UNITED STATES
Key characteristics of the insurance market

1 Introduction 2

1.1 General 2
1.2 Balance sheet 2
1.3 Risk-based capital ratio 3

2 Investments 4

2.1 Asset exposure 4
2.2 Asset exposures between Life and Non-Life 5

3 Insurance products 6

3.1 Overview 6
3.2 Life insurance products 6
3.3 Non-Life insurance products 7

4 Accounting, tax, and prudential framework 9

4.1 Accounting framework 9
4.2 Tax framework 9
4.3 Prudential framework 10

5 Historical data 12

5.1 Evolution of balance sheet 12

1 Introduction

1.1 General

At the end of 2016, there were 5 969 insurance companies in the United States, according to data from the Insurance Information Institute (III). Based on annual statement information from the National Association of Insurance Commissioners (NAIC), life, non-life and health undertakings represented 44,244% of total assets of insurance companies operating within the European Union (EU).[1]

The table below illustrates the number of insurance undertakings in US by insurance activities and the importance of the country compared to the EU, based on total assets.

Table 1 - Insurance undertakings

Insurance undertakings	**#**
Life (life/annuities) undertakings	872
Non-Life (property and casualty) undertakings	2 538
Health undertakings	858
Fraternal undertakings	85
Title undertakings	55
Risk retention undertakings	247
Other undertakings	1 314
Total	**5 969**
Total assets US / Total assets EU %	**44,244%**

Note: The classification of insurance undertakings is obtained from III. Information on total assets refers to life, non-life and health insurance undertakings, and it obtained from NAIC.

Source: III, NAIC and Deloitte-CEPS analysis

1.2 Balance sheet

The total assets held by the US insurance market totalled 4 996 billion EUR. In terms of technical provisions, 53,9% of the total balance sheet relates to the life business, while 9,6% represented non-life obligations.

Table 2 – Balance sheet and EU comparison (solo)

in Mio EUR			**EU**				
	Amount	**%**	**%**	**Avg**	**Min**	**Max**	**StD**
Investments, deposits, cash and cash equivalents			67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts			24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	251 098	5,0%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	**4 995 660**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**
Technical provisions – life	2 694 080	53,9%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions – non-life	480 352	9,6%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions – index-linked and unit-linked			25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	1 393 923	27,9%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	**4 568 355**	**91,4%**	**86,9%**	**77,6%**	**49,1%**	**92,7%**	**11,1%**
Excess of assets over liabilities	427 305	8,6%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	**4 995 660**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: NAIC and Deloitte-CEPS analysis.

[1] All figures reported on sections 1, 2, 3 refer to data for life, non-life and health insurance undertakings.

1.3 Risk-based capital ratio

In the US, Risk-Based Capital (RBC) is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. Separate RBC models have been developed for each of the primary insurance types (e.g. Life and Health, Property and Casualty, Health and Fraternal), in order to reflect the differences in the economic environments facing these companies.

The risk factors for the RBC formulas focus on three major areas: 1) asset risk; 2) underwriting risk; and 3) other risk. The emphasis on these risks differs from one formula to the next. Moreover, there are four levels of action that a company can trigger under the formula: company action, regulatory action, authorized control and mandatory control levels. Each RBC level requires some particular action on the part of the regulator, the company, or both.

Table 3 – Regulatory action plans for different levels of RBC

RBC Level	Required Action
Above 250%	No action
250% to 200%	Company Action Level
200% to 150%	Company Action Level – Submission of a plan to improve capital
150% to 100%	Regulatory action level – State regulator specifies corrective actions
100% to 70%	Authorised Control Level – State regulator may take control of company
Below 70%	Mandatory Control Level – State regulator takes control of company

Source: NAIC

At the end of 2017, the US insurance market as a whole had available own funds that were above the limit set-up by the NAIC, as the vast majority of insurance companies had RBC in excess of the threshold of 250,0%. In particular, from the 4 200 companies that took part at the exercise, only 92 companies had RBC ratio below 250,0%, meaning that further action is required.

