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ETF Transactions by U.S. Insurers in Q1 2020

Contributor

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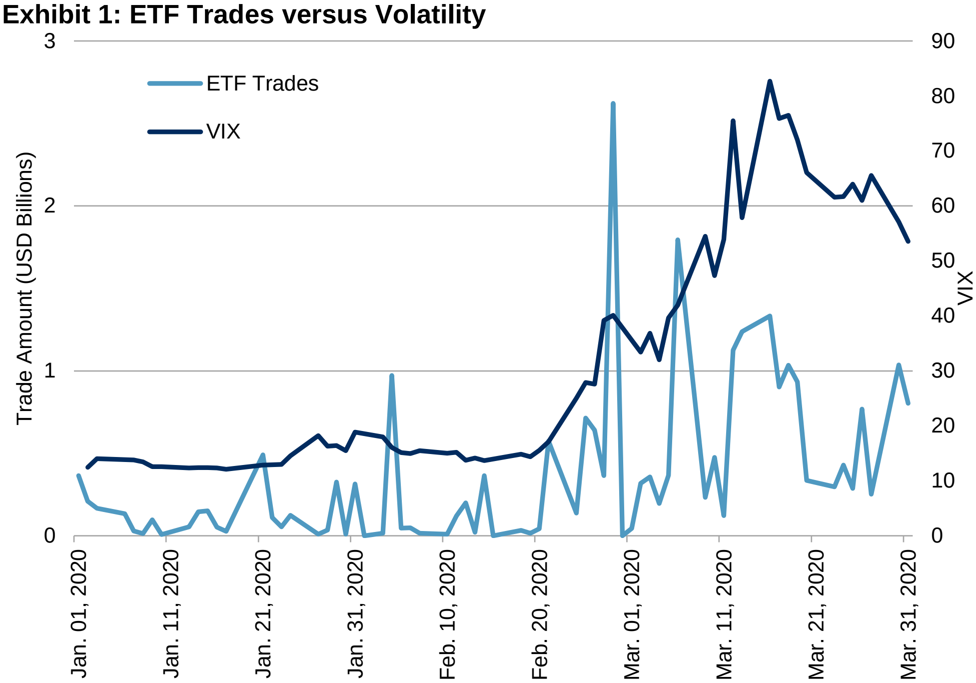
INTRODUCTION

In May 2020, we published our annual study of ETF usage by U.S. insurance companies. The data for that analysis is only available annually. However, because of the market volatility in the first quarter of 2020, we wanted to analyze the use of ETFs by U.S. insurance companies prior to the next annual analysis. While holdings data is not available on a quarterly basis, we were able to analyze ETF transactions. In Q1 2020, U.S. insurance companies increased their ETF usage by USD 4.1 billion, as well as the number of transactions.

ETF TRADES

In the first quarter of 2020, insurance companies traded USD 24.6 billion in ETFs (see Exhibit 1). This amount is roughly on scale with the total holdings of USD 31.2 billion as of year-end 2019.

Exhibit 1: ETF Trades versus Volatility

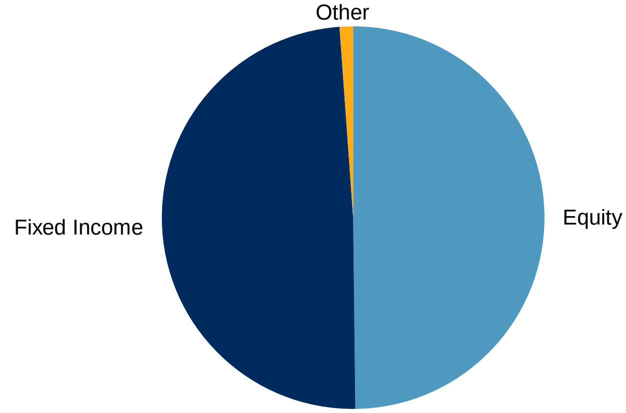


Source: CBOE, NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

In the first quarter of 2020, insurance companies traded USD 24.6 billion in ETFs…

Not surprisingly, 60% of the trading happened in March 2020, coinciding with the increase in market volatility. Insurance companies split trading evenly between Fixed Income and Equity ETFs (see Exhibit 2).

