Big life insurers boost gains with Schedule BA investments: Conning

By Editorial Staff *Wed, Nov 11, 2015*

Schedule BA assets, which include private equity and hedge funds, mineral rights, aircraft leases, surplus notes, secured and unsecured loans to corporations and individuals, and housing tax credits, can provide much-needed yield.

With the Fed-induced interest rate drought showing little sign of ending, the life insurance industry continued to focus its investment decisions around the search for yield in 2014 and 2015, according to a new study by Conning, Inc.

"From 2010 to 2014, insurers have shifted away from stocks… and increased their allocation in Schedule BA assets as well as lower-rated bonds," said Mary Pat Campbell, vice president, Insurance Research at Conning.

The Conning study, "Life Insurance Industry Investments: The Search for Yield Runs Dry," analyzes life industry investments for the period 2010-2014. It looks at trends for the industry as a whole, by insurer size, and for five peer groups. The study discusses strategic issues facing the industry and examines its investment profile.

Investments in Schedule BA assets are a big source of yield. These assets, which include private equity and hedge funds, mineral rights, aircraft leases, surplus notes, secured and unsecured loans to corporations and individuals, and housing tax credits, had yields more than 200 basis points great than insurers' overall portfolios.

But special expertise is required to buy and manage Schedule BA assets, ownership of them is concentrated among mid- to large-size insurers. While the life industry's average allocation to Schedule AB is only 2.7%, more than 60% are in the hands of seven large insurers. All but 9% percent of Schedule AB assets were held by insurers with at least $20 billion in assets.

"Insurers of all sizes have been adding credit risk in their investment grade bond portfolios," said Steve Webersen, head of Insurance Research at Conning, Inc. "This is especially true of midsized insurers that are invested overwhelmingly in bonds. Some of the largest insurers [are] adding risk with below investment grade bonds and investments in Schedule BA assets."

But, despite gains in certain areas, the overall direction in yields has been downward. The 2013 to 2014 return on investable assets was 4.98%, down from 5.06% in 2013. Between

2012 and 2013, the return fell 38 basis points, according to Conning.

Investable assets for the life industry rose by $130 billion in 2014, to $3.4 trillion, the report said. That was a growth rate of 4%, or almost double the average growth rate from 2010 to 2014. Over that five-year span, allocations to mortgages rose to 11.3% from 10.1% of investments. Allocations to bonds fell by 100 basis points.

Declining interest rates in 2014 increased the value of insurers' bond portfolios, however, and generated a gross total return

"Life Insurance Industry Investments: The Search for Yield Runs Dry" is available for purchase from Conning by calling (888) 707-1177 or by visiting the company's web site at www.conningresearch.com.