Table 4 – Aggregated RBC Data

	Life	Non-Life	Health	Fraternal
# of companies filled RBC	704	2486	937	73
# of companies filled annual statement	729	2620	NA	74
# of RBC companies	97%	95%	NA	99%
# of companies with RBC Ratio >10,000%	56	485	112	2
# of companies with RBC Ratio >1000 & <10,000%	311	850	213	28
# of companies with RBC Ratio >500 & <1,000%	275	682	251	28
# of companies with RBC Ratio >250 & <500%	50	367	268	15
# of companies with RBC Ratio >200 & <250%	5	44	71	0
# of companies with RBC Ratio <200% & >0%	7	58	21	0
# of companies with RBC Ratio of zero	0	0	1	0
Total	704	2486	937	73
Total adjusted capital	466 105	828 408	116 995	16 075
Authorised control Level RBC	49 881	132 696	20 561	1 286
Aggregate RBC%	934%	NA	526%	1250%
Median RBC%	1024%	NA	609%	873%

Notes: Data refer to year 2017. For Non-Life insurance companies, the Aggregate RBC% and the Median RBC% is not reported. For Health insurance companies, categories "# of companies with RBC Ratio >250 & <500%" and "# of companies with RBC Ratio >200 & <250%" should be read as "# of companies with RBC Ratio >300 & <500%" and "# of companies with RBC Ratio >200 & <300%"m respectively.

Source: NAIC

2 Investments

2.1 Asset exposure

From an asset exposure perspective, the insurance market in the US was heavily invested in bonds (in total 72,3% of Total Assets), Stocks (9,1%), and Mortgage Loans on Real Estate (8,2%). According to the year-end 2016 NAIC capital market special report[2], corporate bonds, municipal bonds, and government bonds accounted respectively for 54,0%, 11,0%, and 7,0% of the bond exposure of US insurers.

The category of Mortgage Loans on Real Estate was the third most important for the US insurance market in terms of asset exposure totalling 407 billion EUR (8,2%).

Table 4 - Asset exposure US

In Mio EUR

	Amount	%
Bonds	3 612 360	72,3%
Stocks	454 144	9,1%
Preferred stock	**17 517**	**0,4%**
Common stock	**436 627**	**8,7%**
Mortgage loans on real estate	407 367	8,2%
First lien real estate mortgage loans	**400 023**	**8,0%**
Real estate loans less first liens	**7 344**	**0,1%**
Real estate	35 744	0,7%
Occupied properties	**16 300**	**0,3%**
Income generating properties	**18 413**	**0,4%**
Properties for sale	**1 032**	**0,0%**
Cash, cash equivalent and short term investments	197 051	3,9%
Contract loans including premium notes	114 602	2,3%
Derivatives	56 429	1,1%
Other invested assets	251 098	5,0%
Receivables for securities	5 015	0,1%
Securities lending reinvested collateral assets	14 431	0,3%
Write-ins for invested assets	9 880	0,2%
Total cash and invested assets	4 995 660	100,0%

Source: NAIC and Deloitte-CEPS analysis

[2] https://www.naic.org/capital_markets_archive/170824.htm

2.2 Asset exposures between Life and Non-Life

The table below gives further insight into the investment behaviour of Life and Non-Life insurance companies.

Table 5 -Asset exposure Life and Non-Life insurance undertakings

	Life	Non-life
Bonds	**71,8%**	**73,9%**
Stocks	**4,7%**	**22,2%**
Preferred stock	0,2%	0,7%
Common stock	4,5%	21,6%
Mortgage loans on real estate	**10,5%**	**1,0%**
First lien real estate mortgage loans	10,4%	0,9%
Real estate loans less first liens	0,2%	0,0%
Real estate	**0,7%**	**0,8%**
Occupied properties	0,3%	0,5%
Income generating properties	0,4%	0,2%
Properties for sale	0,0%	0,0%
Cash, cash equivalent and short term investments	**3,3%**	**5,8%**
Contract loans including premium notes	**3,1%**	**0,0%**
Derivatives	**1,5%**	**0,0%**
Other invested assets	**4,0%**	**8,1%**
Receivables for securities	**0,1%**	**0,1%**
Securities lending reinvested collateral assets	**0,3%**	**0,2%**
Write-ins for invested assets	**0,2%**	**0,2%**
Total cash and invested assets	100,0%	100,0%

Source: NAIC and Deloitte-CEPS analysis

More than 70,0%, of US insurers investments is allocated towards bonds. In particular, Non-Life insurers invest a larger share of their investments to bonds (73,9%), as compared to Life insurers (71,8%). This is opposite to insurers in the EU, both in terms of magnitude and allocation between insurers. European pure Life insurers channel less than a fourth (22,2%) of their invested assets to bonds.

Moreover, at EU level we note that pure Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,8%) in comparison to pure Life insurers (6,6%). This is also the case in the US, with Non-Life insures being exposed to stocks five times more (22,2%) than Life insurers (4,7%).