Exhibit 2: ETF Trades by Asset Class



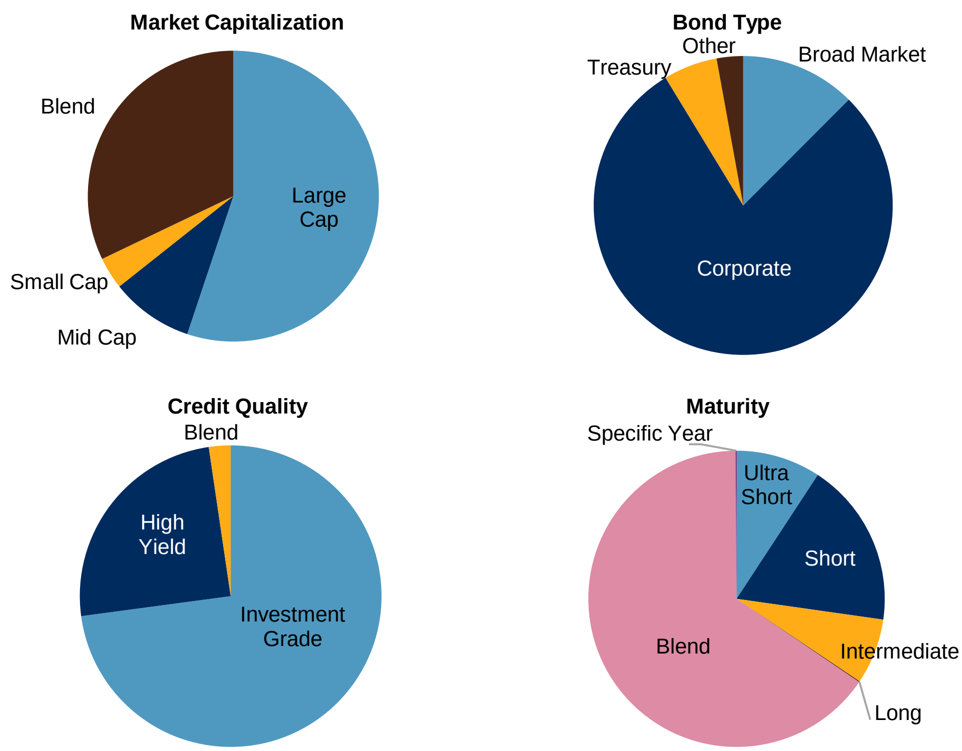
…which is roughly on scale with the total holdings of USD 31.2 billion as of year-end 2019.

Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

The majority of the Equity trades were in Large Cap ETFs and the majority of the Fixed Income trades were in Corporate ETFs. Roughly two-thirds of the Fixed Income trades had blended maturity, while 25% where in Short or Ultra Short ETFs. Most of the trades were also Investment Grade ETF, with about one-quarter in High Yield (see Exhibit 3).

Insurance companies split trading evenly between Fixed Income and Equity ETFs.

Exhibit 3: Equity and Fixed Income Trades by Various Characteristics



The majority of Equity trades were in Large Cap ETFs and the majority of Fixed Income trades were in Corporate ETFs.

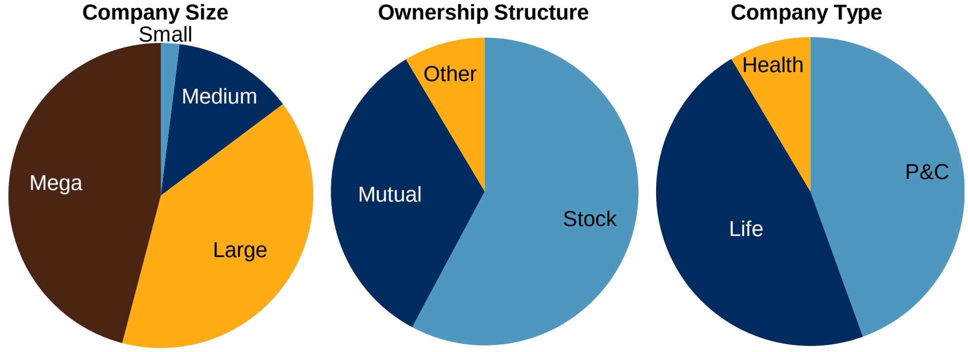
Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

Although P&C companies hold most of the ETFs in the industry, Life companies traded more in Q1 2020.

Although P&C companies currently hold most of the ETFs in the U.S. insurance industry, Life companies traded more in Q1 2020, with larger companies being more active. In terms of ownership structure, Stock companies had the most trades (see Exhibit 4).

In terms of ownership structure, Stock companies had the most trades.

