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Market Commentary

ETF Transactions by U.S. Insurers in Q3 2020

Contributor

Raghu Ramachandran
Head of Insurance Asset Channel
raghu.ramachandran@spglobal.com

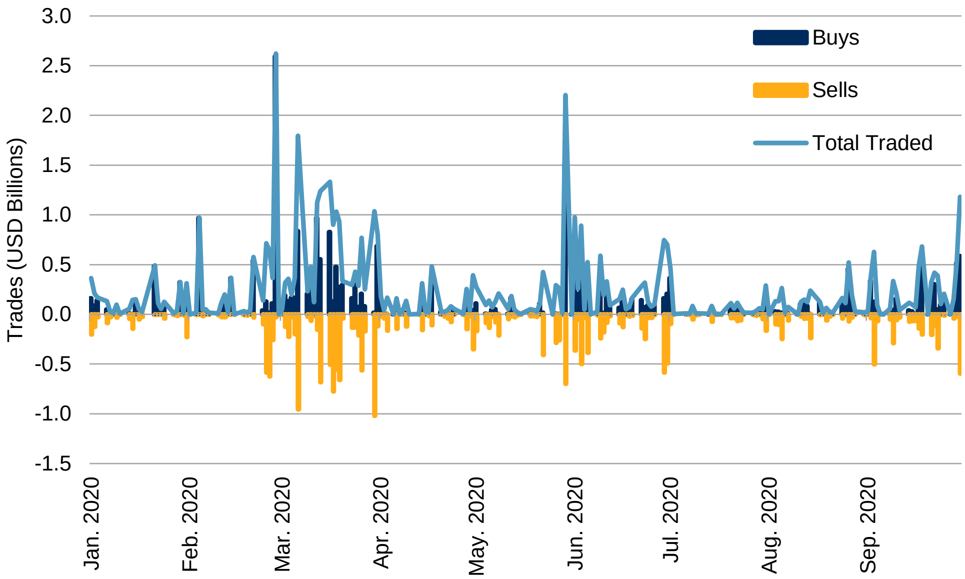
INTRODUCTION

In the volatile first quarter of 2020, U.S. insurance companies invested heavily in Fixed Income ETFs as liquidity dried up in the cash market. In the second quarter, insurers sold off Equity ETFs, but in the third quarter, they returned to buying ETFs, adding over USD 1 billion to their portfolios. While holdings data are not available on a quarterly basis, we were able to analyze ETF transactions. In this analysis, we compare how ETF trading varied between the third quarter and the first half of the year.

ETF TRADES

In the third quarter of 2020, insurance companies traded a little over USD 10.6 billion in ETFs. This is down from USD 24.6 billion in the first quarter and USD 14.0 billion in the second quarter. As in prior quarters, companies traded more toward the end of the quarter (see Exhibits 1 and 2).