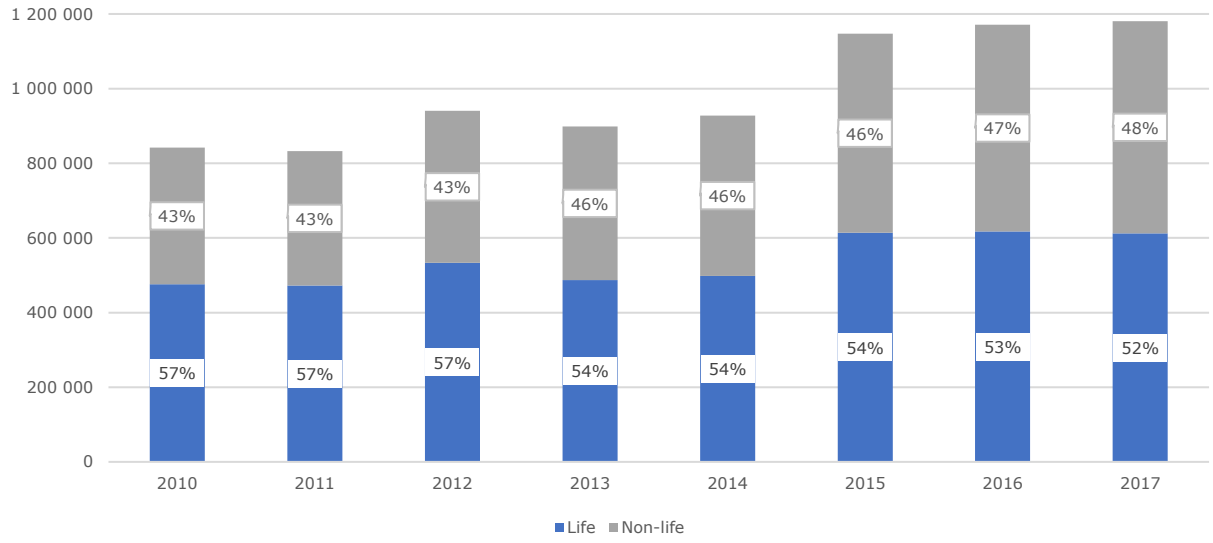
3 Insurance products

3.1 Overview

This section covers the most important insurance products offered in the Unites States and the volume of the market. Data reported in this section is obtained from the Insurance Information Institute (III), the Federal Insurance Office (FIO) of the US Department of Treasury and the NATIONAL Association of Insurance Commissioners (NAIC).[3]

From 2010 until 2016, US premiums have risen at an average annual growth rate of 6,1%. Even though both segments of the market contributed to this trend, the main driver was non-life insurance, for which premiums increased by more than 50,0% (from 365 billion EUR to 569 billion EUR). In 2017, premium income remained stable at 1 181 billion EUR, up by 0,79%.

Graph 1 – Gross written premiums (in Mio EUR)



