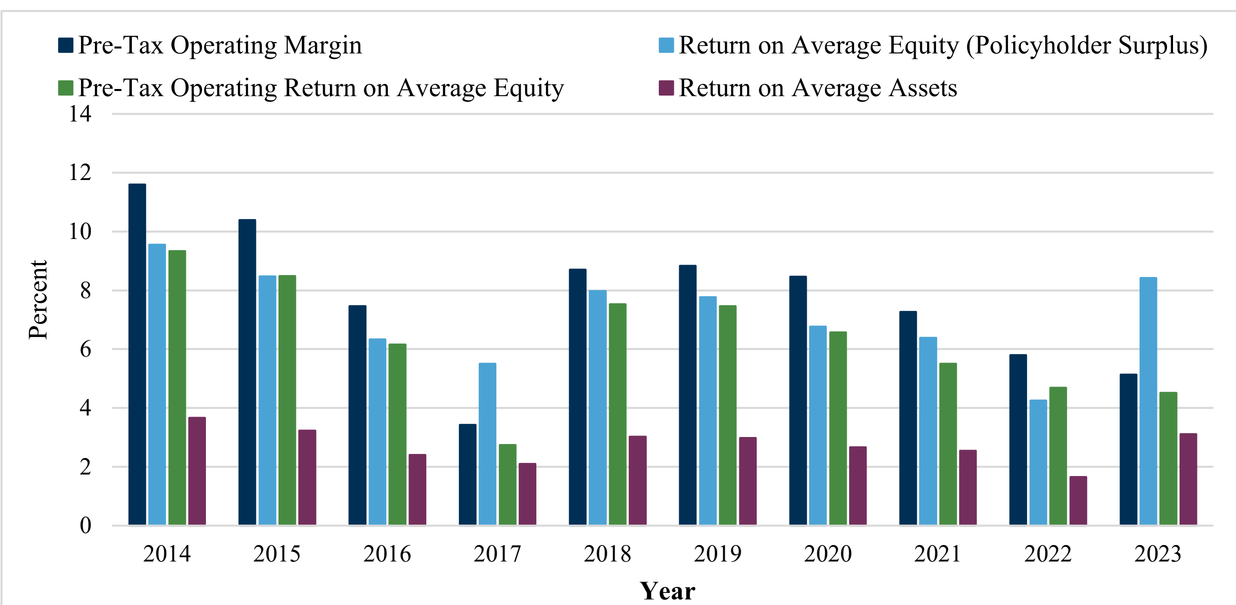
Figure 31: P&C Sector Net Income



Source: S&P Global

Figure 32 displays key measures of returns for the P&C sector. The 2023 pre-tax operating margin (after excluding the one-time gain generated by Berkshire Hathaway) decreased to 5.1 percent from 5.8 percent in 2022. The 2023 return on average equity of 8.4 percent was well above the 4.3 percent for 2022, and above the average of seven percent for the past 10 years. This increase was due to the significant gain in 2023 net income combined with a more modest six percent increase in policyholders' surplus.

Figure 32: P&C Sector Operating Ratios



Source: S&P Global

b) Financial Condition

This section analyzes the financial condition of the P&C sector at the end of 2023 and examines trends over the last 10 years from 2014 through 2023, focusing on surplus, assets, and liquidity.[150]

i. Surplus as Regards Policyholders

Policyholder surplus, a key indicator of an insurer's financial health and ability to meet unexpected claims and losses, strengthened significantly for the P&C sector in 2023, after a year of contraction in 2022. A rebound in the capital markets generated record investment income and the resulting near doubling of net earnings translated into healthier balance sheets for P&C insurers. P&C surplus was $1.0 trillion at year-end 2023—a 6.2 percent year-over-year improvement. This increase was driven largely by net income of $34.7 billion combined with a sharp increase in net unrealized capital gains of $70.6 billion and $50.5 billion in net realized gains. The sector's surplus position was unaffected by the pro-forma removal of capital contributions in the form of surplus notes of $16.8 billion. The sector continued to grow its surplus organically at the same pace in 2023 (with or without the contribution of surplus notes).

Figure 33 illustrates the sector's surplus health over the last five years and the contributions from asset portfolio growth.

Figure 33: P&C Sector Surplus Position

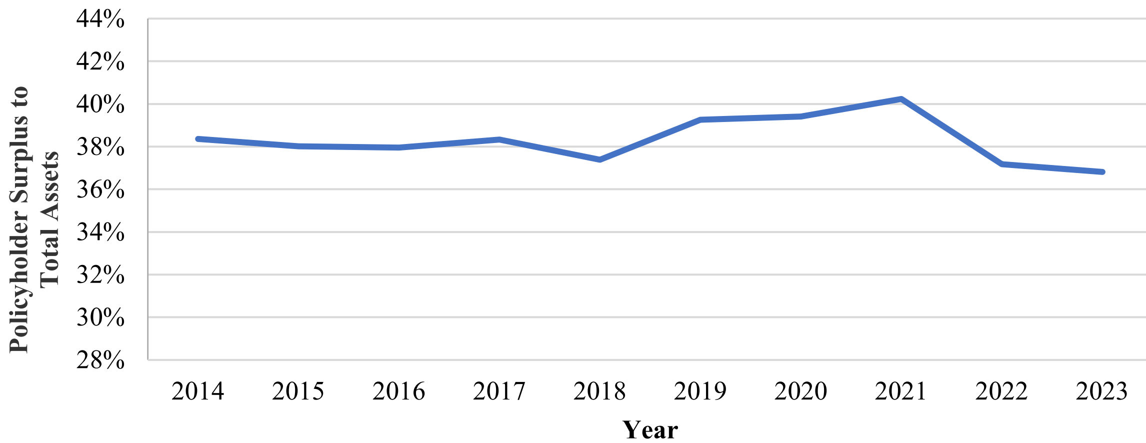
($ in thousands)	2019	2020	2021	2022	2023
Total Assets	$2,205,405,670	$2,357,556,571	$2,617,493,863	$2,640,386,391	$2,831,259,682
Annual Asset Growth	8.9%	6.9%	11.0%	0.9%	7.2%
Policyholder Surplus	$ 865,925,868	$ 929,253,009	$1,053,124,891	$ 981,491,216	$1,042,288,101
Annual PHS Growth	14.4%	7.3%	13.3%	-6.8%	6.2%

Source: S&P Global

The ratio of policyholder surplus to total assets can be an indicator of surplus strength, as illustrated in Figure 34. Though clearly improving in 2019 through 2021, the ratio has decreased in the last two years, as well as from the trend observed in 2014 through 2018. These changes are, in part, due to recent growth in reserve leverage (see P&C leverage discussion below). Nevertheless, the sector has maintained a level of consistency against the possibility of unexpected losses, with the ratio averaging 38.3 percent over the last 10 years.

[150] Unlike the L&H sector analysis, a reporting change did not affect the P&C database at S&P Global. As a result, 10-year trends and analysis are discussed consistent with past years' annual reports.

Figure 34: Strength of P&C Sector Policyholder Surplus



Source: S&P Global

Though net underwriting losses continued in 2023, they narrowed by over 10 percent from 2022. Pre-tax operating income remained positive, but it declined for the fourth consecutive year. Continued profitability, generated primarily through investment activities, sustained the organic growth in P&C policyholder surplus. The P&C sector earned $118.9 billion in investment income, a 62.5 percent annual growth. This includes a 29 multiple increase in net realized capital gains, driven primarily by a corporate restructuring at a large P&C insurer (see Section II.A.3.a.iii) in 2023. Net income has contributed 5.5 percent on average annually to policyholder surplus since 2014.

Stockholder dividends have had a significant impact on the P&C sector's capital formation (similar to the L&H sector), reducing policyholder surplus by 5.1 percent on average in each of the last 10 years. The P&C sector paid stockholder dividends of $105 billion in 2023, a new 10-year high, a considerable increase from $37.6 billion in 2022 and exceeding the previous 10-year high of $46.1 billion in 2020 when P&C insurers provided premium refunds and rebates to policyholders during the COVID-19 pandemic.

Net realized capital gains have consistently contributed to generating capital for the P&C sector, adding 1.9 percent on average annually to prior year-end policyholder surplus over the last 10 years, and net unrealized capital gains have boosted surplus by 2.5 percent.[151]

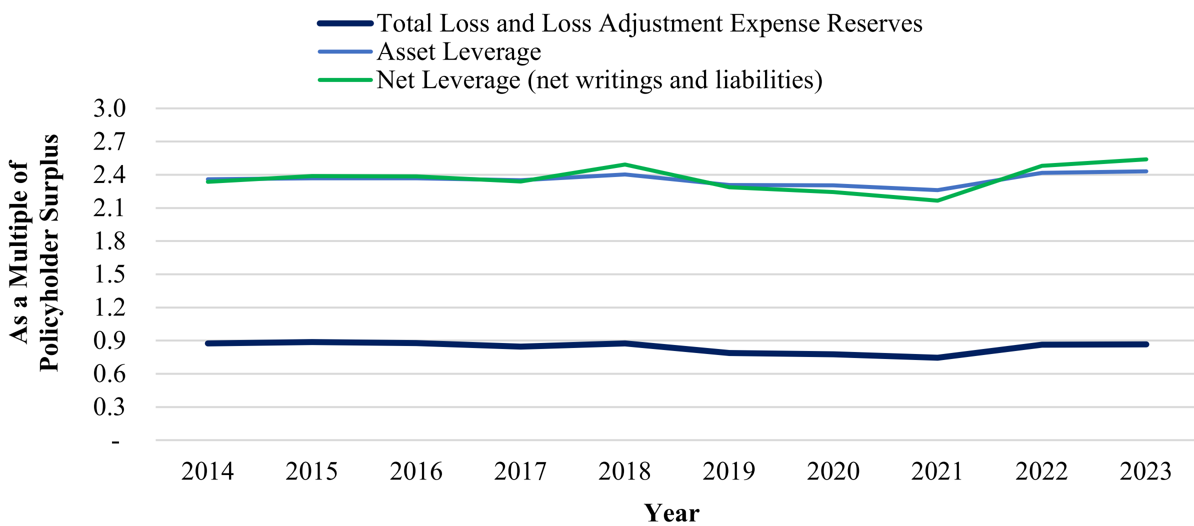
As shown in Figure 35, the P&C sector has generally been managing its leverage levels effectively over the last ten years. There were some signs of surplus strain for the sector in 2023, as the three ratios increased slightly from 2022 levels.[152] A resilient economy and increased consumer confidence in 2023 fueled growth in common stock holdings and net writings for the

[151] The $50.5 billion in net realized capital gains was driven by a single transaction within the other invested assets category, generating a gain of $48.1 billion for this asset class. *See* NAIC, *U.S. Property & Casualty and Title Insurance Companies – 2023 Full Year Results*, https://content.naic.org/sites/default/files/inline-files/2023%20Annual%20Property%20%26%20Casualty%20Insurance%20Industries%20Analysis%20Report.pdf.