Exhibit 1: ETF Trades for 2020

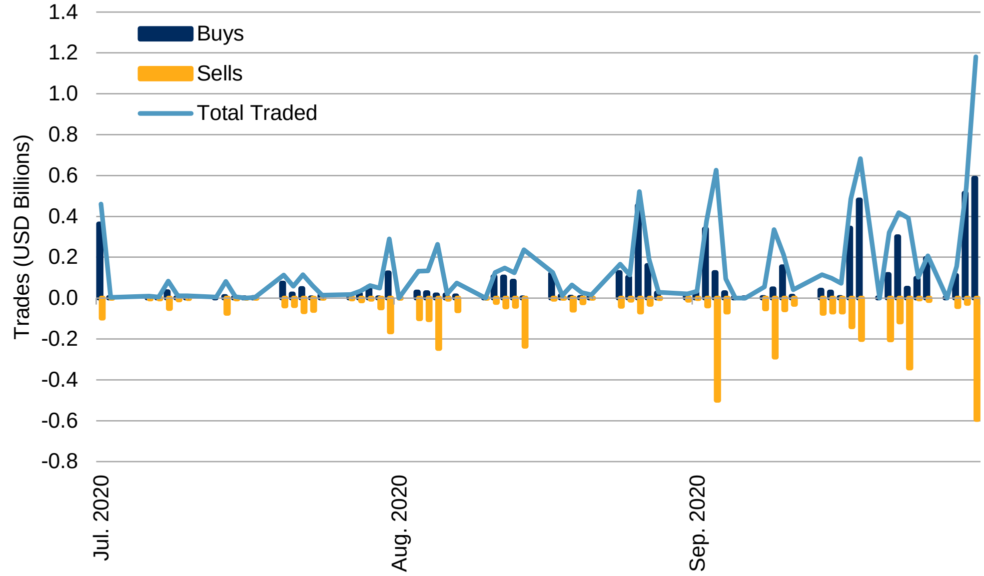


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

In Q1 2020, U.S. insurance companies invested heavily in Fixed Income ETFs as liquidity dried up in the cash market.

In Q2, insurers sold Equity ETFs, but in the third quarter, they returned to buying ETFs, adding over USD 1 billion to their portfolios.

Exhibit 2: ETF Trades for Q3 2020



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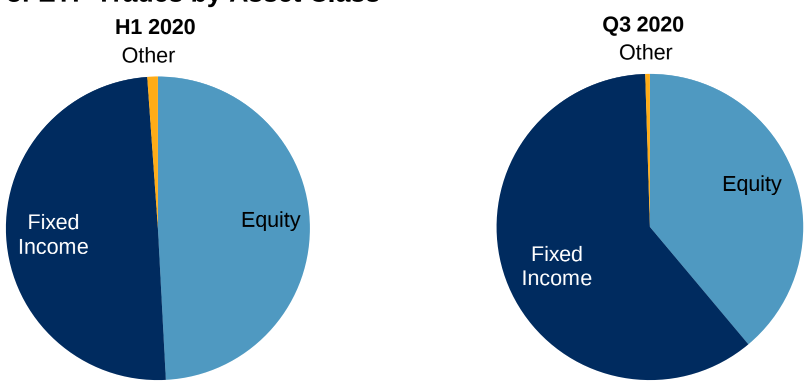
In the third quarter of 2020, insurance companies traded a little over USD 10.6 billion in ETFs…

Through the first half of the year, companies traded equal amounts of Equity and Fixed Income ETFs. However, in the third quarter, companies traded significantly more in Fixed Income ETFs (see Exhibit 3). Indeed, in each quarter, Fixed Income ETF trades as a percentage of total trades has increased.

…and traded significantly more in Fixed Income ETFs than in the first half of the year.

Exhibit 3: ETF Trades by Asset Class



Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Charts are provided for illustrative purposes.

In three quarters, insurance companies traded USD 49.3 billion in assets—or 1.6 times the year-end 2019 AUM of USD 31.2 billion.

At year-end 2019, insurance companies held USD 31.2 billion in ETFs. In three quarters, they traded USD 49.3 billion in assets—or 1.6 times the year-end 2019 AUM. In terms of asset class, companies traded Fixed Income ETFs more frequently than Equity ETFs. In three quarters, companies traded roughly the same amount in Equity ETFs as they held at year-end 2019. However, in the same time period, they traded three times the amount of Fixed Income ETFs as they held at year-end 2019 (see Exhibit 4).

In that period, they traded about the same amount in Equity ETFs as they held at year-end 2019.