Exhibit 4: ETF Trades by Company Characteristics



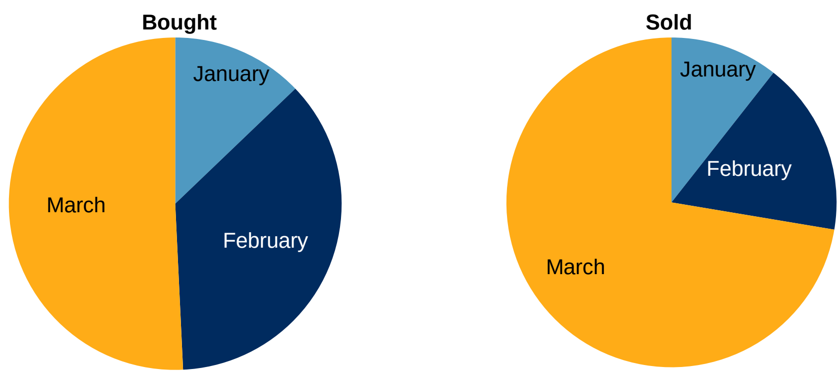
Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

ETFS BOUGHT AND SOLD

Of the USD 24.6 billion in ETF trades in the first quarter, USD 14.3 billion, or 58%, of the trades were purchases and USD 10.2 billion, 42%, of the trades were sells. Companies bought more in February and sold more in March (see Exhibit 5).

Of the USD 24.6 billion in ETFs trades in Q1 2020, 58% were purchases and 42% were sells.

Exhibit 5: ETFs Bought and Sold by Month



Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

Companies proportionally bought more Fixed Income ETFs and sold more Equity ETFs (see Exhibit 6).

Companies proportionally bought more Fixed Income ETFs and sold more Equity ETFs.

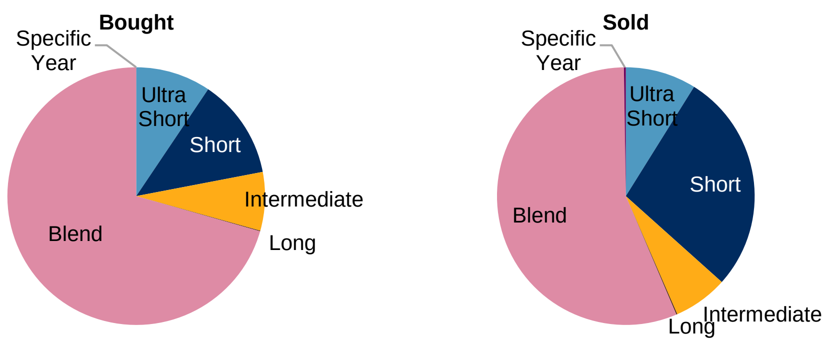
Exhibit 6: ETFs Bought and Sold by Asset Class

Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

In terms of market capitalization, bond type, and credit quality, the buys and sells were roughly in proportion to overall trades. However, according to maturity, there were more sells in Short maturity ETFs and more buys in Blend maturity ETFs (see Exhibit 7).

According to maturity, there were more sells in Short maturity ETFs and more buys in Blend maturity ETFs.

Exhibit 7: Fixed Income ETFs Bought and Sold by Maturity

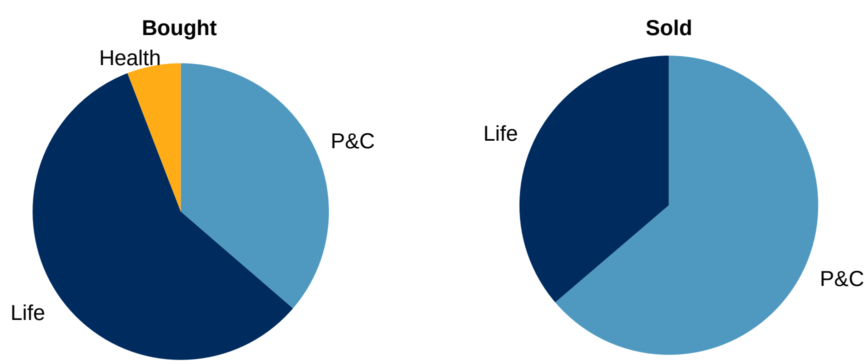


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

In terms of organizational structure and size, the purchases and sells were similarly distributed to trading volume. However, Life companies were bigger buyers, and P&C companies were bigger sellers (see Exhibit 8).

In terms of company type, Life companies were bigger buyers, and P&C companies were bigger sellers.

Exhibit 8: ETFs Bought and Sold by Company Type



Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Charts are provided for illustrative purposes.

U.S. insurance companies bought USD 0.8 billion in January, USD 3.5 billion in February, and sold USD 0.1 billion in March.

NET FLOWS

Combined, insurance companies increased their ETF usage by USD 4.1 billion in Q1 2020. These companies bought USD 0.8 billion in January, USD 3.5 billion in February, and sold USD 0.1 billion in March. These numbers indicate insurance companies continued to increase their ETF usage until market volatility interrupted. Even though the net flows were flat in March, companies were more active in trading ETFs in March (see Exhibits 1 and 9).