[152] Increased leverage reduces the financial flexibility (and capital) that an insurer has available to address and mitigate market pressures, potentially widening risk exposure and impacting financial performance.

sector, resulting in 10-year highs in the asset and net leverage ratios.

Figure 35 P&C Sector Leverage Ratio



Source: S&P Global

While they measure different exposures, the asset and net leverage ratios presented in Figure 35 have been closely aligned for most of the past 10 years; however, a widening between the two metrics was more pronounced in 2023. Maintaining underwriting discipline and addressing exposure accumulations are key factors supporting a strong balance sheet; other factors contributing to a healthy balance sheet include the volatility and credit quality of the investment portfolio, reinsurance recoverables, and agents' balances.[153] Given that almost 28 percent of the P&C sector's investment portfolio is allocated to common stock holdings, the increase in the asset leverage ratio in 2023 is not surprising. For most of the last ten years, the P&C sector has been growing surplus by effectively managing its vulnerabilities to market risks, including credit and interest rate risks. As Figure 35 illustrates, the asset leverage ratio rose to 2.43 in 2023 from 2.42 in 2022, while averaging 2.36 annually in the last 10 years.

The net leverage ratio (i.e., the ratio of net writings and liabilities to surplus) indicates the degree of exposure stemming from pricing errors in the book of business and from reserving errors. Apart from 2018 and 2022, when surplus growth contracted, the net leverage ratio has generally decreased since 2014—until 2023.[154] Surplus pressures in 2023 were the result of growth in the components of the numerator outpacing that of the denominator, resulting in a 10-year high of 2.54. In particular, total liabilities (the larger component in the ratio's numerator) of $1.8 trillion were 1.72 times policyholder surplus at year-end 2023, up from 1.69 at year-end 2022 and 1.61

[153] Agents' balances refer to net admitted uncollected premiums and agents' balances in the course of collection, including direct and group billed uncollected premiums; amounts collected but not yet remitted to home office; accident and health premiums due and unpaid; life insurance premiums and annuity considerations uncollected on in-force business (less premiums on reinsurance ceded and less loading); and title insurance premiums and fees receivable. Reinsurance balances payable is not deducted.

[154] The three ratios in 2018 nearly mirrored those in 2022. In both years, ratio levels were a combination of surplus declines and heightened exposures.

at year-end 2014. Net writings were $857.5 billion in 2023, rising from $776.8 billion in 2022, making up 82 percent and 79 percent of policyholder surplus for the same two years, respectively. Despite this recent increase, the P&C sector has generally sustained its financial capacity to support its business by successfully evaluating its underwriting risk and maintaining reserve adequacy.[155]

Growth in both direct writings and net reinsurance premiums affected the net premiums written component of the net leverage ratio in 2023. Direct writings were $965.9 billion and $876.1 billion in 2023 and 2022, respectively, amounting to a year-over-year growth of 10.2 percent, driven mainly by rate increases in certain business lines. Net reinsurance premiums (ceded premium less assumed premium) were $108.4 billion, over nine percent higher than net reinsurance premiums of $99.3 billion in 2022. While partially offset by surplus expansion, growth of the two components of the numerator—total liabilities and net writings—combined to materially (and negatively) impact the 2023 net leverage ratio.

Premium growth in 2023 led to growth of loss and loss adjustment expense reserves. Loss and loss adjustment expense reserves were $901.8 and $847.0 billion in 2023 and 2022, respectively, amounting to year-over-year growth of 6.5 percent and within the range of annual growth reported in the previous three years. At year-end 2023, the ratio of loss and loss adjustment reserves to policyholder surplus was 0.87 compared to 0.86 at year-end 2022. This ratio in each of the last two years is consistent with the trend observed in the years prior to 2019 and before the effects of the COVID-19 pandemic when lower ratios had been observed. This may suggest that the P&C sector in the aggregate has generally remained consistent in its management and estimation of reserves to cover potential losses and adjustment costs arising from claims made on policies underwritten. To that end, the trend in favorable prior year reserve development continued in 2023 (particularly for the workers compensation line of business), as the sector reported redundancies. Reserve risk may heighten for P&C insurers, however, as inflationary pressures, rising reinsurance costs, and stressed loss adjustment expenses continue to be considerations.

ii. Assets

The P&C's sector's capital position has been stable over the last 10 years, supported by year-over-year asset growth and sound asset-liability matching. Although the P&C sector introduced greater complexity in its bond portfolio in 2023, overall investment trends suggest an improvement in asset quality.

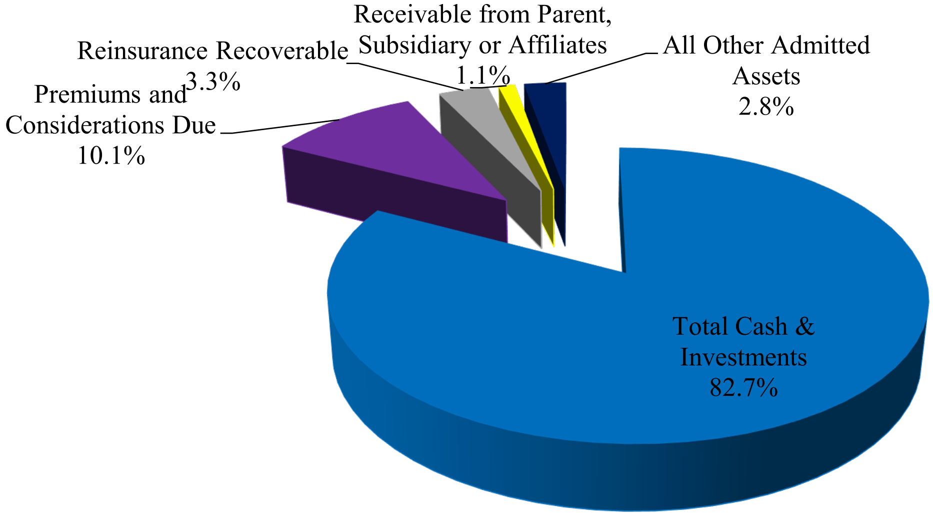
After a considerable slowdown in 2022 with a less than one percent year-over-year increase in total assets, P&C asset growth bounced back in 2023 and expanded by 7.2 percent to $2.8 trillion. Annual growth of five percent on average over the last 10 years has helped to sustain the P&C sector's financial health. Since 2014, at least 82 percent of the sector's asset portfolio has steadily been comprised of cash and invested assets, reflecting the strength of the sector's balance sheet to pay claims as they come due.

The structure of the P&C sector's asset portfolio has remained constant for the last 10 years.

[155] The net leverage ratio has averaged 2.37 annually over the last 10 years.

Figure 36 illustrates the composition of the P&C sector's assets at year-end 2023, which largely mirrors that of prior years.

Figure 36: Composition of P&C Sector Asset Portfolio



Source: S&P Global.

Cash and invested assets have consistently been the largest component of total assets for the P&C sector, followed by premiums and considerations due.

Asset allocations within the P&C sector over the last 10 years have remained largely constant, with bonds and equities together making up more than 81 percent of the aggregate investment portfolio every year since 2014. In 2023, the effects of higher interest rates and strong stock market performance were apparent. Exposure to common stock rose, while the sector also took advantage of higher short-term rates by boosting its allocation of cash and short-term investments. By contrast, allocations to bonds and other assets declined from 2022.

As Figure 37 details, the sector's allocation to other investments, largely alternative assets, decreased in 2023.[156] This had negative implications for overall P&C net investment income for the year, and it was attributed to a single large transaction during the year.[157] Common stock investments, on the other hand, reached a new high. Common stock totaled $647.8 billion in 2023, up from $576 billion in 2022 and nearly double 2014 levels. Year-

[156] Other investments largely capture other long-term investments reported in Schedule BA of the statutory financial statement.

[157] At year-end 2022, Berkshire Hathaway had the largest Schedule BA portfolio among U.S. P&C and life companies. In 2023, Berkshire Hathaway moved certain entities to the holding company, reducing its Schedule BA investments by 53 percent and significantly lowering income generated by Schedule BA investments in the aggregate. *See* Tim Zawacki, "Insurance Investments Market Report: Alternatives Go Mainstream," *S&P Global*, May 25, 2024, https://www.spglobal.com/marketintelligence/en/news-insights/research/insurance-investments-market-report-alternatives-go-mainstream.

over-year growth in P&C equity holdings has been significant, averaging eight percent annually since 2014.

Similar to L&H investment allocations, bond holdings have been on a downward trajectory. Bonds averaged close to 61 percent of the sector's investment portfolio from 2014 to 2018 as compared to over 55 percent on average from 2019 to 2023. Common stock, the P&C sector's second largest investment exposure, has increased by 6.1 percentage points since 2014.