Exhibit 4: 2019 AUM and Q3 2020 ETF Trades

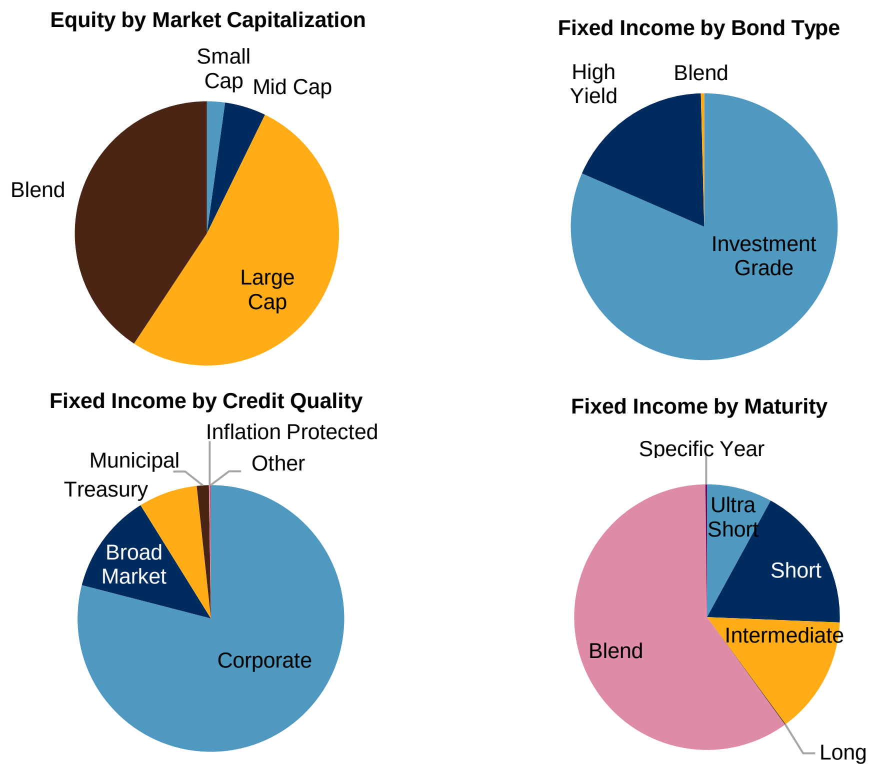
ASSET CLASS	2019 YEAR-END AUM (USD BILLIONS)	2020 TRADES (USD BILLIONS)	RATIO
Equity	22.2	23.2	1.0X
Fixed Income	8.6	25.7	3.0X
Other	0.4	0.5	1.2X
Total	31.2	49.3	1.6X

Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Table is provided for illustrative purposes.

In terms of Equity market capitalization, roughly one-half of the trades in the third quarter were in Large Cap, followed by Blend Equity ETFs. In Fixed Income, companies mostly traded Investment Grade, Corporate ETFs with Blend maturity (see Exhibit 5). In these characteristics, the ETFs trades in the third quarter matched the trades for the first half of the year.

In Q3 2020, one-half of Equity ETF trades were in Large Cap, and Fixed Income trades were mainly in Investment Grade, Corporate ETFs with Blend maturity.

Exhibit 5: Q3 2020 ETF Trades by Various Characteristics



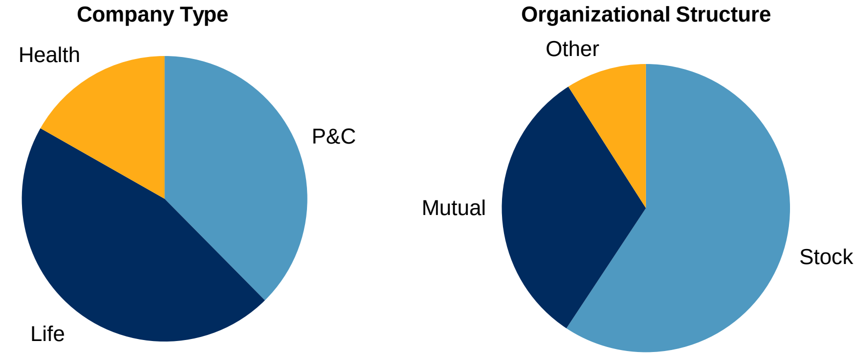
Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Charts are provided for illustrative purposes.

In Q3 2020, P&C and Life companies each traded about 40% of all trades and Stock companies handled 60% of all trades.

This pattern was consistent with the rest of 2020.

