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INSURANCE SOLUTIONS

Navigating the Future: Key Investment Shifts in Life Insurance in 2024

INSIGHTS

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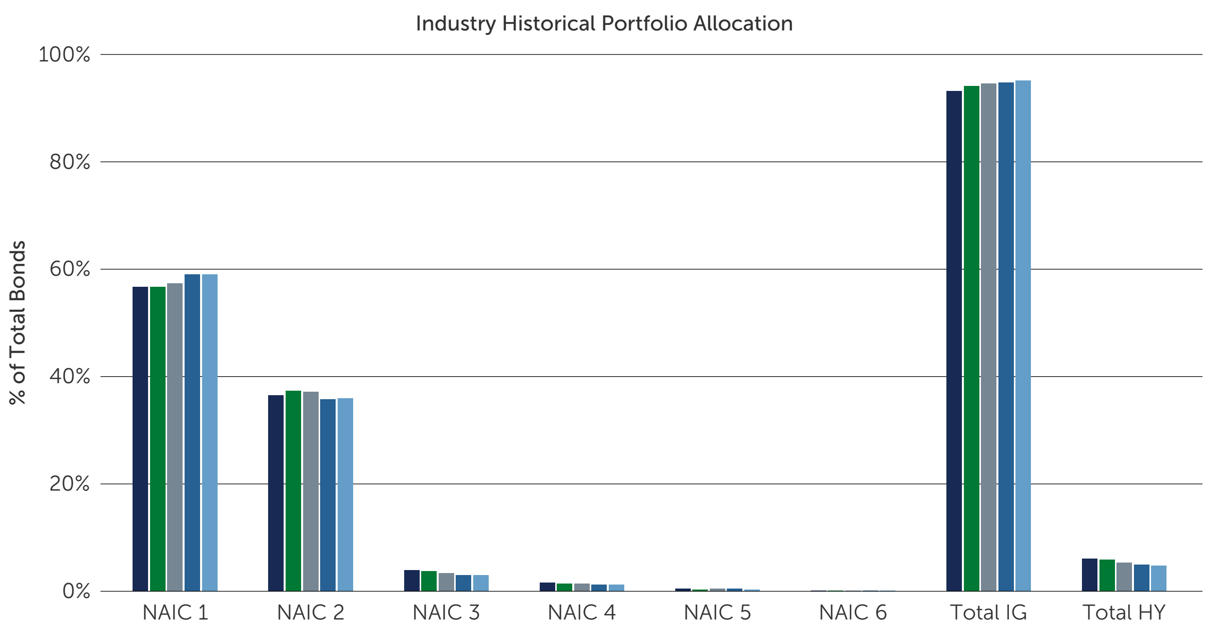
In 2024, the life insurance industry continued to evolve, driven by strategic shifts in asset allocations and investment strategies. As insurers navigate a complex economic landscape, they are increasingly focusing on enhancing yield potential while managing risk.

Insurance companies have released their statutory filings for year-end 2024. The data reveals significant trends in credit quality, bond allocations, and mortgage investments, reflecting the industry's adaptive approach to achieving sustainable growth and financial stability. The following themes highlight the key areas of focus for life insurers as they strive to optimize their portfolios and meet policyholder needs.

1. Stability in Credit Quality

Bond allocations to the investment grade (IG) NAIC 1 & 2 classes (BBB- and higher) have continued to increase to 95.2% **(Figure 1)**. Conversely, high yield (HY) allocations have continued to decline to 4.8%, reflecting the industry's cautious approach to maintaining high credit quality amid economic uncertainties—as well as the benign ratings downgrade environment. Insurers are prioritizing investments in higher-rated securities to ensure portfolio resilience and mitigate potential risks associated with lower credit quality bonds. This trend underscores the industry's commitment to safeguarding policyholder interests and maintaining financial strength.