Figure 37: Composition of P&C Sector Investment Portfolio

	2019	2020	2021	2022	2023
Bonds (long-term)	57.0%	55.4%	53.1%	55.5%	54.5%
Preferred Stocks	0.8%	0.8%	0.8%	0.7%	0.6%
Common Stocks	25.9%	25.8%	28.6%	26.2%	27.7%
Mortgage Loans	1.2%	1.2%	1.2%	1.3%	1.4%
Real Estate	0.7%	0.7%	0.6%	0.6%	0.5%
Contract Loans	0.0%	0.0%	0.0%	0.0%	0.0%
Derivatives	0.0%	0.0%	0.0%	0.1%	0.1%
Cash & Short-Term Investments	6.2%	7.0%	7.1%	7.1%	8.4%
Other Investments	8.2%	9.1%	8.6%	8.4%	6.8%
Total Cash & Invested Assets	**100%**	**100%**	**100%**	**100%**	**100%**

Source: S&P Global

The composition of the investment portfolio detailed in Figure 37 aligns with the risk management practices employed by the sector to address both the shorter-term obligations of some P&C lines (such as auto claims), as well as longer-tailed liabilities (such as general liability, medical malpractice, and workers' compensation). The investment portfolio has shown year-over-year growth in bond holdings, as the predictability of cash flows produced by fixed-income securities can be better aligned with policyholder obligations and other business needs. Annual growth of bond holdings has accelerated in the last five years, averaging 4.4 percent. From 2014 to 2018, by contrast, the P&C sector expanded its bond holdings by only 2.1 percent on average.

Total bonds, both short-term and long-term combined, were $1.4 trillion at year-end 2023, an increase of seven percent from the previous year end. The sector's asset and liability management practices are demonstrated by the distribution of maturities in the bond book. For each year since 2014, about 55 percent of bonds in the sector's portfolio had maturities of less than five years on average, while nearly 32 percent on average had terms ranging between 5 and 10 years. During this period, P&C insurers allocated significantly less of their bond portfolio to longer-term bonds, with over 13 percent on average consisting of bonds with maturities greater than 10 years. In 2023, 14.5 percent of the sector's bond portfolio was allocated to holdings with terms of at least 10 years, rising from 14.1 and 11.9 percent in 2022 and 2021, respectively. The noticeable shift toward longer durations over the last two years may be related to market expectations—first, as recessionary fears emerged in 2022 and then as inflationary pressures moderated in 2023. Reports of an inverted yield curve also persisted in 2023, potentially increasing the appetite for longer-dated bonds.

Importantly, the bond portfolio of P&C insurers has consistently been of high credit quality, with at least 95 percent designated as NAIC Class 1 and 2 bonds (or investment grade) since 2014. Closer examination of the portfolio, however, reveals some key shifts in its composition. As is the case for the L&H sector, increased complexity (and potentially, greater illiquidity) was a characteristic of the P&C sector's bond portfolio in 2023. Structured securities increased by about 12 percent from 2022 levels, driven primarily by considerable year-over-year growth in residential mortgage-backed holdings (RMBS).[158] Specifically, agency-backed RMBS grew by 23.5 percent to $118.6 billion in 2023, while private-label RMBS holdings rose by 16.4 percent to $25.6 billion. Combined, RMBS made up 11 percent of the aggregate bond portfolio at year-end 2023, up from 9.5 percent. The P&C sector also has steadily raised its holdings of ABS and other structured securities each year since 2014, resulting in an average annual growth rate of about 10 percent.[159]

Corporate bonds remain the largest bond investment on P&C insurers' balance sheets, rising to capture nearly 40 percent of the sector's bond holdings at year-end 2023 compared to 39.3 percent at year-end 2022 and 36.5 percent at year-end 2019. Corporate bonds totaled $521.3 billion and $490.5 billion in 2023 and 2022, respectively.[160] By contrast, the share of municipal bonds, while remaining the second largest P&C bond allocation, has consistently declined within the total P&C bond portfolio. They constituted 18.1 percent of bonds at year-end 2023, down from to 21.1 percent at year-end 2022 and nearly 25 percent at year-end 2019.[161]

Other investment trends also seem to be emerging for the sector. While publicly traded bonds continue to make up the bulk of the sector's investment portfolio, annual growth rates that previously were consistently below those of private bonds appear to be reversing. The 10-year average growth rates were 2.3 percent and 11 percent for public bonds and private placements, respectively. Those averages were impacted by annual growth rates in 2023. Public bonds grew by 7.2 percent to $1.1 trillion in 2023, while private placements grew by 6.5 percent. A similar pattern was observed in 2022 but to a lesser extent as public bonds grew by 1.9 percent and private bonds increased by 1.7 percent from 2021. Private placements comprised 19.7 percent or $275.3 billion of the aggregate bond portfolio at year-end 2023, compared to 19.8 percent and $258.6 billion at year-end 2022. Until recently, private bonds had remained on an upward trajectory, progressively rising from 10.7 percent or $107.4 billion of the bond portfolio at year-end 2014 to as high as 19.9 percent and $254.3 billion at year-end 2021. As noted earlier, public bonds are usually traded actively, so market prices are readily available, and the greater transparency associated with disclosure requirements also supports risk assessment. Private bonds, on the other hand, provide less visibility to investors but offer an illiquidity premium in exchange.

[158] NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[159] Asset-backed and other structured securities include consumer ABS, commercial ABS, CLOs, and lease-backed securities. *NAIC, U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[160] NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[161] NAIC, *U.S. Insurers' Cash and Invested Assets Reach Almost $7 Trillion at Year-End 2019*, https://content.naic.org/sites/default/files/capital-markets-special-report-cash-invested-assets-2019.pdf.

With the rebound in equity markets in 2023, common stock holdings for the sector rose by 12.5 percent in 2023, a turnaround from an almost 10 percent year-over-year decline in 2022, reflecting changes in valuation. With a 27.7 percent share at year-end 2023, common stock investments continued to be represented significantly in P&C insurers' cash and invested assets. Common stock holdings have averaged nearly 25 percent of the sector's investment portfolio each year since 2014. Also, while still constituting a relatively small percentage of total cash and invested assets, mortgage loans have continued to exhibit considerable year-over-year growth in P&C insurers' investment portfolios since 2014. Mortgage loan levels in 2023 were at a 3.2 multiple of 2014 levels. In the last two years, mortgage loans have also constituted a greater portion of the sector's cash and invested assets. Total mortgage loans were $32 billion at year-end 2023, rising by 8.9 percent annually and accounting for 1.4 percent of cash and invested assets, up from 1.3 percent in 2022 and 1.2 percent in each of the prior four years. In 2014, their share of cash and invested assets was 0.7 percent.

As seen for the L&H sector, the P&C sector appears to be rebalancing its investment profile in response to new market conditions. Accordingly, the higher interest rate environment has translated into higher new-money yields for P&C investment portfolios as well as a continued willingness to trade incremental liquidity for incremental yield.

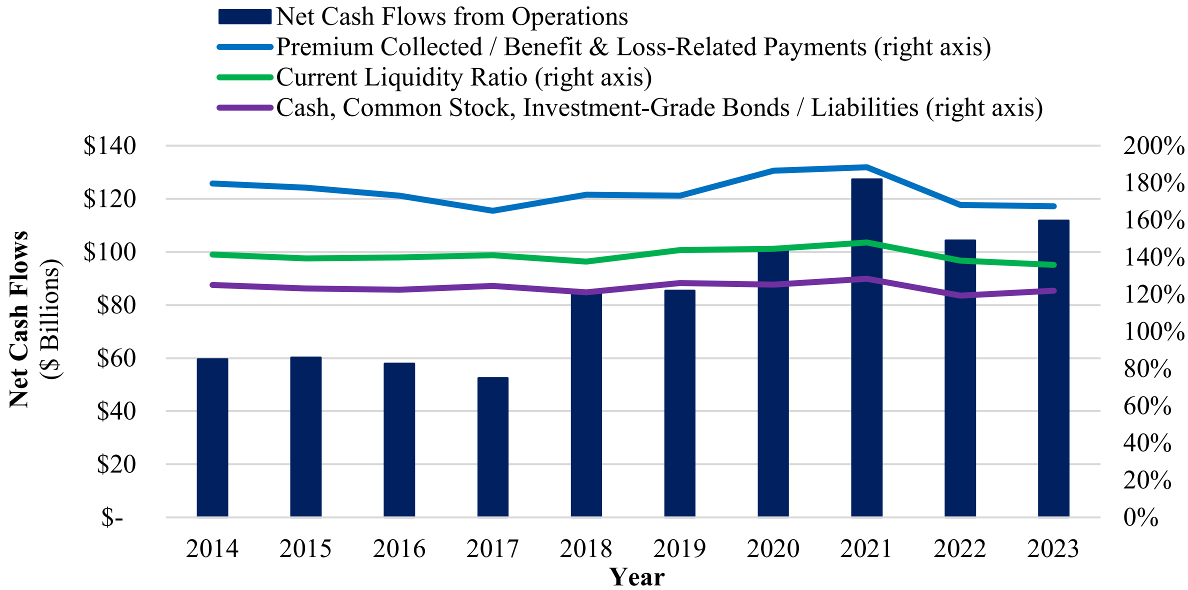
iii. Liquidity

The potential inability to secure adequate funding due to claims volatility, asset complexity, and market disruptions can expose P&C insurers to liquidity risk. For the U.S. P&C sector in 2023, however, there was evidence of enhanced liquidity levels, as insurers slightly pulled back from riskier assets and experienced strong premium growth.

Cash Flows

While Figure 38 illustrates little divergence in the liquidity metrics relative to their 2022 performance, it shows noticeable improvements in P&C net cash flows from operations and the availability of liquid assets.