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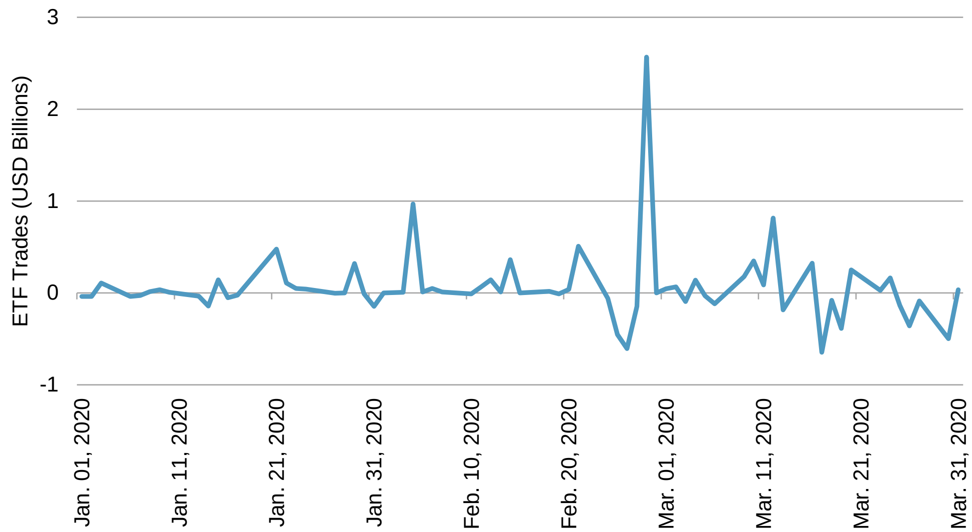
Exhibit 9: ETF Flows



Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

For the quarter, insurance companies added USD 3.4 billion in Fixed Income ETFs and USD 0.6 billion in Equity ETFs (see Exhibit 10).

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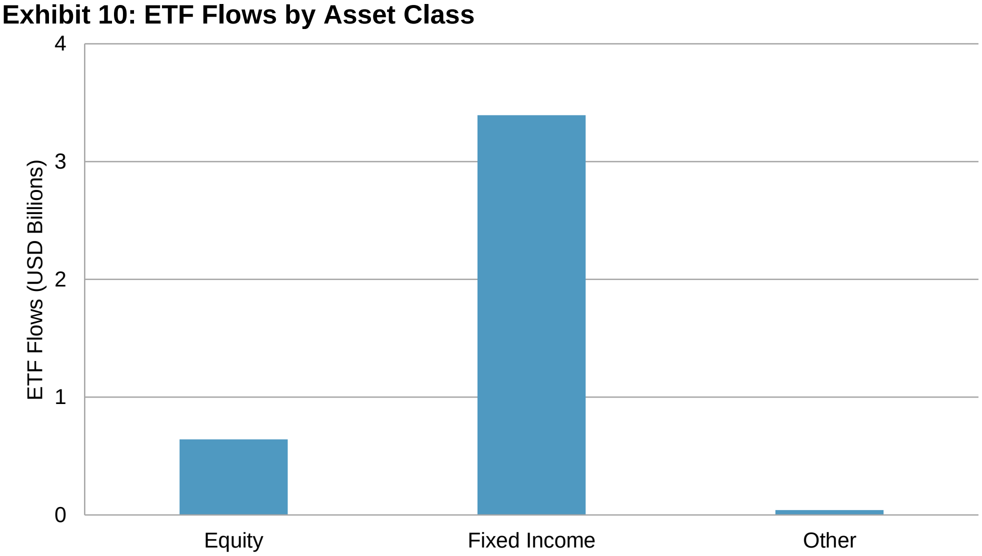
Exhibit 10: ETF Flows by Asset Class