Figure 1: Insurers Continue to Prioritize Higher Ratings



	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Total IG	Total HY
2020	56.8%	36.6%	4.0%	1.6%	0.5%	0.1%	93.3%	6.2%
2021	56.7%	37.4%	3.8%	1.5%	0.4%	0.2%	94.1%	5.9%
2022	57.4%	37.2%	3.5%	1.4%	0.5%	0.1%	94.6%	5.4%
2023	59.1%	35.9%	3.1%	1.4%	0.5%	0.1%	94.9%	5.1%
2024	59.1%	36.0%	3.0%	1.3%	0.5%	0.1%	95.2%	4.8%

Source: S&P Global. As of December 31, 2024.

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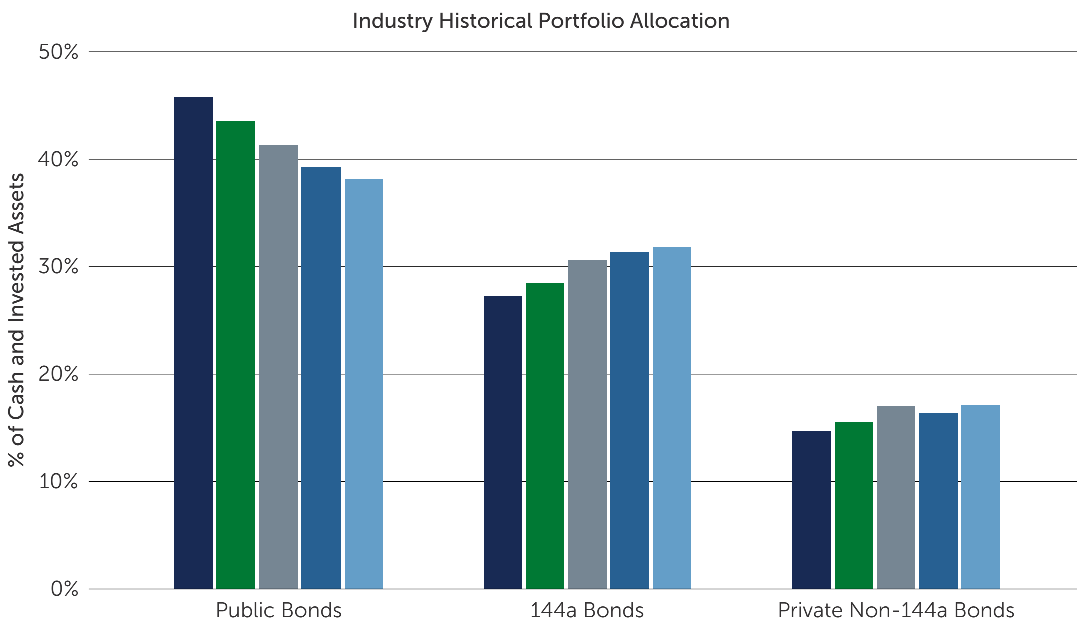
2. Increasing Private Bond Allocations, Decreasing Public

Private bond allocations increased rapidly by 1.1% in 2024, driven primarily by growth in non-144a (true private bonds) **(Figure 2)**. This increase indicates a continued strategic shift toward less liquid securities, which offer higher yield potential. Life insurers are increasingly seeking opportunities in private markets to enhance returns, leveraging their ability to manage illiquidity risks. Private bonds offer life insurers the advantage of negotiating terms directly with issuers, allowing for tailored investment strategies that reap better returns. The move away from public bonds also reflects a broader trend of diversifying investment portfolios to achieve better risk-adjusted returns in a low interest rate environment.