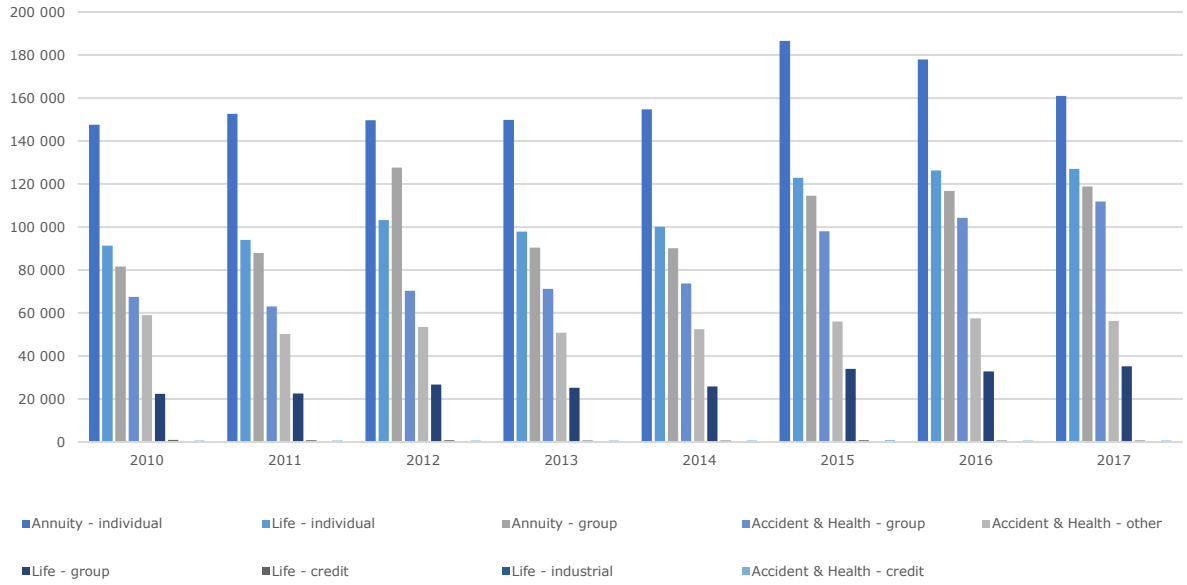
Source: III

3.2 Life insurance products

In 2017, the life insurance market experienced a decline of 0,87% and totalled 612 billion EUR. The largest life/health product line is annuities, which represent approximately 45,7%. Annuities, similar to life insurance policies, can be sold on an individual basis or to groups such as employees and associations. The second most important product is accident and health, followed by life insurance. Accident and health insurance includes medical expense, disability income and long-term care. In 2017 amounted to 169 billion EUR and contributed 27,6% toward total life premium. Finally, life insurance products, accounted for 26,7% or 163 billion EUR.

[3] Available at https://www.iii.org/fact-statistic/facts-statistics-life-insurance, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office, and https://www.naic.org/.

Graph 2 - Gross written premiums (in Mio EUR)



Source: III

3.3 Non-Life insurance products

Written gross premiums in the non-life insurance sector have been growing steadily over the last years and totalled 566 billion EUR, up by 2,57%, in 2017.

3.3.1 Motor insurance

Automobile insurance represents the largest segment of the non-life insurance products, contributing 41,8% to the premium income. In 2017, premiums were at 237 billion EUR, 5,9% higher than a year ago.

3.3.2 Homeowners multiple peril

Gross written premiums for homeowners' multiple peril insurance (covering real and personal property, as well as personal liability) were 83 431 million EUR in 2017 (up by 1,04% on 2016).

3.3.3 Workers' compensation

The workers' compensation insurance class is the third largest sector in the US non-life market accounting for 10,18% of non-life premium income. In 2017, income dropped by 2,63% to 54 738 million EUR.

3.3.4 Commercial multi peril

Commercial multi-peril written premiums remained stable in 2017, closing the year at 35 975 million EUR.

3.3.5 Fire and natural resources

Fire and natural resources (e.g. fire, flood, earthquake) accounted for 25 790 million EUR in gross written premium in 2017 (up 4,55% on 2016).

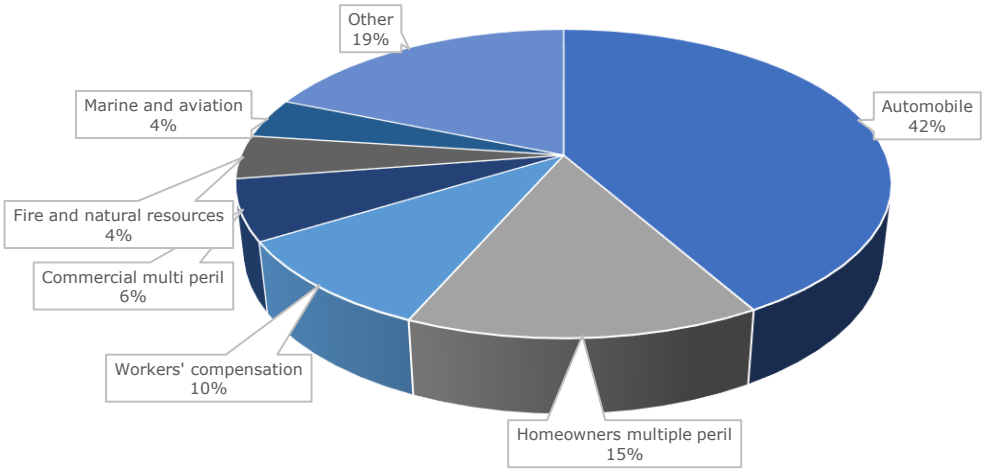
3.3.6 Marine and aviation

The marine and aviation insurance represented 4,19% of the non-life premium income and totalled 24 726 million EUR at the end of 2017.