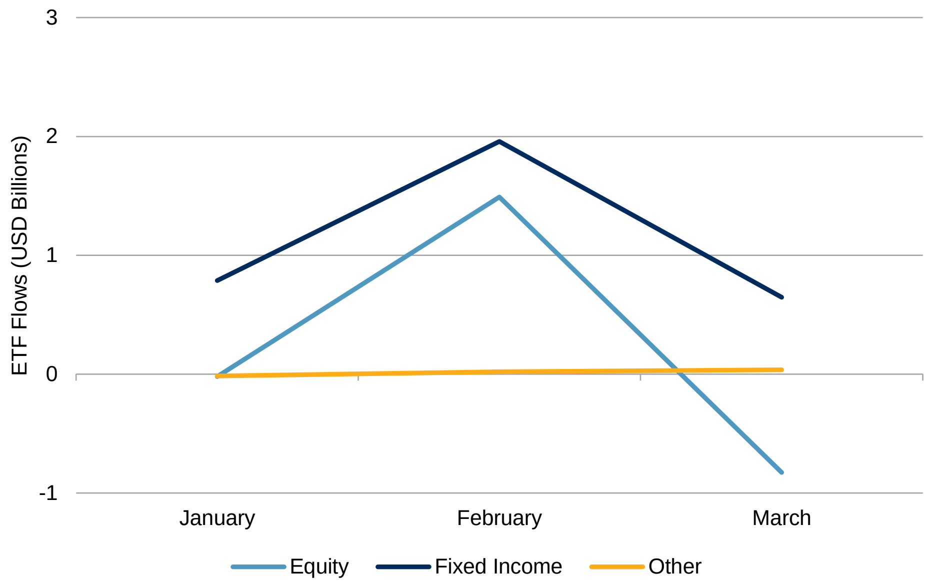


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

We see that through February, companies had bought USD 1.4 billion in Equity ETFs, before selling USD 0.8 billion in March…

We see that through February, companies had bought USD 1.4 billion in Equity ETFs, before selling USD 0.8 billion in March. However, insurance companies continued to increase their Fixed Income ETFs, by USD 0.6 billion, in March (see Exhibit 11).

Exhibit 11: Monthly ETF Flows by Asset Class

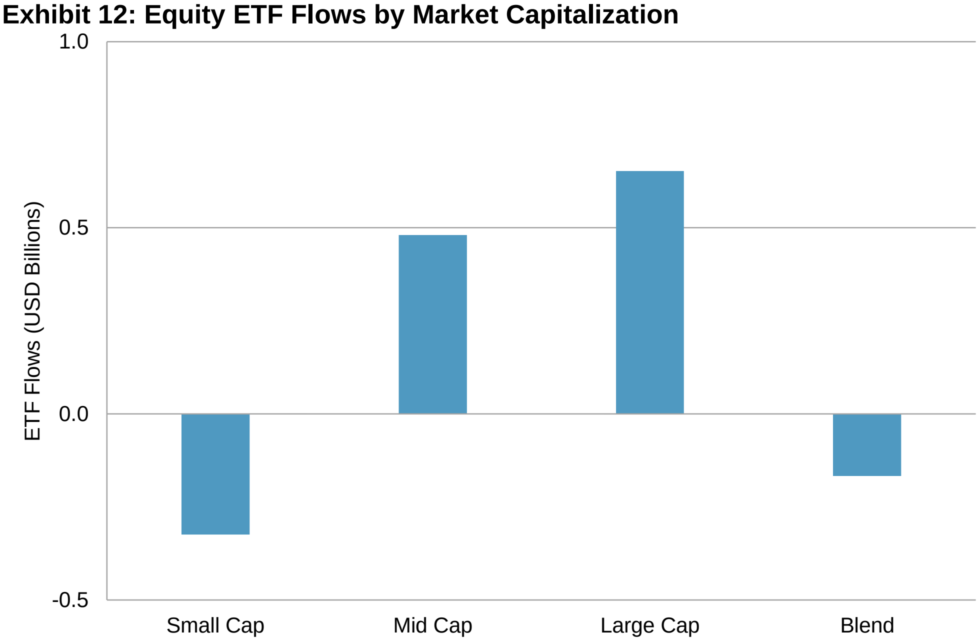


…however, they continued to increase their Fixed Income ETFs in March.

Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

For the quarter, companies added in Large Cap and Mid Cap Equity ETFs, but sold Small Cap and Blend ETFs (see Exhibit 12).

Exhibit 12: Equity ETF Flows by Market Capitalization



For the quarter, companies added in Large Cap and Mid Cap ETFs, but sold Small Cap and Blend ETFs.