Figure 38: A View of P&C Sector Liquidity



Source: S&P Global

The decline in net cash flows from operations in 2022 reversed itself in 2023. Net cash flows from operations in 2023 of $112 billion reflected an increase of 7.2 percent year-over-year, contributing to growth in cash and short-term investments. Cash and short-term investments rose sharply by almost $39 billion to $195.6 billion at year-end 2023, potentially providing expanded coverage of the sector's liabilities.

On the other hand, annual growth in benefits and loss-related payments of 10.7 percent slightly exceeded the 10.4 percent growth in net premium receipts, putting a minor strain on the ratio in 2023. As shown in Figure 38, premiums collected, net of reinsurance, exceeded benefit and loss-related payments by 67 percent at year-end 2023 compared to 68 percent at the prior year-end.[162]

While there was some downward pressure on the current liquidity ratio (135.9 percent in 2023 compared to 138.2 percent in 2022) due to faster growth in short-term liabilities (denominator), year-over-year positive cash flows from operations continued to reinforce the P&C sector's liquidity position. Specifically, cash and short-term investments grew by 24.7 percent in 2023, while averaging 9.5 percent growth in each of the last 10 years. Additionally, liquid assets of $2.3 trillion (the numerator of the current liquidity ratio) supported policyholder surplus by a multiple of 2.2 at year-end 2023. The sector has maintained a multiple of 2.2 on average since 2014, reflecting the consistent strength of the sector's liquidity position.

P&C insurers implemented significant premium rate increases in 2023 to address inflationary pressures, increased natural disaster losses, and other loss and expense concerns. Net premium

[162] The liquidity analysis here is based on cash inflows and outflows from operating activities—premiums that were collected as well as losses paid on all lines of business during the year (excluding loss adjustment expenses paid). This contrasts with the income statement analysis that presents a view of profitability, reflecting premiums earned and written as well as incurred loss and loss adjustment expenses, and other underwriting expenses.

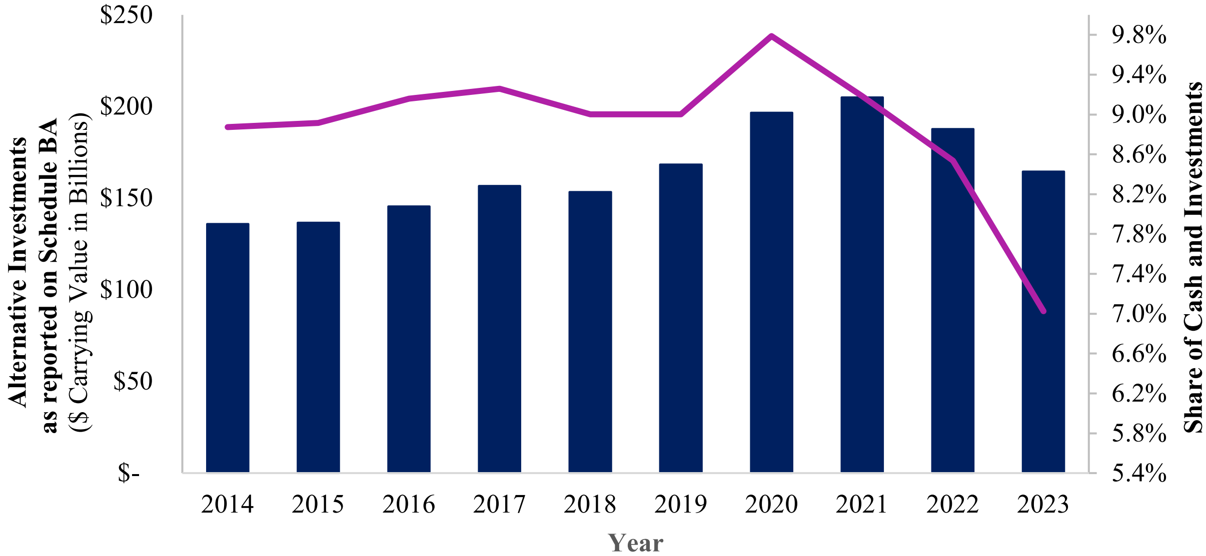
earned grew by nearly 10 percent as a result, which supported earnings and liquidity for the sector.

Signs of Improving Credit Quality

As noted in the discussion above, elevated interest rates and strong equity markets have contributed to the changes in P&C asset allocations in the last two years. With attractive investment-grade yields still available, the P&C sector continued to migrate from riskier assets in 2023, raising the credit quality of its investment portfolio and further bolstering its liquidity profile.

Figure 39 illustrates that the P&C sector decreased its investment allocations to alternative assets. The share of the P&C investment portfolio allocated to alternatives declined to 7.0 percent and 8.5 percent in 2023 and 2022, respectively, from as high as 9.8 percent in 2020 (though volumes reached a 10-year high of $204.9 billion in 2021).

Figure 39: P&C Sector Alternative Investments



Source: S&P Global

After reporting year-over-year growth of alternative investments from 2019 through 2021, averaging 10.3 percent, alternative investments declined by 12.4 percent to $164.5 billion in 2023, after an 8.4 percent year-over-year decrease in 2022.[163]

The P&C sector's exposure to alternative investments comprised over 32 percent of the entire insurance industry's Schedule BA exposure in 2023, falling from nearly 37 percent in 2022. The shares were 40.9 and 45.2 percent in 2021 and 2020, respectively. As in the case for the L&H sector, joint ventures comprised the bulk of Schedule BA exposures for P&C insurers in 2023.

[163] S&P Global (Capital IQ, P&C Industry Data, Schedule BA – Part 1).

By contrast, the sector's holdings of U.S. government bonds continued to climb in 2023, totaling $306.6 billion compared to $244.9 billion in 2022, and remained the third largest bond exposure for P&C insurers (after corporate and municipal bonds).[164] Holdings of securities issued by U.S. federal, state, and local governments increased by over 13 percent in 2023, after a less than one percent growth rate in 2022. Total government bonds for the sector were $406.1 billion and $358.8 billion in 2023 and 2022, respectively.

Moreover, non-investment grade bond holdings of $58.1 billion remained relatively flat from 2022. Their share of policyholder surplus, however, has continued to decline over the last three years. While bonds that are at or near default grew by almost 23 percent for the sector to $7.8 billion in 2023, these made up only 0.75 percent of policyholder surplus at year-end 2023 compared to 0.65 percent at year-end 2022. Finally, investment-grade bonds—the bulk of the bond portfolio—rose by 7.4 percent in 2023 and have remained on a path of year-over-year growth since 2014.

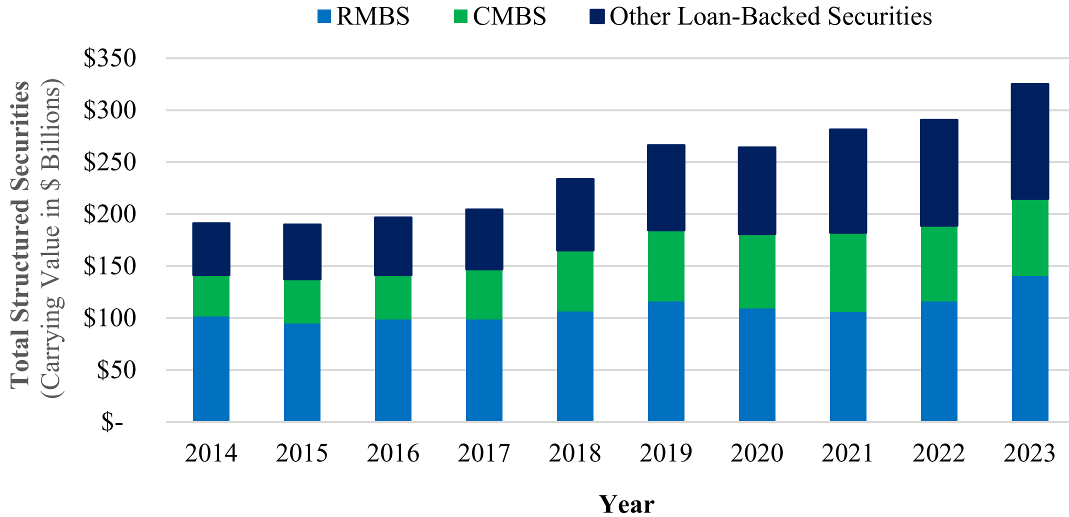
More Complexity (Greater Illiquidity)

As described above, there is evidence of enhanced credit quality in the sector's asset portfolio, but this trend is also accompanied by signs of heightened complexity. Averaging an annual growth rate of over 6.1 percent in the last 10-year period, structured securities constituted a significant share of policyholder surplus at over 31 percent at year-end 2023, up from 29.6 percent at year-end 2022.[165] As noted in Section II.A.2.b.iii, structured securities can be complex products, which are subject to potentially greater liquidity and valuation risks—all of which makes them more vulnerable to market pressures (especially during periods of economic dislocation) as compared to traditional corporate and government bond holdings. Total structured securities held by the P&C sector were $325 billion in 2023 compared to $290.5 billion and $281.5 billion in 2022 and 2021, respectively. Figure 40 shows the composition of the P&C sector's structured portfolio since 2014.

[164] NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[165] Structured securities include asset-backed securities, CMBS (agency and private label), RMBS (agency and private label), CLOs, and lease-backed securities.

