2024

Insurance WRAPPED

Looking back on the trends, events and milestones that defined the 2024 insurance industry.

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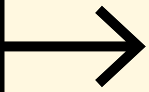

1.

Bonds are back

The Bloomberg Aggregate Index yielded 4.6% as of month-end November, with the 10-year U.S. Treasuries at their highest levels since before the Global Financial Crisis. This prompted all types of investors to look for opportunities in the space. Insurance investors, long starved for yield since the Global Financial Crisis, have taken advantage of the opportunity. Most notably, the P&C industry has bucked the trend of declining fixed income, and increased allocation of fixed income and cash by 3%, while equities have declined by the same amount year over year.

The S&P 500 Index keeps pushing higher, hitting all-time highs to start December. This has prompted insurers, many of whom often rely on investment income to support their operational profitability, to ask about potential gain harvesting. This means offsetting losses in the fixed portfolio to materially increase book yield. A key area of discussion has been the focus on net investment income. Many CIOs are looking to dampen accounting volatility given the impact of IFRS 17 and accounting regulations.

The Federal Open Market Committee held a median view of the Federal Reserve’s benchmark rate, ending 2025 at 3.4%, or 125 bps of cuts from current levels, as of the most recent Fed minutes. This has driven many clients to look at strategic asset allocation studies, highlighting the opportunity to take advantage of elevated yields and bring portfolio allocations closer to long-term strategic goals.

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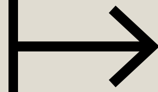

2.

Evolving regulatory space

2024 was a busy year for regulatory bodies across the globe. In the U.S. alone, insurers will face updated capital charges, new statutory investment scheduling and updated definitions of what constitutes a bond. What has prompted all these new regulations? No one can answer for sure, but the expanded use of private securities, increased use of collateralized loan obligations (CLOs) and new entrants into the insurance space utilizing more aggressive strategies all likely had an impact.

Throughout the year, our first topic of discussion was often around investing in bonds, with a quick follow up of, "Does this meet the new criteria of a bond for reporting purposes?". The new principles-based bond definition has many insurers scrambling to assign current holdings and pausing new purchases to insure no unexpected capital increases.

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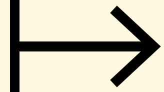


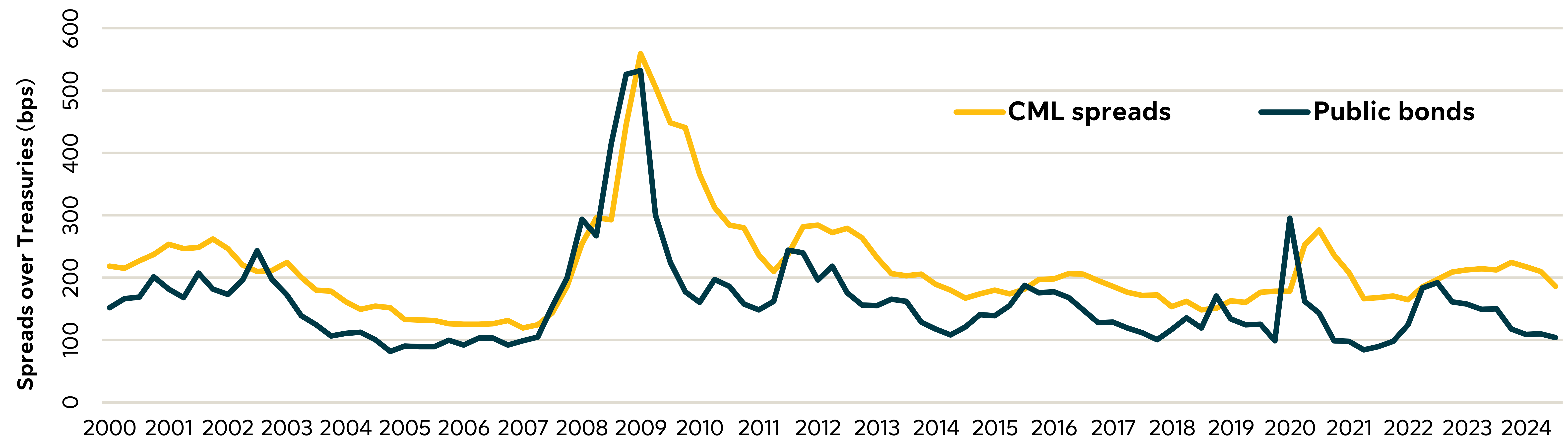
3.