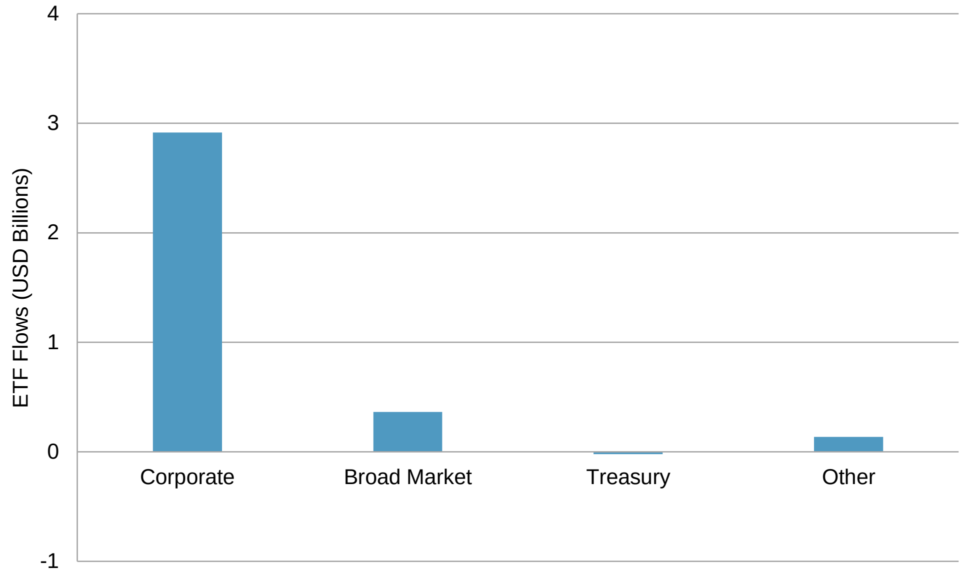
Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

Of the USD 3.4 billion in Fixed Income ETFs that insurance companies bought in the quarter, 85% was in Corporate ETFs…

Of the USD 3.4 billion in Fixed Income ETFs that insurance companies bought in the quarter, 85% was in Corporate ETFs. In the first quarter of 2020, companies continued their trend from 2019 of selling Treasury ETFs (see Exhibit 13).

…and they continued their trend of selling Treasury ETFs.

Exhibit 13: Fixed Income ETF Flows by Bond Type

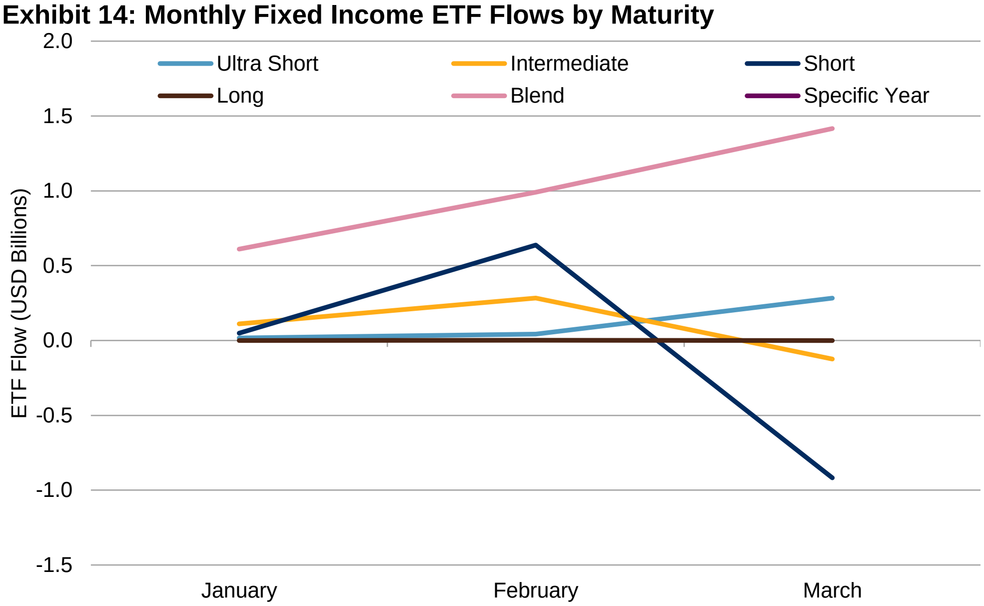


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

Almost all of the Fixed Income purchases were in Corporate ETFs, but through February companies were also purchasing Short ETFs. In March, they reversed course and sold Short and Intermediate ETFs, while adding Ultra Short ETFs (see Exhibit 14).

Almost all of the Fixed Income purchases were in Corporate ETFs, but through February companies were also purchasing Short ETFs.

Exhibit 14: Monthly Fixed Income ETF Flows by Maturity

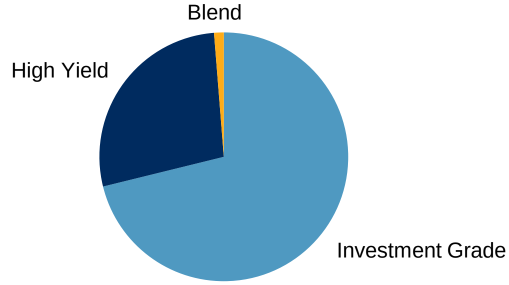


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

About 72% of Fixed Income purchases were Investment Grade, with High Yield accounting for the remaining 28%.