Figure 2: Ongoing Strategic Shift Toward Less Liquid Markets



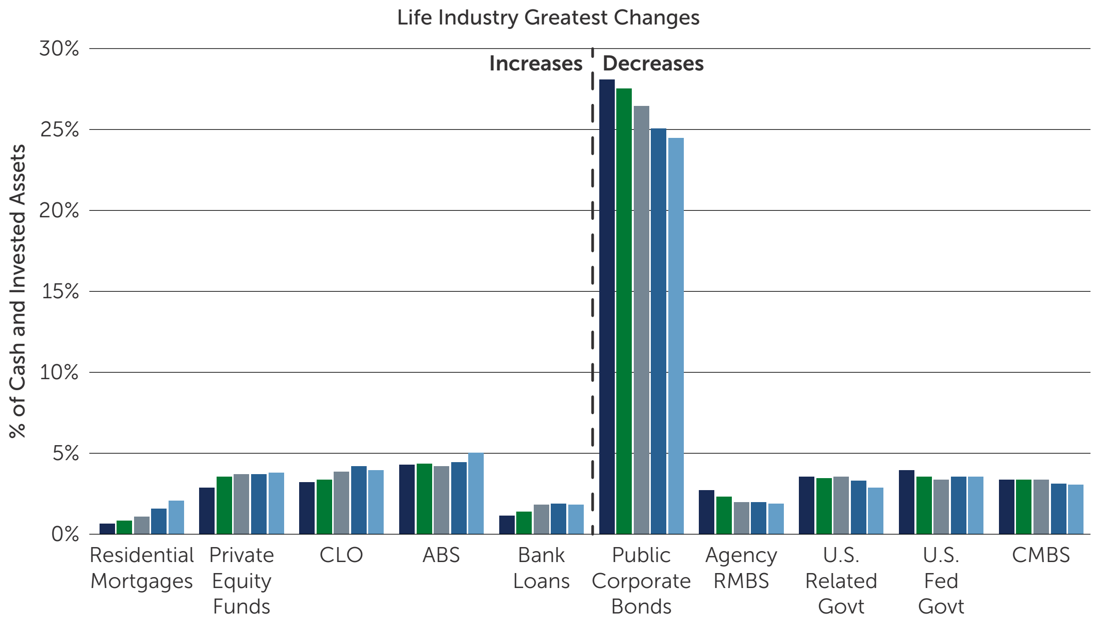
	Public Bonds	Private Bonds	144a Bonds	Non-144a Bonds
2020	45.8%	42.0%	27.3%	14.7%
2021	43.6%	44.1%	28.5%	15.6%
2022	41.3%	47.6%	30.6%	17.0%
2023	39.3%	47.8%	31.5%	16.4%
2024	38.2%	48.9%	31.8%	17.1%

Source: S&P Global. As of December 31, 2024. As a percent of Cash and Invested Assets.

3. Asset Class Changes: Growth in Residential Mortgages, Declines in Public Corporate Bonds

Residential mortgages—non-securitized whole loan mortgages—logged the biggest gain of all asset classes since the start of 2020, with a 1.4% overall allocation increase, representing a whopping 242% increase from five years ago **(Figure 3)**. This significant growth reflects the industry's strategic focus on residential mortgage investments, driven by impressive option-adjusted spreads and diversification to corporate credit risk. ABS had the largest year-over-year increase of 0.6% given strong demand for private ABS. After years of increases, CLO allocations surprisingly slipped a bit by 0.3% from 2023. These increases were largely funded by declines in public corporate bonds and government-backed securities.

Figure 3: Residential Mortgages Continue to Grow Given Attractive OAS and Diversification



