ETF Transactions by U.S. Insurers in Q3 2021

INTRODUCTION

Over the first three quarters of 2021, U.S. insurance companies traded almost USD 48 billion in ETFs. The amount traded increased in each quarter. After a sluggish second quarter, insurance companies resumed buying Fixed Income ETFs in the third quarter. However, they continued to exit Equity ETFs. Over the three quarters, insurance companies added USD 2.6 billion into ETFs. In this report, we analyze these trades and explore the differences of insurance ETF usage over the first three quarters of 2021.

ETF TRADES

In the third quarter, insurance companies traded USD 16.5 billion in ETFs; this was 56% larger than the USD 10.6 billion they traded in the third quarter of 2020. However, trading was 3% lower YTD than in 2020, mostly because of the unusually large volume of trading in the first quarter of 2020.

As seen before, trading volume was not uniform throughout the Q3 2021 period. Trading by insurance companies was fairly subdued in the beginning of the third quarter but picked up toward the end (see Exhibit 1).

Exhibit 1: YTD ETF Trades

While overall trading was split evenly between Fixed Income and Equity, companies exhibited significantly different behaviors in each quarter. They traded evenly in the first quarter, more Fixed Income in the second, and more Equity in the third (see Exhibit 2).

**Exhibit 2: ETF Trades by Asset Class**

While the composition of ETFs traded changed in each quarter, the aggregate characteristics of the ETFs traded did not vary between quarters. While there were minor deviations, the trade volume was similar in all quarters. Large Cap ETFs dominated equity trading, followed by Blend equities. Fixed Income ETF trading by insurance companies continued to be dominated by Investment Grade, Blend maturity, and Corporate bonds (see Exhibit 3).

Extrapolating these values to annual levels implies a trade ratio of 1.3 for Equity, 2.5 for Fixed Income, and 1.7 for the whole portfolio. The Fixed Income trading volume was substantially lower than in prior years (especially 2020).

**Exhibit 3: YTD ETF Trades by Various Asset Characteristics**

In terms of size, companies traded consistently for the first two quarters. Mega companies traded the most, followed by Large, Medium, and Small companies. In the third quarter, Large companies increased their trading, while Mega companies slowed down. Life and P&C companies traded roughly the same amount in the first and third quarters. However, in the second quarter Life companies traded substantially less, while P&C companies increased trading significantly (see Exhibit 4).

Exhibit 4: YTD ETF Trades by Company Characteristics

ETF NET FLOWS

Over the first three quarters of 2021, companies added USD 2.6 billion to their portfolios. In the first quarter, companies added roughly USD 3 billion. In the second quarter, they withdrew roughly USD 1 billion. In the third quarter, companies added a little less than USD 700 million into ETFs.

Throughout 2021, insurance companies have been pulling assets away from Equity ETFs; this trend has increased every quarter. Companies added greatly to Fixed Income in the first and third quarters, while pulling back slightly in the second quarter (see Exhibit 5).
In Equity, companies sold mostly Blend and Large Cap ETFs, while adding slightly to Mid Cap ETFs. The industry withdrew USD 276 million in the first quarter, USD 870 million in the second quarter, and USD 1.7 billion in the third quarter for a withdrawal of USD 2.9 billion over the three quarters.

In Fixed Income, the insurance industry added USD 3.3 billion in the first quarter, withdrew USD 168 million in the second, and added USD 2.4 billion in the third for a net inflow of USD 5.5 billion over the three quarters. As expected, most of the additions were Investment Grade ETFs. Companies added across all bond types and across all maturities (see Exhibit 6).

By company size, Mega companies sold ETFs in the second quarter but bought much more in the third quarter. Large companies bought substantially in the first quarter and sold slightly in the third. In total,
Mega companies added almost USD 1.0 billion, while Large companies added USD 2.0 billion. P&C companies were net sellers for the first three quarters. Life companies added in size during the first and third quarters but were dormant in the second quarter. Health companies added to ETFs in the first quarter but sold for the next two to end up relatively flat for the year. P&C companies added to ETFs in the first quarter but withdrew more than that during the remaining two quarters (see Exhibit 7).

Exhibit 7: ETF Net Flows by Company Characteristics


CONCLUSION

Over the first three quarters of 2021, U.S. insurance companies increased the amount of ETF trades in each quarter. They are on track to trade as much as they did in 2020. Historically, insurance companies have added USD 2.5 billion per year to ETFs. Over the three quarters of 2021, they added USD 2.6 billion. Thus, 2021 looks to continue the trend in increased ETF usage by insurance companies.
METHODOLOGY

This analysis used the same methodology as our research paper, “ETFs in Insurance General Accounts – 2021.” 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 Nov. 23, 2021. 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 columns “Actual Cost” and “Consideration,” which are the U.S. dollar amounts of the transaction. Using information from S&P Global Market Intelligence and CFRA ETF Data, we analyzed the flows.
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