Death of real estate is exaggerated

Since the pandemic, much of the real estate discussion has focused on one subsector's troubles: office space. However, 2024 saw a reversal of declining investments in real estate by insurers. Q2 and Q3 2024 ACLI data show commercial real estate investment increasing over the quarter, with $16B invested in Q3, the highest level since early 2022. Yields remain incredibly attractive, with fixed rates remaining north of 6% across all subsectors. Investments have been across the major subsectors, but office has comprised less than 5% of new ACLI investment in 2024.

Through the first three quarters of 2024, this asset class continues to show measured yet notable improvement. While weak spots still exist, these largely stem from overly robust supply rather than collapsing demand. Non-investment grade (non-IG) debt and niche equity subsectors have also proven resilient through the office/retail driven downturn by leaning into data-driven analytics, such as single-family rentals, data centers and cold storage facilities. Insurers have started to recognize the value, and allocations have steadily began climbing.

CML Spreads vs. U.S. Corporate Bonds



Source: Bloomberg, 2024

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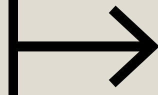

4.

Who else can join the private credit party?

No matter what financial publication you opened, private credit was the top trending headline of 2024. Between existing market participants and a bevy of new entrants in the space, the market has exploded. Private credit can offer strong investment opportunities across the liquidity spectrum, from IG private credit and private ABS to below-IG direct lending and beyond.

The IG private debt market had a record year of new investment activity in 2024. Volumes surpassed the prior record of $108 billion set in 2021. As at the end of October, year to date 2024 volume was $113 billion and expected to close the year above the $120 billion mark.

However, it feels remiss to not mention that life insurers have been investing in private credit for well over 30 years, and this market is not new, strictly speaking. While the allocation to these private securities has slowly crept up, reaching 44% of total bond holdings as of year end 2023, these have been staples of life insurers' asset allocations for years. Increased yield, similar capital charges to public bonds and strong covenants make this asset class a potential home run for insurers with a focus on net investment income.

With expanded entrants into the market, combined with increased regulatory scrutiny, private credit is likely to stay in the headlines in 2025. Remaining discipline with underwriting and credit research remains paramount, but this is certainly not a 2024 fad.

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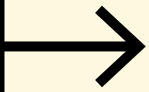

5.

Shifting geopolitical and climate events

While insurers received some relief from elevated interest rates, other problems showed up in 2024. In the P&C space, the U.S. saw 24 major climate events that exceeded a $1B price tag. The annual average of these events occurring from 1980–2023 is 8.4/year, a staggering increase. Insurers have been forced to take multiple rate hikes, pay a significant premium on reinsurance, or exit certain markets altogether. The increasing frequency of severe weather events, combined with social inflation, has dampened some of the enthusiasm that came with higher rates.

Life insurers had a banner year, as consumers poured into annuities looking to lock in rates. In the first half of 2024, total U.S. annuity sales rose 19% to US$215.2 billion, year over year. However, the industry has become crowded, with increasingly complex investment portfolios driving crediting rates higher. In order to keep up, many insurers have revised their asset allocations trying to compete with new entrants backed by private equity investors. Time will tell, but understanding these liquidity risks with an aging population may become something we look back on in a few years.

Sources: Federal Reserve Bank of Philadelphia, Bloomberg, S&P Global Intelligence, ACLI Commercial Mortgage Report, Nation Centers for Environmental Information, 2024.

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