Approximately 72% of the purchases in Fixed Income ETFs were Investment Grade, with High Yield ETFs accounting for the remaining 28% (see Exhibit 15).

Exhibit 15: Fixed Income ETF Flows by Credit Quality

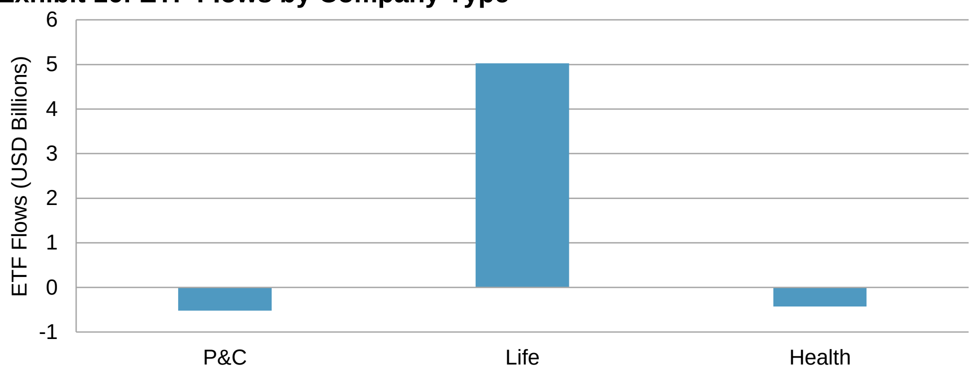


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

Of the USD 4.1 billion in ETFs that insurance companies added in Q1 2020, there was a clear differentiation by company type. Life companies added USD 5.0 billion, while P&C and Health companies sold off—USD 0.4 billion and USD 0.5 billion, respectively. P&C and Health companies were relatively flat for the first two months before selling off in March. Life companies added throughout the quarter, but at a slower pace in March (see Exhibits 16 and 17).

Life companies added USD 5.0 billion, while P&C and Health companies sold off.

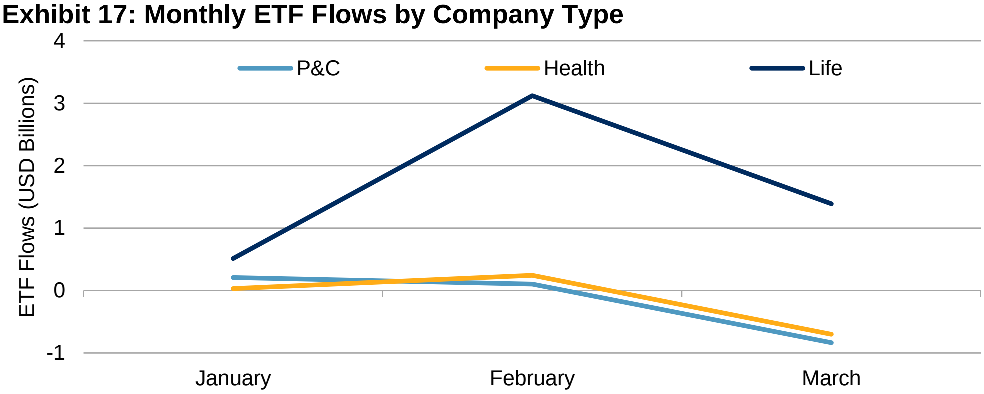
Exhibit 16: ETF Flows by Company Type



Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

P&C and Health companies were relatively flat for the first two months before selling off in March.