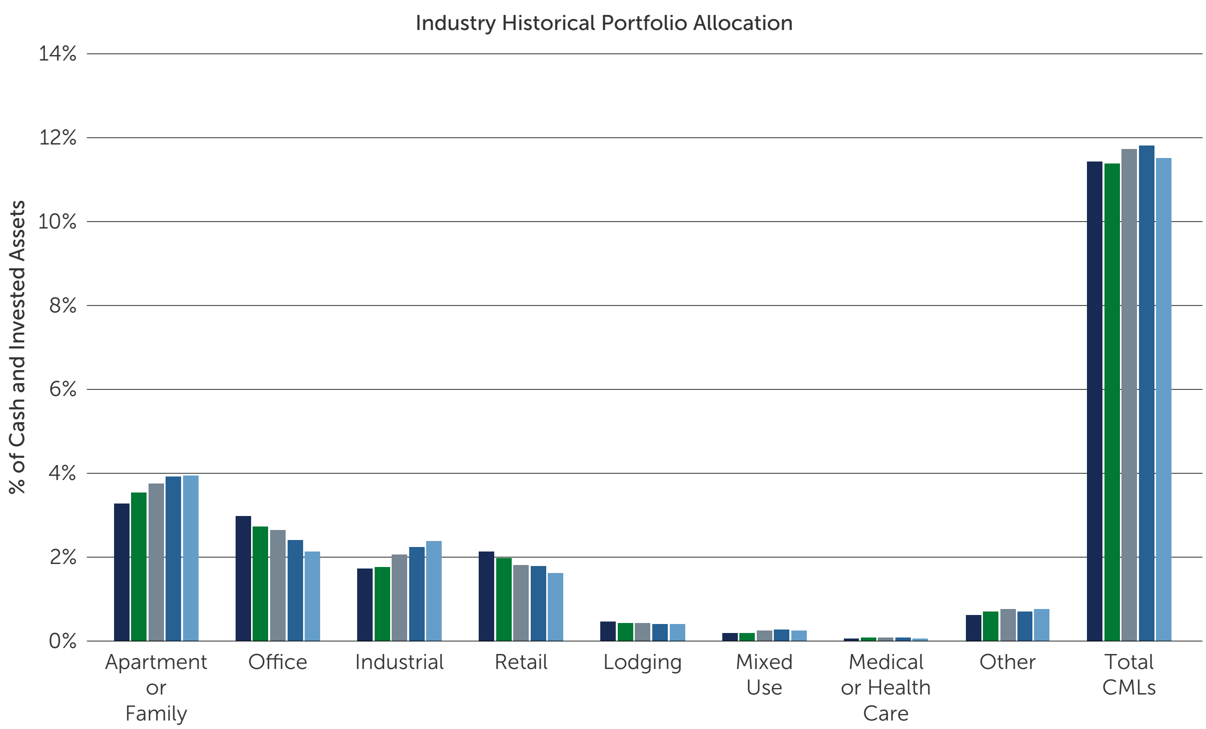
	Residential Mortgages	Private Equity Funds	CLO	ABS	Bank Loans	Public Corporate Bonds	Agency RMBS	U.S. Related Govt	U.S. Fed Govt	CMBS
2020	0.6%	2.9%	3.2%	4.3%	1.1%	28.1%	2.7%	3.5%	4.0%	3.4%
2021	0.8%	3.5%	3.3%	4.3%	1.4%	27.5%	2.3%	3.4%	3.6%	3.4%
2022	1.1%	3.7%	3.9%	4.2%	1.8%	26.5%	2.0%	3.5%	3.3%	3.4%
2023	1.5%	3.7%	4.2%	4.4%	1.8%	25.1%	1.9%	3.2%	3.5%	3.1%
2024	2.0%	3.7%	3.9%	5.0%	1.8%	24.5%	1.9%	2.9%	3.5%	3.0%

Source: S&P Global. As of December 31, 2024.

4. Rebalancing in Commercial Mortgages

Commercial mortgage allocations declined slightly year-over-year by 0.3%, breaking a three-year increasing trend **(Figure 4)**. Within commercial mortgages, there was a continued reduction to the office sector due to concerns about vacancy rates and valuations. Retail also showed slight declines in allocation. Meanwhile, apartment, multi-family, and industrials increased, continuing a rebalancing trend within the asset class over the last five years. This rebalancing reflects insurers' adaptive strategies to navigate changing market dynamics and capitalize on growth opportunities in sectors with strong demand and favorable economic conditions.