In terms of company type in Q3 2020, P&C and Life companies each accounted for roughly 40% of all trades, with Health making up the remainder. In terms of organizational structure, Stock companies handled 60% of all trades, with Mutual companies making up 33% of the trades (see Exhibit 6). This pattern remained consistent throughout 2020.

Exhibit 6: Q3 2020 ETF Trades by Company Characteristics



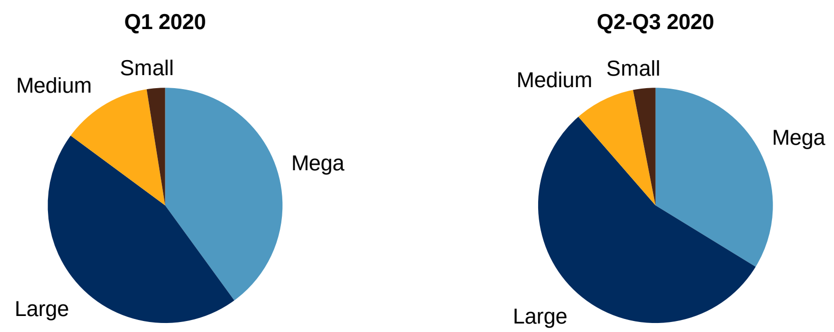
Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Charts are provided for illustrative purposes.

However, the trading pattern by company size varied, with Mega companies initiating about one-half of trades in the volatile Q1…

…and Large companies initiating the majority over Q2 and Q3.

However, the trading pattern by company size varied over the year. In the volatile first quarter, Mega insurance companies initiated roughly one-half of the trades. However, over the next two quarters, Large companies initiated the majority of the trades (see Exhibit 7).

Exhibit 7: Q1-Q3 2020 ETF Trades by Company Size



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NET FLOWS

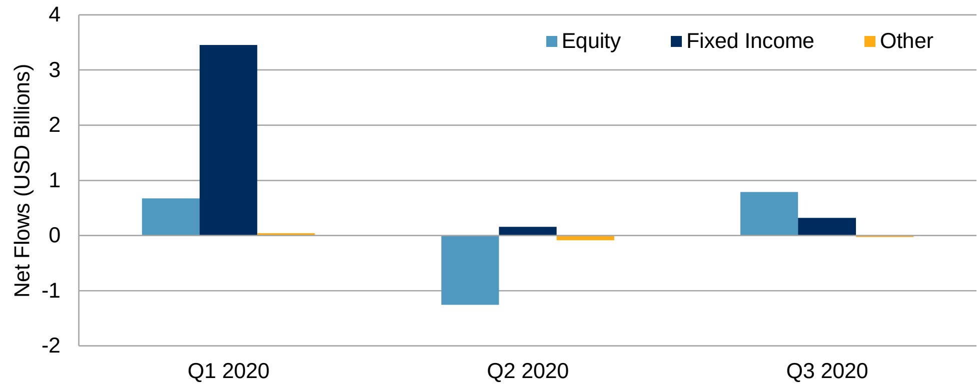
Even though insurance companies traded USD 10.6 billion in Q3 2020, companies sold almost as much as they bought.

Even though insurance companies traded USD 10.6 billion in the third quarter, companies sold almost as much as they bought. These trades resulted in companies adding USD 1.1 billion to their portfolios. Although 60% of all trades in the third quarter were in Fixed Income ETFs, Equity ETFs had 70% of the net inflows in the third quarter.

The third quarter brought an inflow of USD 1.1 billion, compared with USD 4.2 billion added in the first quarter and a withdrawal of USD 1.2 billion in the second quarter. In the first quarter, insurers added to Fixed Income ETFs in a significant way, while in the second quarter, they mostly sold Equity ETFs. In the third quarter, they once again added to Equity ETFs (see Exhibit 8).

Despite 60% of Q3 trades being in Fixed Income ETFs, Equity ETFs had 70% of the net inflows.