Exhibit 17: Monthly ETF Flows by Company Type

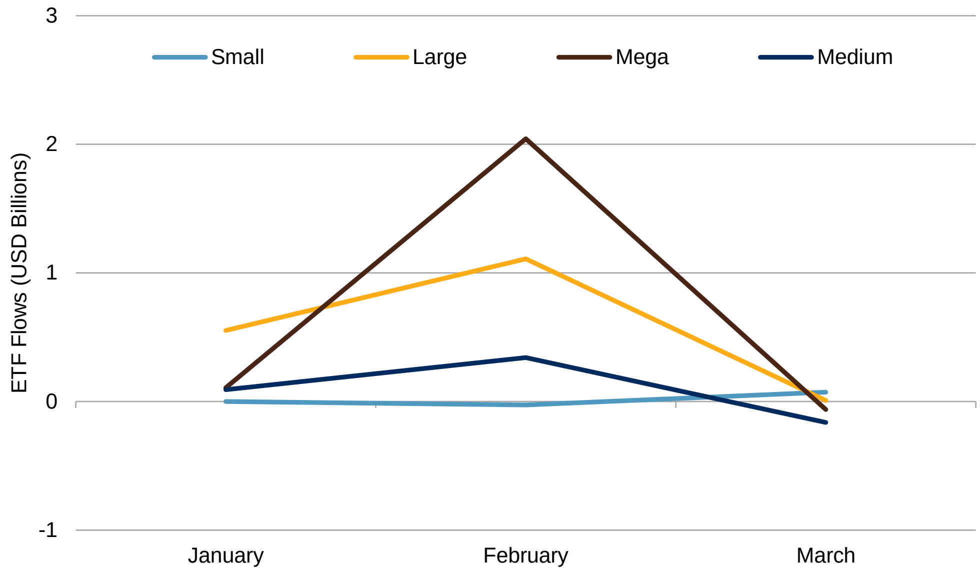


Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

Companies of all sizes added to ETFs in the quarter, but Mega and Large companies constituted the bulk of the purchases.

Companies of all sizes added to ETFs in the quarter, but Mega (USD 2.1 billion) and Large (USD 1.7 billion) companies constituted the bulk of the purchases. Mega and Medium companies were net sellers in March (see Exhibit 18).

Exhibit 18: Monthly ETF Flows by Company Size



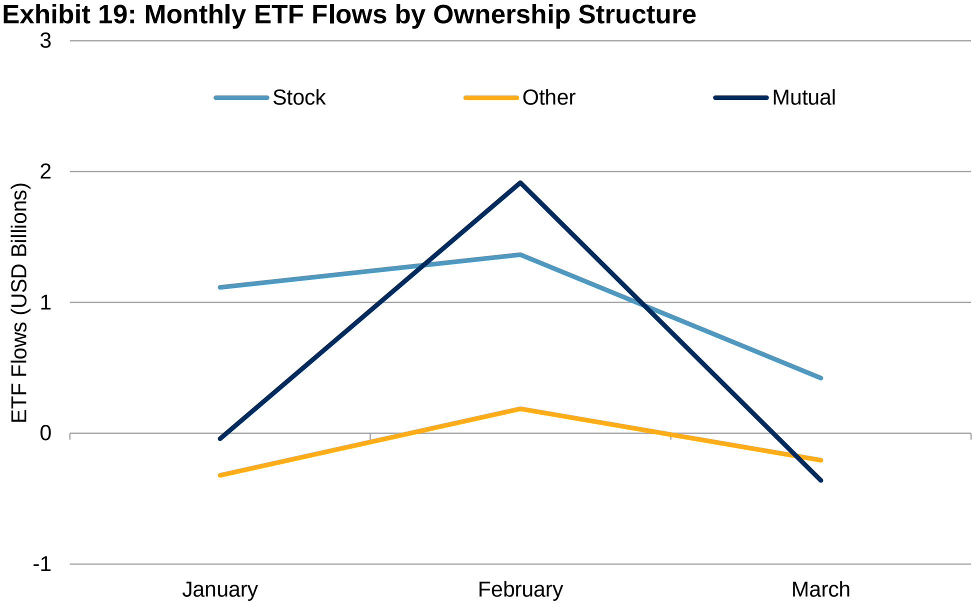
Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

Stock companies consistently added ETFs throughout the quarter.

Stock companies consistently added ETFs throughout the quarter. Mutual and Other companies sold ETFs in January and March but bought in February. By the end of the quarter, Stock companies had added USD 2.9 billion, Mutual companies had added USD 1.5 billion, and Other companies had sold USD 0.3 billion (see Exhibit 19).

Mutual and Other companies sold ETFs in January and March but bought in February.

Exhibit 19: Monthly ETF Flows by Ownership Structure



Source: NAIC via S&P Global Market Intelligence. Data as of March 31, 2020. Chart is provided for illustrative purposes.

METHODOLOGY

This analysis used the same methodology as our research paper, "ETFs in Insurance General Accounts – 2020." Please refer to Appendix 1 in that document for further details—especially with respect to U.S. insurance company and ETF characteristics. Each quarter, insurance companies file a statement with the National Association of Insurance Commissioners (NAIC); these are then aggregated by S&P Global Market Intelligence. We extracted the data from the database on May 22, 2020. To the extent the database was incomplete on that date, the analysis will have incomplete information.

Unlike annual statements, the quarterly financials do not contain actual holdings, rather companies report buys (Schedule D, Part 3) and sells (Schedule D, Part 4) in the quarter. In addition to company and ETF identifiers, we extracted from the schedules the column "Actual Cost," which is the dollar amount of the transaction. Using information from S&P Global Market Intelligence and First Bridge, a CFRA company, we analyzed the flows.

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