Figure 4: Rebalancing Trend Reflects Changing Market Dynamics

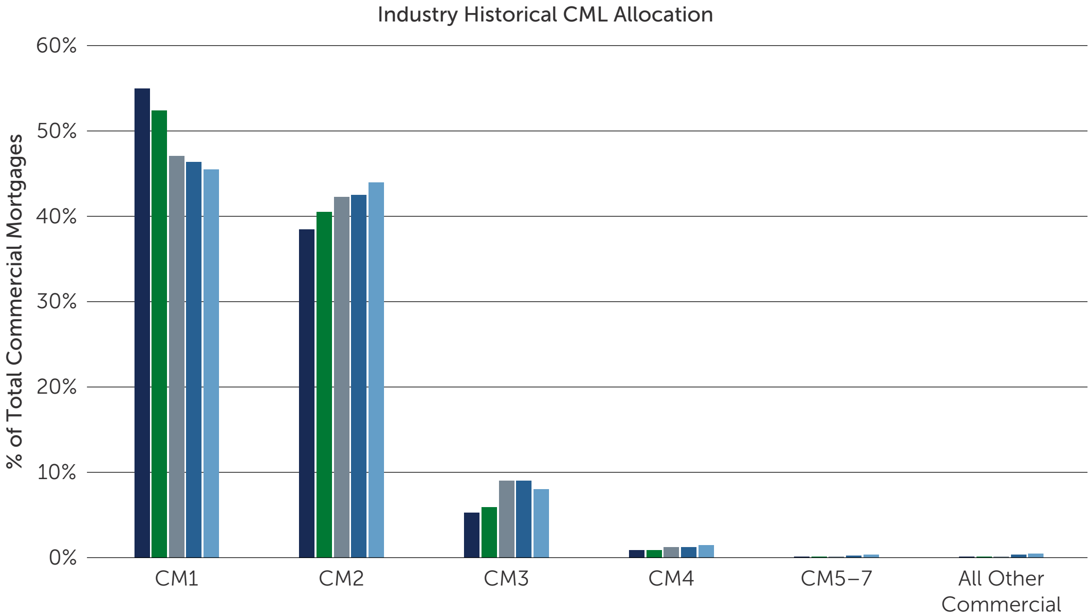


	Apartment or Family	Office	Industrial	Retail	Lodging	Mixed Use	Medical or Health Care	Other	Total CMLs
2020	3.3%	3.0%	1.7%	2.1%	0.5%	0.2%	0.1%	0.6%	11.4%
2021	3.5%	2.7%	1.8%	2.0%	0.4%	0.2%	0.1%	0.7%	11.4%
2022	3.8%	2.6%	2.0%	1.8%	0.4%	0.2%	0.1%	0.7%	11.7%
2023	3.9%	2.4%	2.3%	1.8%	0.4%	0.3%	0.1%	0.7%	11.8%
2024	4.0%	2.1%	2.4%	1.6%	0.4%	0.2%	0.1%	0.7%	11.5%

Source: S&P Global. As of December 31, 2024.

From a credit perspective, commercial mortgage ratings continued the longer-term trend of reductions in the highest rated CM1 in favor of increases in higher yielding CM2. A noticeable reduction in CM3 offset some of this reach for yield.

Figure 5: CM2 Allocations Continue to Grow Given Yield Potential



	CM1	CM2	CM3	CM4	CM5–7	All Other Commercial
2020	55.0%	38.6%	5.2%	0.9%	0.1%	0.1%
2021	52.5%	40.5%	5.9%	1.0%	0.1%	0.0%
2022	47.1%	42.3%	9.1%	1.2%	0.1%	0.1%
2023	46.4%	42.5%	9.1%	1.3%	0.2%	0.3%
2024	45.5%	44.0%	8.1%	1.5%	0.3%	0.5%

Source: S&P Global. As of December 31, 2024.

Key Takeaway

Overall, life insurers are seeking capital efficiency by allocating toward higher-rated securities unless spread levels compensate for higher capital. 2024 saw continued movement toward less liquid securities, which provide compensation for insurers that can afford the illiquidity risk, allowing for potential yield enhancement while simultaneously de-risking from a credit perspective. This strategic approach underscores the industry's resilience and adaptability in managing investment portfolios to achieve sustainable growth and financial stability.

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