Fitch releases analysis of U.S. life insurers investment holdings

By Editor Test *Thu, Oct 18, 2012*

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At year-end 2011, the general account assets of U.S. life insurance companies were predominately invested in bonds and mortgage loans, according to a new Special Report from Fitch Ratings.

Fixed-income securities on average accounted for 83% of total invested assets. The remaining 17% was comprised of contract loans, cash, stock, derivatives, real estate and other invested assets.

Fitch's findings are based on statutory information compiled annually from an investment survey of its universe of rated life insurance entities, which represents about two-thirds of the total life insurance industry's general account invested assets and includes 16 of the largest 20 life insurance groups in the U.S. based on total admitted assets.

Corporate bonds accounted for more than 60% of the total bond holdings. Eighty percent of the corporate bonds were rated BBB or higher and only 11% were below investment-grade. Exposure to foreign government bonds was less than 1%.

Structured securities represented 20% of the investment portfolio among the companies surveyed. These included agency pass-throughs, commercial mortgage-backed securities (CMBS), non-agency RMBS, and asset-back securities (ABS).

Overall quality of commercial loan portfolios remains solid. Ninety-one percent of commercial loans had loan-to-values below 80% at year-end 2011, which represents an improvement from 84% at year-end 2010.

Debt service coverage ratios (DSCR) were also strong; only 6% of commercial mortgage loans had DSCRs below the breakeven point of 1.0x.

Common and preferred equity exposure in life insurers' general account portfolios remains low. For most life companies, the bulk of their equity market exposure is in non-guaranteed separate accounts tied to variable annuities and pension business. Companies also have additional exposure to asset classes such as common equity and real estate through investments held in Schedule BA.

Cash and short-term investments as a percentage of total invested assets remained unchanged from the end of 2010. Fitch had expected this to decline in 2011 as companies deployed their excess capital accumulated during the financial crisis.

Fitch now believes many companies are holding cash due to long-term interest rate uncertainty. The notable exception was AIG Life, which held 10% of invested assets in cash at year-end 2010 but began deploying it in 2011. By year-end 2011, AIG Life's cash position fell to approximately 1% of total invested assets.