3.3.7 Other

Other types of non-life insurance – such as crop, farm, medical professional liability, credit and suretyship, financial loss, accident and health – recorded an increase of 1,75% to 106 billion EUR in 2017.

Graph 3 - % allocation of gross written premiums Non-Life



Source: NAIC and Deloitte-CEPS analysis

4 Accounting, tax, and prudential framework

4.1 Accounting framework

In the United States accounting is governed by generally accepted accounting principles (GAAP), as established by the independent Financial Accounting Standards Board (FASB). The Securities and Exchange Commission (SEC) requires publicly owned companies to follow these rules. Over time, both organizations intend to align their standards with International Financial Reporting Standards (IFRS).

The EFRAG discussion paper on Equity instruments impairment and recycling provides some details on the impairment approaches in the United States. US GAAP requires most equity instruments to be carried at fair value with changes recognised through profit or loss. For equity instruments using level three measurements whose fair value is not readily determinable, an entity may elect to carry the equity instrument at cost subject to impairment. Cost needs to be adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer, and the entity should make a reasonable effort to identify any observable transactions.

More specifically, and in order to protect insurance company policyholders, states monitor solvency. For this reason, a special insurance accounting system, known as statutory accounting principles (SAP) has been developed. The term statutory accounting denotes the fact that SAP embodies practices required by state law. SAP provides the same type of information about an insurer's financial performance as GAAP but, since its primary goal is to enhance solvency, it focuses more on the balance sheet than GAAP (which focuses more on the income statement). Publicly owned US insurance companies report to insurance regulators and the Internal Revenue Service using SAP.[4]

4.2 Tax framework

4.2.1 Capital gains on shares

Capital gains realized by corporations are combined with ordinary income and thus subject to the same rates of tax as ordinary income at progressive rates. No special tax rates or exclusions are applicable.

4.2.2 Capital losses on shares

1. Subject to certain exception, capital losses, defined as losses from the sale or exchange of capital assets, are permitted to be deducted.
2. In the case of corporations, capital losses may be deducted only against capital gains and to the extent thereof.

4.2.3 Taxation of dividends

A dividends received deduction (DRD) is permitted for dividends received from US domestic corporations subject to:

1. A holding period requirement:
    - For common stock and most types of preferred stock is that the stock must be held for at least 46 days during the 90-day period that commences 45 days prior to the date the stock becomes ex-dividend;

4 https://www.iii.org/publications/insurance-handbook/regulatory-and-financial-environment/background-on-insurance-accounting

- The holding period requirement for preferred stock paying a dividend attributable to a period or periods aggregating 366 days or more is 91 days during the 180-day period that commences 90 days prior to the date the stock becomes ex-dividend.

2. A holding requirement:
   - 100% of the dividend may be deducted if the receiving corporation is part of the same affiliated group as the paying corporation, which requires an 80% stock ownership level by both stock voting power and stock value;
   - 65% of the dividend may be deducted if the receiving corporation owns 20% or more of the stock of the paying corporation, by both stock voting power and stock value;
   - 50% of the dividend may be deducted in all other cases.
3. A portfolio requirement: The DRD is disallowed in whole or in part for dividends received on debt-financed portfolio stock;
4. An extraordinary dividend requirement: Corporate shareholders are required to reduce the tax basis of stock on which an extraordinary dividend is paid if the stock has not been held for more than 2 years before the date the dividend is announced.

The same conditions apply for foreign-sourced dividends, only the holding requirement differs:

1. If the US corporation owns 10% or more of the stock of the foreign corporation paying the dividend, both by stock voting power and stock value, the US corporation may deduct the DRD percentage of the portion of the dividend that represents the sum of:
   - The earnings of the foreign corporation that are effectively connected to the conduct of a US trade or business; and
   - Dividends received by the foreign corporation from 80%-owned US corporations (by vote and value) other than dividends received from RICs or REITs on or after 18 December 2015.
2. If the US corporation owns 100% of the stock of the foreign corporation, the US corporation may deduct 100% of the dividend if the entire gross income of the foreign corporation from all sources is effectively connected to the conduct of a US trade or business.

If the dividend does not qualify for DRD, it is taxed at the ordinary tax rate of 21,0%.
US source dividends are not subject to withholding tax when paid to another resident company. US source dividends paid to foreign corporations are subject to US withholding tax at the 30% US rate or at a lower rate provided by a tax treaty.

A foreign tax credit is granted for foreign income taxes directly paid by a US taxpayer, for foreign taxes directly paid by a US taxpayer in lieu of an income tax and for foreign income and foreign "in-lieu of" taxes paid by foreign subsidiaries with respect to earnings distributed to qualified corporate shareholders.