Figure 40: P&C Sector Structured Securities



Source: S&P Global

Similar to the L&H sector, the P&C sector reported growth in RMBS investments in 2023. RMBS was the fastest growing category of the P&C structured product portfolio in 2023, increasing by over 21 percent to a total of $140.4 billion at year end, an increase from $115.8 billion in 2022. At year-end 2023, RMBS made up over 43 percent of total structured securities held by the sector.[166] In a higher interest rate environment, holders of RMBS are exposed to extension risk and interest rate volatility, as well as to credit risk. In addition to the less predictable cash flows received from RMBS (because increased costs to borrowers of refinancing and prepaying mortgages affects the principal and interest received by investors), higher rates also extend the duration of RMBS, compounding price risk. RMBS holdings for both the P&C and L&H sectors have largely consisted of agency RMBS, which are backed by the U.S. government or government-sponsored entities (Fannie Mae and Freddie Mac).[167] As such, the related cash flows are guaranteed. Additionally, the longstanding resilience of U.S. labor markets further supports RMBS performance by mitigating the risk of default.[168]

After declining in 2022, sector investments in CMBS grew by 1.4 percent in 2023 and resumed the trend of year-over-year growth observed in 2014 through 2021. CMBS holdings of $74.1 billion in 2023 were nearly twice 2014 levels and constituted 22.8 percent of the P&C structured securities portfolio. While the potential effect of ongoing pressures in the CRE market require ongoing monitoring by industry and regulators, the P&C sector's exposure is generally limited, largely due to the considerable proportion of agency CMBS holdings. CMBS as a share of cash

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[166] The greater granularity around the mix of assets discussed in this report is based on analysis performed by the NAIC. Unless otherwise cited, the numbers in this report are drawn from S&P Global; while S&P Global's insurance industry database is based on the statutory statements from the NAIC, there may be some differences.

[167] NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

[168] Agency RMBS made up 82 percent of RMBS holdings at year-end 2023, while agency CMBS comprised over 39 percent of total CMBS. *See* NAIC, *U.S. Insurance Industry's Cash and Invested Assets Rise to $8.5 Trillion at Year-End 2023*.

and invested assets has been trending downward since 2019, falling to just 3.2 percent at year-end 2023. Moreover, CMBS made up 7.1 percent of policyholder surplus at year-end 2023, down from 7.4 percent at the prior year end.

The growth of other loan-backed securities (largely, CLOs), increased significantly (by almost 9 percent) in 2023. The consistent year-over-year expansion has contributed to a growing share of the sector's surplus being supported by other loan-backed securities. At year-end 2023, other loan-backed securities made up 10.6 percent of policyholder surplus compared to 10.4 percent at the prior year-end and 7.3 percent at year-end 2014. Their value of $110.5 billion in 2023, up from $101.6 billion in 2022, is a 2.2 multiple of 2014 levels. Because CLOs are floating rate instruments, they are a more attractive option to investors in a higher rate environment than other fixed-income securities. However, CLOs can be complex structures and therefore relatively illiquid. The leveraged loans underlying CLOs carry credit risk and in a higher interest rate environment this may contribute to increased likelihood of default. As noted in Section II.A.2.b.i, the NAIC and state regulators are currently evaluating the appropriateness of RBC charges for CLO tranches held by insurers. As insurers seek to improve capital efficiencies, higher capital requirements can potentially restrain growth of CLO portfolios, or moderate the risk that these securities may contribute to portfolio liquidity.

Notwithstanding the growth in structured securities, high quality bonds still make up the overwhelming percentage of the sector's portfolio of fixed-income securities, which contributes to the strength of the sector's liquidity profile. Investment-grade bonds were $1.3 trillion and $1.2 trillion in 2023 and 2022, respectively. They have comprised at least 95 percent of the P&C sector's bond portfolio in each of the last 10 years and averaged close to 60 percent of aggregate cash and invested assets. Moreover, the ratio of investment-grade bonds to policyholder surplus was 1.28 at year-end 2023 (compared to 1.27 at year-end 2022) and has averaged a 1.31 multiple annually since 2014, illustrating the sector's continuing quality of capital.

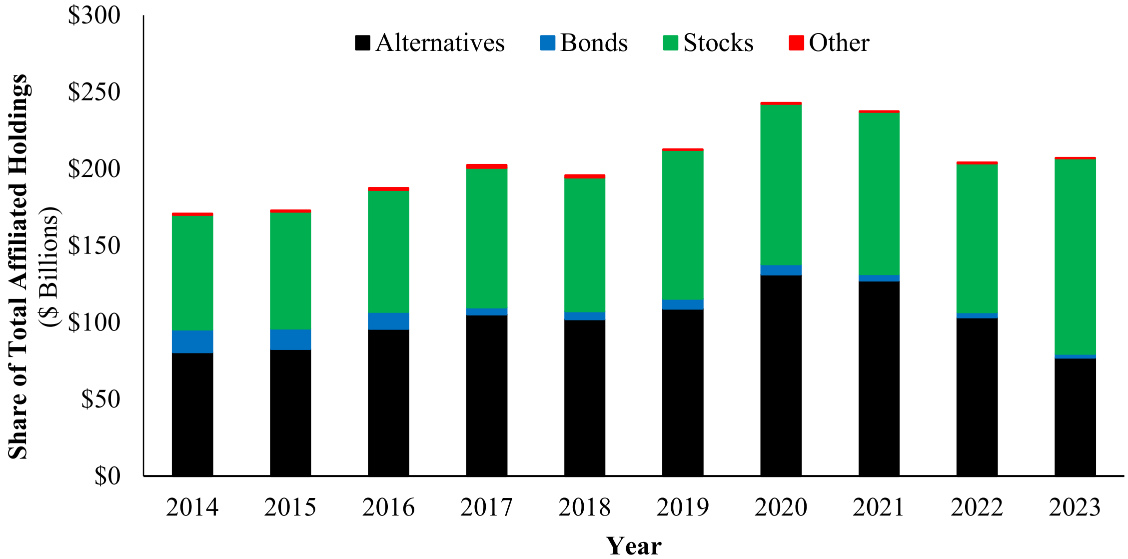
Affiliated Exposures

As in the case of the L&H sector, affiliated holdings can be a potential source of liquidity risk for the P&C sector. In addition to potential liquidity risk, the interconnectedness of these holdings can also have adverse implications for the holder through the amplification of external shocks and potential contagion risk. P&C affiliated holdings were $207.1 billion and $204.2 billion in 2023 and 2022, respectively, and their growth has been averaging 2.5 percent annually since 2014. As a share of the sector's investment portfolio, affiliated cash and investments constituted 8.8 percent at year-end 2023, down from 9.3 percent and 10.7 percent for 2022 and 2021, respectively.

Figure 41 shows the growth and shift in the composition of affiliated investments in the P&C sector over the past 10 years. One mitigant is the continued annual decline in affiliated alternative investments, which dropped by 25.5 percent in 2023, after decreasing by 18.8 percent in 2022. Affiliated alternatives, including joint ventures, surplus debentures, collateral loans, private equity funds, and residual interests, totaled $77.1 billion in 2023 as compared to $103.0 billion in 2022. Until 2023, affiliated alternative investments constituted the largest share of P&C affiliated holdings. In 2023, affiliated common stock of

$118.6 billion overtook affiliated alternatives, comprising 57.3 percent of the affiliated portfolio while affiliated alternatives made up 37.2 percent.

Figure 41: P&C Sector Affiliated Exposures



Source: S&P Global

Note: "Other" consists of cash and short-term investments and mortgage loans.

While affiliated investments continue to be monitored by industry and regulators, the overall positive level and growth trends of unaffiliated holdings are a mitigant to the risks described above. Unaffiliated cash and invested assets have been averaging two times surplus levels each year since 2014. Moreover, unaffiliated bond holdings have accounted for close to two-thirds of the P&C sector's unaffiliated investment portfolio on average in each of the last 10 years, contributing stable cash flows against underwriting results. Additionally, more than 22 percent of this asset category on average has been allocated to unaffiliated common stock investments, helping to establish a marketable source of funding to cover unexpected liquidity needs.

4. Market Performance

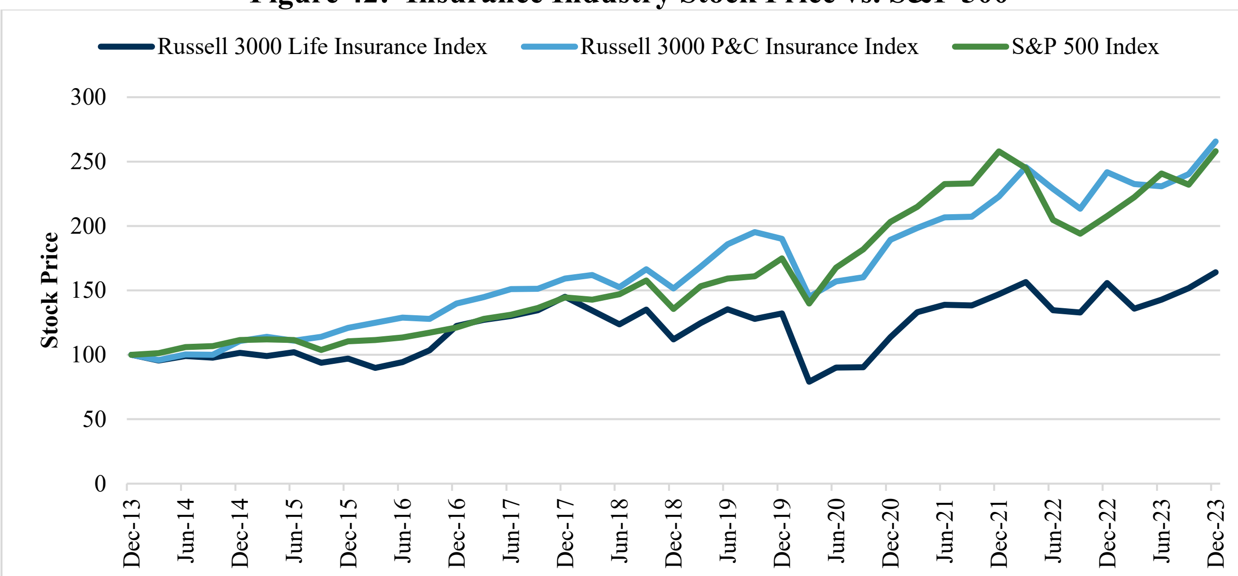
Stock price movements are indicators of investors' perceptions about the recent financial results and future financial prospects of a firm, an industry sector, or in a broader context, the general economy. The following discussion considers the price performance of stock indices for the L&H and P&C sectors, as compared to the performance of the S&P 500.[169]