Exhibit 8: ETF Net Flows

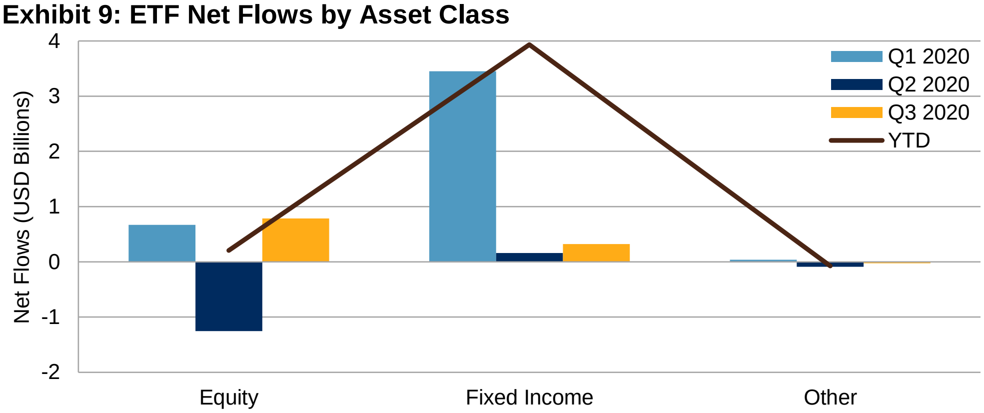


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

The inflows into Equity ETFs in the first and third quarter effectively canceled out the outflows of the second quarter. In the first three quarters of 2020, the net flows into Equity ETFs was USD 200 million. The USD 4 billion in Fixed Income purchased in the first quarter vastly outpaced all other purchases (see Exhibit 9).

The inflows into Equity ETFs in the first and third quarter effectively canceled out the outflows of the second quarter.

Exhibit 9: ETF Net Flows by Asset Class

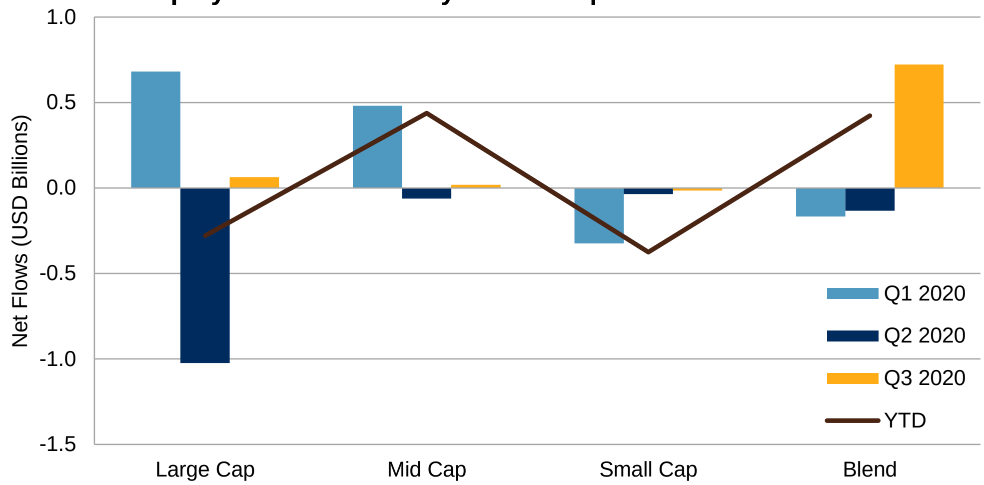


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

In terms of Equity ETFs, companies bought Large and Mid Cap in Q1, sold Large Cap ETFs in Q2, and bought Blend Equity ETFs in Q3.

In terms of Equity ETFs, companies bought Large and Mid Cap ETFs in the first quarter, sold Large Cap ETFs in the second quarter, and bought Blend Equity ETFs in the third quarter (see Exhibit 10).