4.3 Prudential framework

- The system of US insurance regulation is focused on regulation at the micro-prudential level, at the legal entity level, and with the primary goal of policyholder protection. This is done on both the echelon of the state and the echelon of the country by regulators including the Federal Reserve and the Federal Insurance Office.
- State capital adequacy requirements are based on the National Association of Insurance Commissioners (NAIC) Risk-Based Capital (RBC) Model Law, which was adopted by all states. RBC is calculated by applying factors to various assets, premiums, claims, expenses and reserves items. There are four levels of quantitative

capital requirements with different supervisory interventions in each case: (1) Company Action Level, (2) Regulatory Action Level, (3) Authorised Control Level, and (4) Mandatory Control Level.

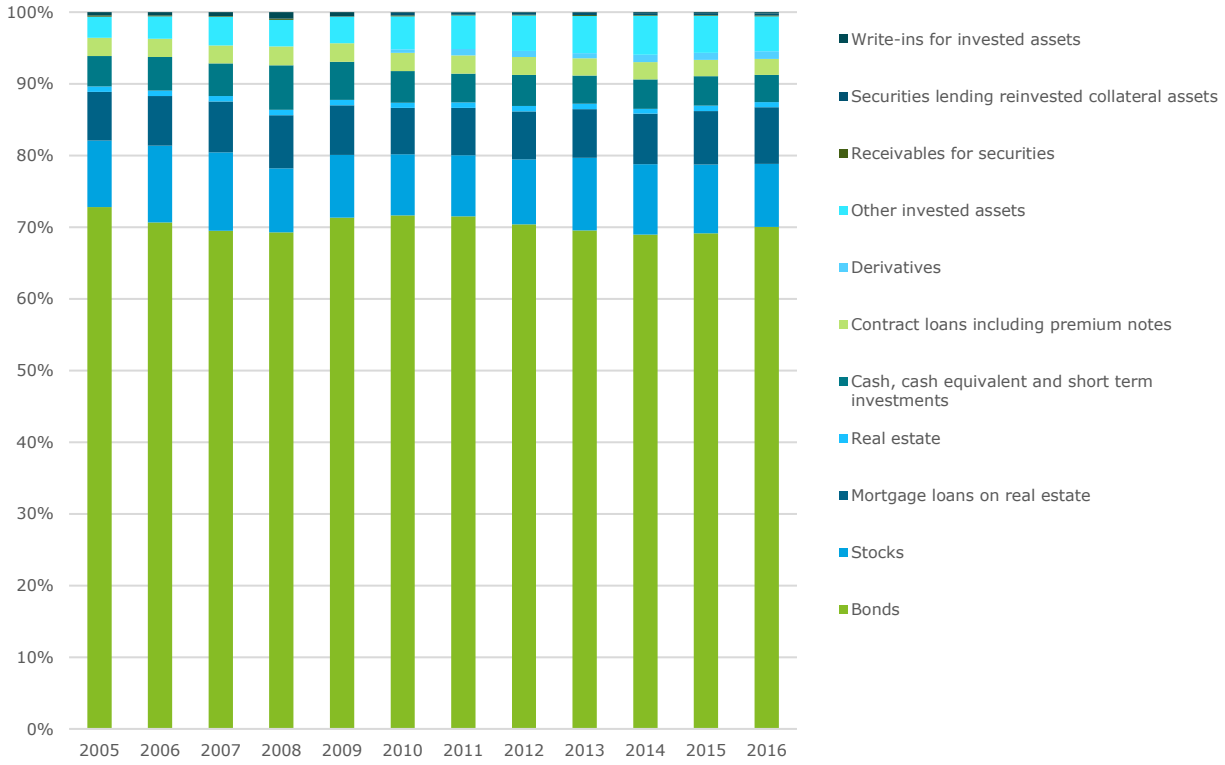
5 Historical data

5.1 Evolution of balance sheet

The graph below depicts the evolution of the different investment asset categories from 2005 until 2016.

The composition of the US insurers balance sheet has remained stable over the years. The most dominant asset class is bonds, which historically attract more than 70,0% of the invested assets. A further 10% of the assets is invested in stocks, (both preferred and common stock), while an approximate 6% of the US insurers exposure is on mortgage loans on real estate.

Figure 1 – Evolution of balance sheet items (investment assets)



Source: NAIC and Deloitte-CEPS analysis