For the ten-year period ending December 31, 2023, the L&H sector stock price index underperformed the S&P 500, while the P&C sector stock price index slightly outperformed the

[169] Note: In 2023, S&P Global discontinued the former SNL insurance stock price indices that were used in previous FIO annual reports. In order to capture a representative sample of insurance company equities, beginning with this Report, FIO will instead use the Russell 300 P&C Insurance Index, the Russell 3000 L&H Insurance Index, and the Russell 3000 Insurance Index; this data is sourced from Bloomberg, LP. For comparison to the broad market, the S&P 500 Index will continue to be used, and is sourced from S&P Global.

broad market, as shown in Figure 42. In that period, the L&H index appreciated 64 percent, the P&C index gained 165 percent, and the S&P 500 increased by 158 percent. Over most of the last 10 years, the L&H index has consistently underperformed the broader market. The P&C sector has fared slightly better, generally performing in-line with the broader market until mid-2020, then underperforming until early 2022, and outperforming since early 2022. For 2023, however, both the L&H and the P&C stock indices substantially underperformed the S&P 500, gaining five percent and 10 percent, respectively, compared to appreciation of 24 percent for the S&P 500. Concerns about inflationary pressures, the macroeconomic environment, and the interest rate environment continued to weigh on both sectors.

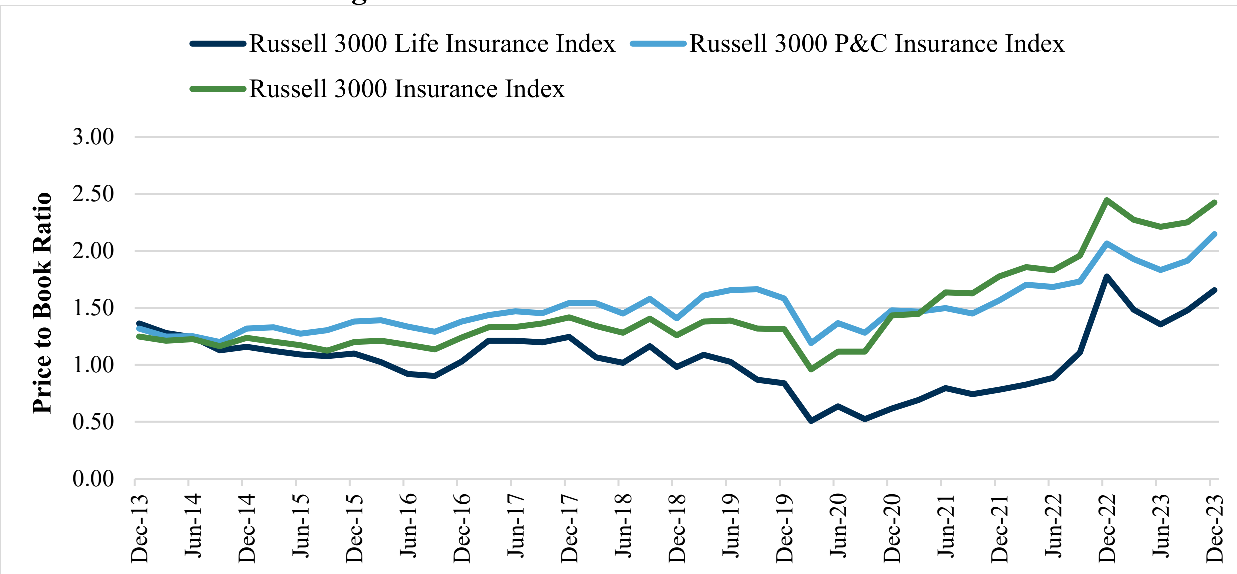
Figure 42: Insurance Industry Stock Price vs. S&P 500



Source: Bloomberg LP and S&P Global

The price-to-book value multiple, which compares on a per share basis the market value of a firm to its book value (i.e., reported stockholders' equity on its balance sheet), is a commonly used metric to measure valuation. If a share of an insurer's stock is selling for less than its book value per share, the market is valuing the firm at less than its assets minus its liabilities (net worth); the converse is true if the stock is trading at a premium to its book value. Figure 43 compares combined insurance sector, L&H sector, and P&C sector price-to-book value ratios from year-end 2013 through year-end 2023. At the end of 2023, the index of stocks of L&H insurers stood at a slightly lower premium of 1.65 times its book value versus 1.78 times at the end of 2022, while the index of stocks of P&C insurers increased slightly to 2.15 times book value, compared to 2.07 times in 2022. Notably, the price-to-book ratio for the L&H sector had been at a discount since mid-2019 and returned to a premium in the latter half of 2022 as interest rates began to rise.

Figure 43: Insurer Price/Book Value Ratios



Source: Bloomberg LP and S&P Global

5. Domestic Outlook

Full year 2024 insurance industry results will be reviewed by FIO in next year's *Annual Report on the Insurance Industry*. While financial results reported by insurers through the first half of 2024 (the most recently available data at the time of publication) do not determine the industry's outcome for the rest of 2024, they do suggest that the outlook for the U.S. insurance industry may continue to be challenging in the near- and medium-term by slowing labor market forces, inflationary pressures, and increased natural catastrophe risk. For the insurance industry, 2023 was a year of elevated, but stabilizing interest rates that contributed to growth and profitability. The effects of the macro environment, however, continue to present potential financial challenges.

Some of the industry trends that may continue for the L&H sector in 2024 include increased opportunities for annuity businesses and pension risk transfer deals, as attractive crediting rates and improved funding ratios are sustained by higher rates. However, the rising use of asset-intensive, or funded, reinsurance in these transactions may expose life and annuity writers to heighted counterparty default risk and group risk. Additionally, elevated lapse risk and further deterioration of the CRE market may present continued vulnerabilities for the sector. The P&C sector will continue to benefit from near-term interest rates, boosting investment income and earnings. However, high reinsurance costs and increased natural catastrophe exposures, including the inflationary impacts on replacement and labor costs, will increase reserve risk. Despite elevated interest rates, the two sectors will continue to seek riskier assets to grow investment yield, thereby exposing surplus to greater liquidity and credit risks.

Elevated interest rates increase the vulnerability of life insurers to lapse risk. Some leverage and liquidity strains were observed in the L&H sector at the end of the second quarter 2024, as L&H surplus declined by nearly two percent from year-end 2023. Improved revenues driven by higher net investment income and premium growth were mostly offset by increased surrender activity in the first half of 2024, as compared to the same period in 2023. However, considerably lower net realized capital losses in the first six months of 2024 largely boosted the sector's profitability with a return on average equity of 6.03 percent compared to 5.68 percent in the prior year-to-date. Life insurers continued to take advantage of opportunities caused by the higher interest rate environment and an aging population to expand their annuity business and to undergo pension risk transfer deals Net premiums and annuity considerations were $395.4 billion during the first half of 2024, an almost seven percent increase from the comparable period in 2023. Additionally, record U.S. annuity sales were $215.2 billion in the first half of 2024, climbing by 19 percent from the prior year-to-date.[170] U.S. pension risk transfer premium of $26 billion was reported in the first half of 2024, which was 14 percent higher than in the first half of 2023.[171]

Higher interest rates have helped many defined benefit plans be in a surplus position, allowing companies to seek out opportunities to reduce their pension risk exposure. One strategy is through pension risk transfer transactions, a trend that likely will continue in the near term as interest rates remain elevated. Due to the growth potential of this market and regulatory differences between jurisdictions, insurers are increasingly using offshore reinsurance to manage the longevity and investment risks associated with large pension risk transfers transactions. Further, increased partnerships with offshore reinsurers have resulted in the growth of alternative asset-backed reinsurers (both affiliated and unaffiliated) in this area, frequently in jurisdictions with regulatory regimes that have different levels of oversight and transparency. Annuity writers participating in offshore reinsurance transactions benefit by enhancing underwriting capacity, increasing competitiveness and market share, and improving pricing and growth strategies. However, these transactions also include potential risk for insurers—including counterparty credit risk, , recapture risk, operational risk, and cash flow mismatches.[172] As indicated in Section II.A.2.b.i, the NAIC and state regulators are examining increase in offshore reinsurance transactions and its implications for policyholder protection for consumers.

For the P&C sector, continued uncertainty regarding natural catastrophe exposures from extreme weather events and loss reserve experience will continue to weigh on financial performance in 2024. These effects can be mitigated to some extent by the sector's strong surplus position. P&C surplus improved in the first half of 2024, rising by 4.8 percent to $1.1 trillion. Premium growth due to significant rate increases, lower storm losses, and improved performance in the personal auto business line contributed to a combined ratio of 97.63 through the end of the first six months of 2024 as compared to 104.42 through the end of the prior year-to-date. Direct writings for the sector's personal business lines comprised a greater share of total direct writings relative to commercial lines in the current year-to-date—a reversal of the trends observed in the

[170] LIMRA, "U.S. Annuity Sales Set New Record in First Half of 2024," news release, July 24, 2024, https://www.limra.com/en/newsroom/news-releases/2024/limra-u.s.-annuity-sales-set-new-record-in-first-half-of-2024.

[171] LIMRA, "U.S. Pension Risk Transfer Sales Jump 14% in First Half of 2024," news release, September 5, 2024, https://www.limra.com/en/newsroom/news-releases/2024/limra-u.s.-pension-risk-transfer-sales-jump-14-in-first-half-of-2024/.