Exhibit 10: Equity ETF Net Flows by Market Capitalization

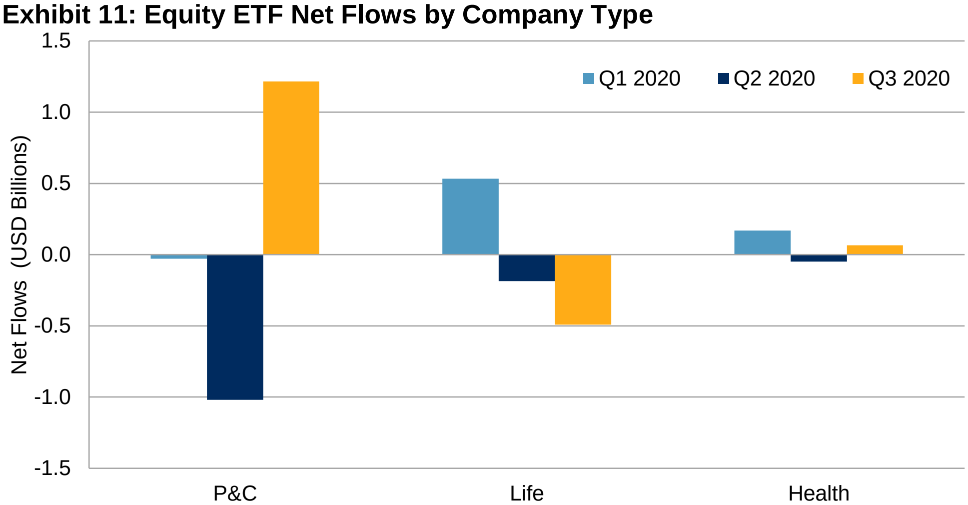


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

Mostly Life companies bought Equity ETFs in the first quarter but sold in the second and third quarters.

Mostly Life companies bought Equity ETFs in the first quarter but sold in the second and third quarters. P&C companies sold massively in the second quarter but bought massively in the third (see Exhibit 11).

Exhibit 11: Equity ETF Net Flows by Company Type



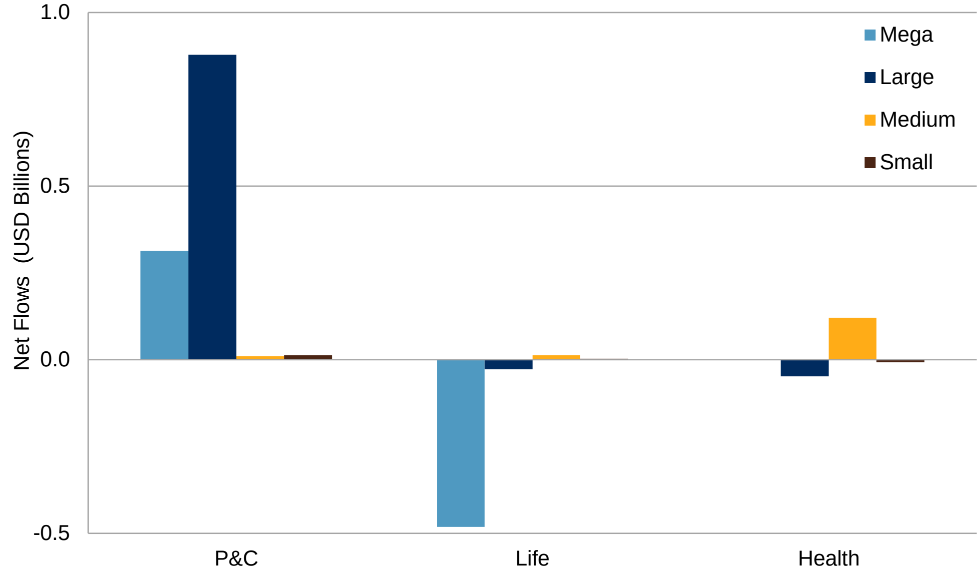
P&C companies sold massively in the second quarter but bought massively in the third.

Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

In the third quarter, Large and Mega P&C companies purchased Equity ETFs (see Exhibit 12). On the Life side, the sale of Equity ETFs was mostly by Mega companies.

In Q3 2020, Large and Mega P&C companies purchased Equity ETFs, but YTD, more Large P&C companies added to Equity ETFs, while Mega companies were net sellers.

Exhibit 12: Q3 2020 Equity ETF Net Flows by Company Type

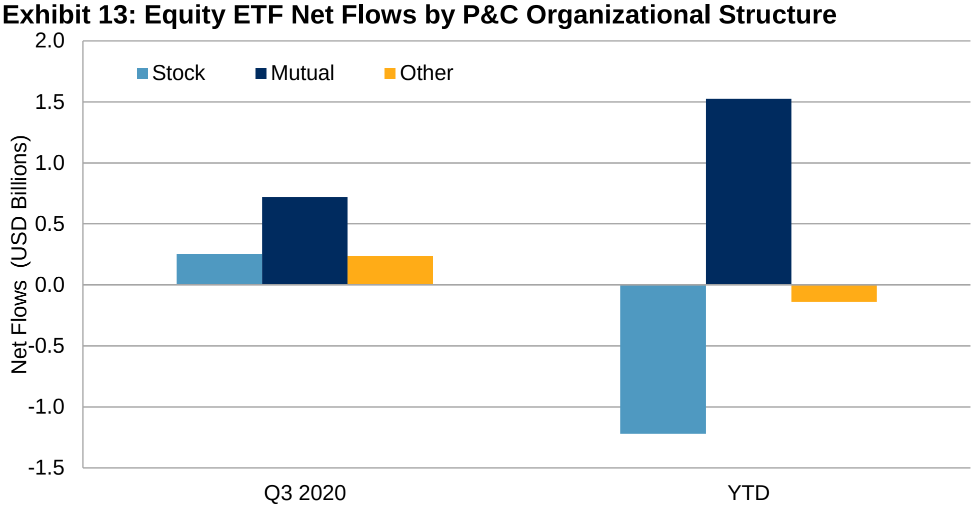


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

In the third quarter, all types of P&C companies bought Equity ETFs. However, for the year, Mutual companies bought more, while Stock companies sold (see Exhibit 13).

In Q3 2020, all types of P&C companies bought Equity ETFs, however, YTD, Mutual companies bought more, while Stock companies sold.

Exhibit 13: Equity ETF Net Flows by P&C Organizational Structure

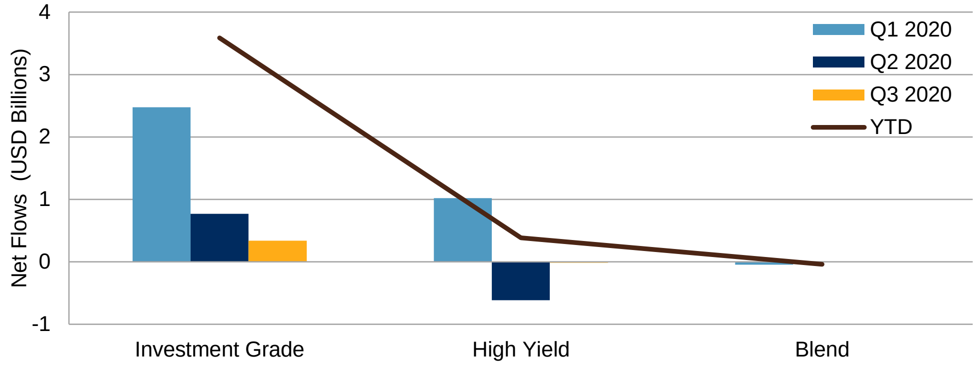


Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

Companies entered and exited High Yield ETFs in the first half of the year, but largely ignored High Yield in the third quarter (see Exhibit 14). In the first quarter, companies heavily purchased Corporate Fixed Income ETFs. In the second quarter, companies rotated out of Corporate ETFs into Treasury ETFs. In the third quarter, companies reversed this trade and moved back into Corporate ETFs (see Exhibit 15). Similarly, companies reversed their trade rotation in Blend maturity Fixed Income ETFs (see Exhibit 16).

