

## **Insurance Investment Portfolios: Resilient to Risks**

August 7, 2023

Insurers mainly invest in high-quality fixed income assets, bought-and-held to match the timing of obligations to policyholders. Given stable long-term funding provided by customers, life & annuity (L&A) companies have grown exposures to less liquid, albeit quality, assets such as private debt, commercial real estate (CRE) loans and some structured products. Illiquidity premiums helped to enhance yields during the low interest rate era, while insurers remained prudent by limiting concentrations in lower-quality sub-investment grade credit. We are cautious of firms with outsized positions in more opaque assets – notably some alternative / private equity-backed L&A companies. However, **we are confident in the investment holdings and capital strength of the L&A insurers where we focus.**

### **CRE lending is a core competency of the life and annuity insurance sector**

*Diversified across geographies and higher-quality apartment, retail, industrial, office and other properties*

- Significant borrower equity (low loan-to-value ratios) limits impairment risk, disincentivizes owner defaults
- Underlying rental income substantially covers mostly fixed interest costs on insurance-owned CRE loans and tends to be backed by stable longer-term leases – effects are felt gradually
- Staggered CRE loan maturities enable insurance lenders to work with borrowers over time, occasionally amending terms to prevent losses. Amendments could hit earnings but typically protect capital.
- Insurers mainly hold investment-grade equivalent CRE loans with low historic loss rates
- Insurers are comfortable taking ownership of select properties, if needed

### **Structured, private and broader investment concentrations**

*Structured investments include commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs). CLOs can receive favorable regulatory treatment, warranting caution on outsized/lower rated positions.*

- Traditional insurers where we focus primarily hold higher-rated tranches of structured investments, while some alternative/PE-backed insurers may take greater risk down in capital structure
- Growth in private credit includes publicly rated private placements – less of a concern. Ratings shopping for more esoteric transactions could imply higher risk.
- Private deals can enable tighter lender/borrower relationships and favorable terms & conditions
- Higher interest rates are broadly positive for insurers and may help shift allocations back towards public fixed income, including preferreds and capital securities, though private credit is likely here to stay.

As insurers are not publicly stress tested by their regulators like banks, we must focus on disclosures, industry insights and our own analysis. Meanwhile, regulatory capital and ratings requirements provide support. Insurers can hold investments through economic and market volatility, which is a key reason they have performed well over time. This also supports less liquid investment positions, though we are cautious of firms with outsized exposures.

**We are confident in the prudent risk management of our insurance names which have been tested through cycles.**

Chad Stogel, Vice President

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