[172] S&P Global, *Credit FAQ: Funded Reinsurance Deserves the Heightened Regulatory Attention* (June 4, 2024), https://www.spglobal.com/ratings/en/research/articles/240604-credit-faq-funded-reinsurance-deserves-the-heightened-regulatory-scrutiny-13121373.

previous two years. Additionally, the near tripling of P&C investment income, stemming largely from net realized capital gains of $58.3 billion, contributed to a return on average equity of 18.07 percent through June 30, 2024, compared to 1.75 percent through June 30, 2023. After consistently weak underwriting results in the last two years, conditions may improve for the P&C sector in 2024. Though reserve redundancies are slowing across business lines, the performance gap between personal and commercial lines is expected to narrow further and enhance the sector's financial strength.

P&C financial performance will continue to be impacted in the near to medium term by the current hard reinsurance market. In addition to the impacts of increasingly frequent and severe weather events, the market volatility in 2022 in response to rising interest rates led to mark-to-market losses, straining profit margins for reinsurers. As a result, available capital in the reinsurance sector has declined significantly, while investors and new reinsurers have not yet entered the market to raise capacity.[173]

The insurance industry's willingness to raise balance sheet illiquidity is expected to continue for the rest of 2024, including increased allocations to private credit and CLOs. Higher interest rates can increase insurer's preference for private credit and CLOs because of the floating-rate debt structures often involved in such instruments. On the other hand, borrowing costs also rise, heightening default risk. The L&H and P&C sectors increased their investment allocations to non-traditional and alternative assets in the first six months of 2024, further adding valuation uncertainty and potential complexity to the composition of reserves and capital.

The two sectors combined held $565.7 billion of other invested assets, largely alternative assets, rising by 3.4 percent from year-end 2023 and constituting over 35 percent of their surplus at the end of the first half of 2024. The P&C sector increased its allocation to alternative investments by over five percent to $173.0 billion as of June 30, 2024, comprising 7.1 percent of cash and invested assets, as compared to $164.5 billion and 7.0 percent at year-end 2023. Since 2014, nearly 20 percent of P&C surplus on average has been supported by alternative assets each year. The L&H sector is also steadily increasing its holdings of alternative assets. Other invested assets were $350.0 billion and $344.9 billion as of second quarter 2024 and year-end 2023, respectively, and accounted for 6.5 percent and 6.4 percent of the L&H investment portfolio for the same points in time.[174] Moreover, they continue to constitute a significant share of L&H capital and surplus—almost 70 percent at the second quarter-end 2024, up from 67.3 percent and 66.3 percent in 2023 and 2022, respectively. As noted in Sections II.A.2.b.iii and II.A.3.b.iii, CLOs also have shown steady year-over-year growth in the industry's investment portfolio.

Life insurers have become reliable sources of capital for the CRE market. Negative developments in the CRE market are ongoing and a significant correction in commercial

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[173] Kenneth Araullo, "Hard Reinsurance Market Not Going Away – AM Best," *ReInsurance Business*, July 4, 2024, https://www.insurancebusinessmag.com/us/news/reinsurance/hard-reinsurance-market-not-going-away--am-best-495864.aspx#. *See also, e.g.*, A.M. Best, *Strong Technical Profits Bolster Momentum for Global Reinsurers* (2024), available through https://www3.ambest.com/ambv/sales/bwpurchase.aspx?record_code=345543 (noting that reinsurers profits are "the result of a comprehensive set of de-risking measures, a realignment of interests between reinsurers and primary carriers, and improved pricing").

[174] S&P Global (Schedule BA of the Q2 2024 aggregate quarterly financial statements).

property values could strain the sector's capital position. Permanent shifts in work patterns following the COVID-19 pandemic that reduced the demand for office space, coupled with higher interest rates that have raised borrowing and refinancing costs, have put pressure on commercial property values. As noted in Section II.A.2.b.iii, CMBS holdings have continued to support a considerable portion of L&H capital and surplus. Given their significant CRE exposures, life insurers could potentially experience significant losses if CRE prices continue to deteriorate. Life insurers held 12.2 percent of the $5.9 trillion in CRE debt outstanding as of the second quarter-end 2024. Of the $602.6 billion in commercial loans maturing in 2024, life insurers own almost eight percent or over $48 billion and nearly $51 billion or 8.5 percent of the total CRE debt due in 2025.[175] L&H mortgage loan holdings were $752.9 billion, making up 14 percent of the sector's investment portfolio at second quarter-end 2024 compared to $733.0 billion and 13.7 percent at year-end 2023.[176] Further, mortgage loans are constituting an ever-larger share of L&H capital and surplus—rising to a multiple of about 1.5 at second quarter-end 2024 from a 1.4 multiple at year-end 2023. As noted in Section II.A.2.b.ii, over 80 percent of L&H mortgage loan exposure is to the CRE market (either directly or through commercial mortgage-backed securities).

Although the effects of the current macro environment on insurers merit continued monitoring, the industry's firm capital position along with its tight cash flow matching of assets and liabilities currently provide a strong foundation to manage its business in the near and medium term, while adapting to macroeconomic developments.

Regulatory developments by the NAIC and state regulators that are aimed at providing greater transparency into insurer investments and offshore reinsurance activities, as well as initiatives to align complexity risk of assets with the existing capital framework, are seeking to enhance policyholder protection for the L&H Sector. For the P&C sector, claims inflation may intensify from potential supply chain disruptions related to geopolitical tensions, which will further erode favorable reserve development. Additionally, the increased frequency and severity of natural catastrophes may present challenges for insurers and reinsurers. FIO will continue to monitor insurance sector developments and report on them in 2025.

B. Capital Markets Activity

1. Financings

The U.S. insurance industry continued to access the capital markets throughout 2023. Fourteen insurer-related public equity offerings were completed during 2023, with an aggregate value of

[175] Emily Yue, "CRE Mortgage Maturities & Debt Outstanding Q1 2024: Commercial Mortgages Increased by $231 Billion," *Trepp*, July 12, 2024, https://www.trepp.com/trepptalk/cre-mortgage-maturities-debt-outstanding-q1-2024.

[176] Aggregate mortgage loans reflected in S&P Global database were adjusted manually to include $19.9 billion of mortgage loans reported in Prudential Insurance Co. of America's second quarter statutory financial statements. S&P Global does not have access to New Jersey domiciled insurer quarterly data; therefore, its platform excludes that data from the aggregate amounts. L&H cash and invested assets at second quarter-end 2024 were also adjusted manually due to the inclusion of Prudential Insurance Co. of America's mortgage loan holdings.

$3.2 billion.[177] This level of activity marks a slight increase from 2022, during which 10 deals valued at $2.5 billion were completed. Reflecting a continued downward trend in initial public offering (IPO) activity, none of the transactions in 2023 were IPOs, down from one IPO in 2022, valued at $1.7 billion, and three IPOs in 2021, valued at $2.3 billion. The single IPO in 2022 was the $1.7 billion raised by AIG's spin-off of its life insurance, retirement, and wealth management operations into Corebridge Financial, Inc. Notably, over 87 percent of the aggregate transaction value in 2023 reflects follow-on capital raised by AIG in three separate offerings of Corebridge Financial stock following the 2022 IPO, totaling $2.8 billion.

Debt markets continued to be the preferred source of additional capital for insurers in 2023. U.S. insurers raised an aggregate $52.6 billion in 88 separate debt offerings in 2023.[178] Likely reflecting the higher interest rate environment over 2023, the aggregate value of debt issued by U.S. insurers decreased by 27 percent from the $72.3 billion raised in 127 offerings in 2022. The largest single debt offering was a $2 billion issue sold by UnitedHealth Group Incorporated. However, MetLife, Inc. (and its subsidiaries) was the largest issuer of debt, selling $9 billion in 13 separate offerings throughout 2023. New York Life Insurance Company, which sold $8.4 billion in 15 separate offerings, was the second-largest issuer of debt in 2023. In the aggregate, the funds raised by the top five issuers of debt accounted for 52 percent of the 2023 industry total, up from 49 percent for the top five debt issuers in 2022. Additionally, fewer individual companies sold debt in 2023 as compared to 2022.

2. Mergers & Acquisitions of U.S. Insurers

In 2023, there were 52 M&A transactions announced involving U.S. insurance companies, with a total value of $10.1 billion.[179] Inflationary pressures and higher interest rates continued to dampen M&A activity, as the number of deals dropped slightly from the 54 transactions in 2022. The aggregate value of the 2023 transactions also dropped noticeably from the $13.6 billion aggregate value total in 2022. Among the 2023 transactions, the L&H sector saw 17 deals with an aggregate value of $5.8 billion, more than 35 times the value of L&H deals in 2022, while the 35 transactions in the P&C sector amounted to a 68 percent decline in aggregate value over the previous year to $4.3 billion. The largest transaction in 2023 was Brookfield Reinsurance Ltd.'s June $4.3 billion acquisition of American Equity Investment Life Holding Company, which accounted for 43 percent of the total industry aggregate deal value.

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[177] All data in this section with respect to financings is sourced from S&P Global, as collected and calculated by FIO. The data include Bermuda-based holding companies for which primary insurance underwriting subsidiaries are domiciled in the United States.

[178] Foreign currency-denominated transactions converted to U.S. dollars by S&P Global.

[179] Barry Chen, *et al.*, *2024 Insurance M&A Outlook: Climbing the Leaderboard* (2023), https://www2.deloitte.com/us/en/pages/financial-services/articles/insurance-m-and-a-outlook.html. All data in this section with respect to M&A transactions is sourced from Deloitte. Transactions for 2023 were transactions announced between January 1, 2023, and December 31, 2023, and were either completed during the year or remained pending at the end of 2023. Transactions include acquisitions of whole companies, assets, or minority interests in instances where a U.S-domiciled insurer was either the buyer or seller.