Companies entered and exited High Yield ETFs in the first half of the year, but largely ignored High Yield in the third quarter.

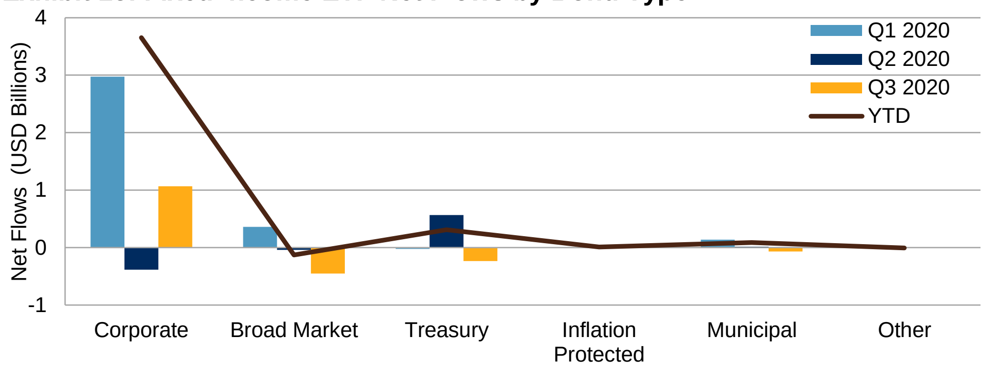
Exhibit 14: Fixed Income ETF Net Flows by Credit Quality



Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

In Q1, companies heavily purchased Corporate ETFs, whereas in Q2, they rotated into Treasury, and in Q3, they moved back into Corporate ETFs.

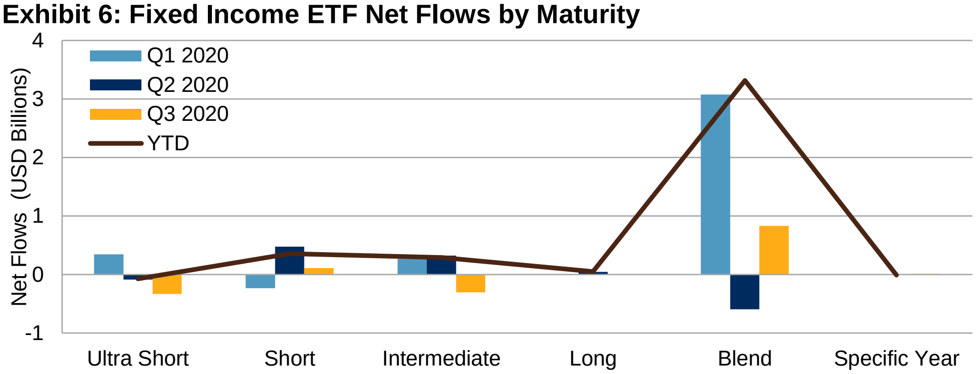
Exhibit 15: Fixed Income ETF Net Flows by Bond Type



Source: NAIC via S&P Global Market Intelligence. Data as of Sept. 30, 2020. Chart is provided for illustrative purposes.

Similarly, companies reversed their trade rotation in Blend maturity Fixed Income ETFs.

Exhibit 6: Fixed Income ETF Net Flows by Maturity



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CONCLUSION

U.S. insurance companies continue to trade actively in ETFs. In the first three quarters of 2020, they traded more ETFs than the AUM they held at year-end 2019. Companies also added USD 4 billion into their portfolio, or a roughly 12% increase over year-end 2019. These growth numbers are generally in line with historical growth patterns. The final year-end 2020 numbers will not be available until April 2021, and we will publish our annual analysis in late May 2021.

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 November 20, 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 U.S. 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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