C. International Insurance Marketplace Overview and Outlook

At year-end 2023, the United States remained the world's largest single-country insurance market, with a 45 percent market share of global direct premiums written (see Figure 44).[180] U.S. market share increased by approximately one percentage point compared to that of 2022 and is at the highest level since 2019. When viewed as a single market, the European Union's combined share of global direct premiums written (16 percent, or $1.2 trillion) is the next largest market. China remained the second-largest single-country insurance market, with 10 percent of global direct premiums written for 2023. Collectively, the 20 largest (single country) insurance markets again in the world accounted for 91 percent of global direct premiums written. Globally, direct premiums written increased from 2022 by six percent (in nominal terms, unadjusted for inflation), improving on the less than one percent increase from 2021 to 2022. Global life insurance premiums rose four percent in 2023, while global non-life premiums increased by eight percent.[181] For the same period, global gross domestic product expanded by an estimated 3.3 percent (in nominal terms).[182]

[180] Germante Boncaldo, *et al.*, *sigma 2/2024: World Insurance: Asset-Savvy is the New Asset-Light* (2024), https://www.swissre.com/institute/research/sigma-research/sigma-2024-02-life-annuity-insurance.html. Swiss Re sigma examines insurance and macroeconomic data from 147 countries sourced through Swiss Re Institute. Swiss Re sigma separates the insurance industry into "life" and "non-life" sectors according to standard European Union and OECD conventions; under these conventions, the "non-life" sector includes health insurance. Beginning with 2019, data retrospectively include A&H business written by health insurers in the United States to align with practice in other regions. In 2019, premiums from this line of business were $912 billion. Because of this change in methodology, market shares from prior years are not directly comparable. Figures shown here for 2020-2022 have been adjusted for this change. All figures shown use amounts converted to U.S. dollars.

[181] *See* Boncaldo, *sigma 2/2024*, 46.

[182] IMF, *World Economic Outlook: Update – The Global Economy in a Sticky Spot* (2024), 1, https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024.

Figure 44: World Market Share of Direct Premiums Written 2021-2023 for Top Twenty Markets

2023 Rank	Country	2021 Premium Volume ($ millions)	2021 World Market Share	2022 Premium Volume ($ millions)	2022 World Market Share	2023 Premium Volume ($ millions)	2023 World Market Share	2023/2022 Premium Volume Change
1	United States	2,724,798	40.3%	2,987,988	44.1%	3,226,684	44.9%	8.0%
2	China	696,128	10.3%	697,806	10.3%	723,664	10.1%	3.7%
3	United Kingdom	373,613	5.5%	336,767	5.0%	374,936	5.2%	11.3%
4	Japan	397,948	5.9%	360,543	5.3%	362,719	5.0%	0.6%
5	France	292,649	4.3%	258,856	3.8%	282,800	3.9%	9.2%
6	Germany	272,390	4.0%	236,981	3.5%	245,464	3.4%	3.6%
7	South Korea	193,008	2.9%	192,099	2.8%	185,917	2.6%	(3.2%)
8	Canada	166,292	2.5%	165,796	2.4%	170,520	2.4%	2.8%
9	Italy	191,896	2.8%	154,564	2.3%	159,442	2.2%	3.2%
10	India	123,016	1.8%	129,765	1.9%	135,958	1.9%	4.8%
11	Netherlands	92,418	1.4%	83,875	1.2%	93,149	1.3%	11.1%
12	Brazil	62,878	0.9%	74,687	1.1%	84,489	1.2%	13.1%
13	Spain	73,129	1.1%	68,323	1.0%	83,442	1.2%	22.1%
14	Taiwan	113,424	1.7%	85,737	1.3%	78,077	1.1%	(8.9%)
15	Australia	72,294	1.1%	71,793	1.1%	73,652	1.0%	2.6%
16	Hong Kong	72,825	1.1%	66,493	1.0%	65,692	0.9%	(1.2%)
17	Switzerland	57,938	0.9%	56,521	0.8%	61,187	0.9%	8.3%
18	Mexico	31,761	0.5%	34,230	0.5%	45,062	0.6%	31.6%
19	Denmark	45,383	0.7%	41,357	0.6%	44,374	0.6%	7.3%
20	Sweden	59,411	0.9%	45,692	0.7%	44,201	0.6%	(3.3%)
	World	6,764,694		6,772,753		7,186,174		6.1%

Source: Swiss Re sigma, *World Insurance*

For the second year in a row, real premium growth in emerging markets outpaced growth in advanced economies. Global life insurance premiums, in real terms, grew by 1.3 percent, mainly due to a significant 7.8 percent increase for this business in emerging markets, which was slightly offset by a 0.7 percent decrease in advanced economies.[183] The weakest growth in life premiums were in advanced Asia Pacific and western Europe economies, which was offset by substantial premium growth in savings products in China, increased demand in Latin America, strong pension de-risking in the UK, and strong fixed annuity sales in the United States and Canada.[184] For the non-life sector, global premium growth of 3.9 percent in real terms reflected stronger performance in both emerging markets (up 5.3 percent in real terms) and advanced markets (up 3.6 percent in real terms).[185]

Most insurance indices in major insurance markets outside the United States recorded positive results in 2023, but they still underperformed broader benchmarks (such as the S&P 500)—in

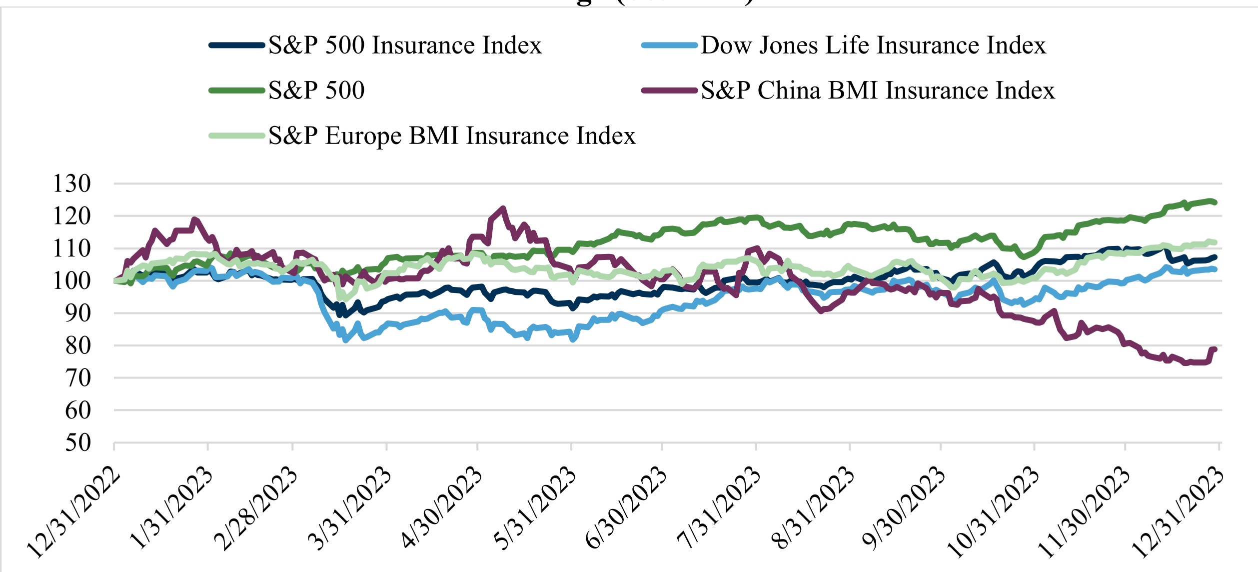
[183] Boncaldo, *sigma 2/2024*, 37.

[184] Boncaldo, *sigma 2/2024*, 37.

[185] Boncaldo, *sigma 2/2024*, 40.

most instances by a significant margin. Among the indices monitored by FIO (see Figure 45), the S&P Europe BMI Insurance Index was the best performing, increasing by approximately 12 percent in 2023 (compared to a 24 percent increase for the S&P 500). Chinese insurer equities, which declined 21 percent as measured by the S&P China BMI Insurance Index, performed more poorly because of slow post-pandemic growth.

Figure 45: Performance of Global Insurance Indices as Compared to Broader Market Average (S&P 500)



Source: S&P Global

Despite inflationary challenges and elevated interest rates in 2023, global economic growth has remained strong, boosting demand for savings products. Observers expect that total world premiums written (in real terms) are likely to increase by an additional 2.9 percent in 2024, up from the 1.3 percent in 2023.[186] Despite interest rate hardening, profits of non-life insurers are expected to continue to be pressured by inflationary claims costs in personal lines throughout 2024.[187] Life insurers are anticipated to benefit from the effect of continued higher interest rates in terms of both premiums (from increased market demand for annuities and pension risk transfers) and earnings (from improved yields on investments).[188] Given the expectations of relatively low global economic growth, continued inflationary pressures, and continued elevated interest rates, risks to world non-life insurer profitability include potential new inflation shocks and renewed claims inflation from supply chain disruptions resulting from geopolitical conflicts.[189]

[186] Boncaldo, *sigma 2/2024*, 2.

[187] Boncaldo, *sigma 2/2024*, 2.

[188] Boncaldo, *sigma 2/2024*, 2.

[189] Boncaldo, *sigma 2/2024*, 2.

III. CONCLUSION

Elevated interest rates have enhanced underwriting performance, premium growth, and investment income for the insurance industry. The L&H sector is experiencing increased competitiveness, and life insurers are offering increased crediting rates and new product offerings to meet the needs of an aging population. The L&H sector is also transitioning to increased sales of traditional businesses that are more capital intensive. For P&C insurers, capacity is expected to improve in certain business lines, as premium rate increases and improved underwriting standards are likely to continue. The market expects personal lines to drive overall growth for the P&C sector going forward, reversing several years of relative underperformance. FIO will continue to monitor and assess these developments and other macroeconomic and market trends affecting the U.S. insurance industry and consumers.