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Market Commentary

ETF Transactions by U.S. Insurers in Q2 2021

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INTRODUCTION

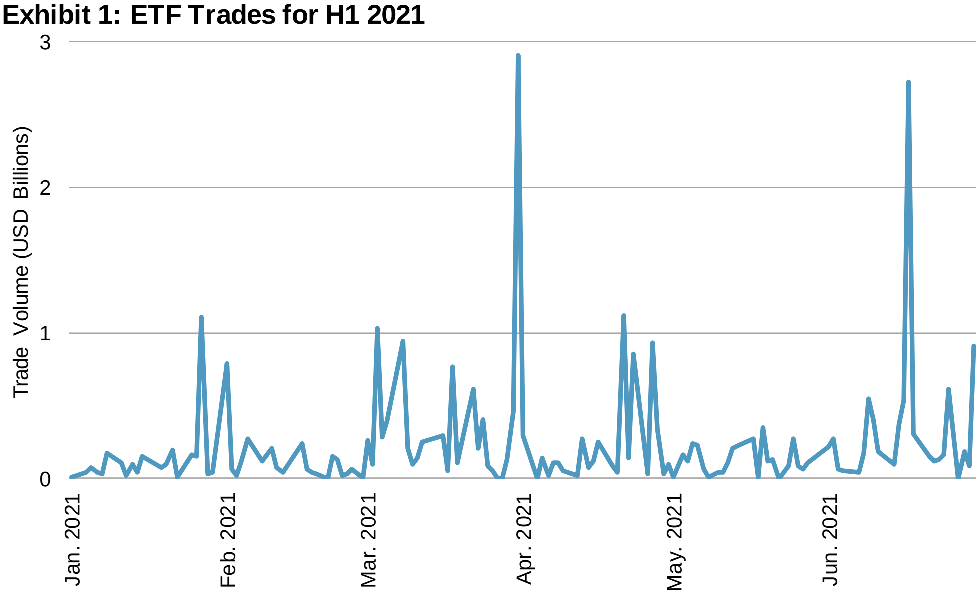
The second quarter of 2021 saw as much trading as the first, as insurance companies continued to trade ETFs actively. While trading volume was lower relative to 2020, insurance companies traded in the first half of the year almost as much as they held in their portfolios at the beginning of the year. In this report, we analyze these trades and explore the differences between the two quarters.

ETF TRADES

In the first quarter of 2021, insurance companies traded USD 15 billion in ETFs. In the second quarter, insurance companies increased this amount slightly to USD 16 billion. In the first half of the year, insurance companies traded USD 31 billion in ETFs. The amount of trading was slightly lower than for the same period in 2020, when companies traded USD 38 billion. However, the COVID-19 crisis affected the trading volume in 2020.

As seen before, trading volume isn't uniform over the period. Insurance companies traded more at the end of each quarter, with irregular spikes during the middle of the quarters (see Exhibit 1).

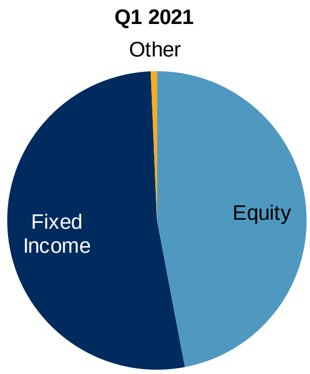
Exhibit 1: ETF Trades for H1 2021

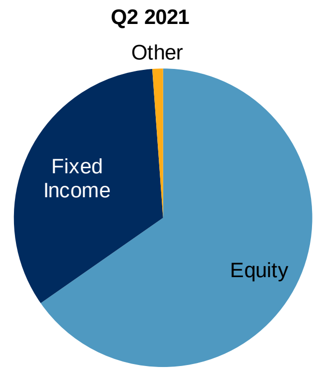


Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Chart is provided for illustrative purposes.

In terms of asset classes, the trading pattern was markedly different between the first and second quarters. In the first quarter, the trades were roughly even between Equity and Fixed Income ETFs. However, trading in Equity ETFs dominated the second quarter (see Exhibit 2).

Exhibit 2: Q1 and Q2 2021 ETF Trades by Asset Class



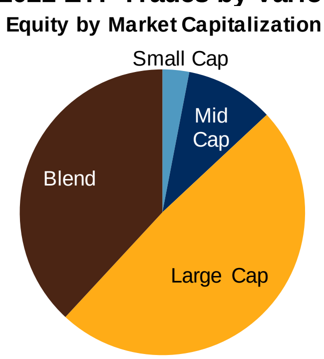


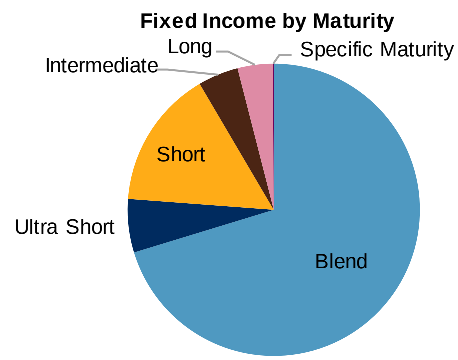
Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Charts are provided for illustrative purposes.

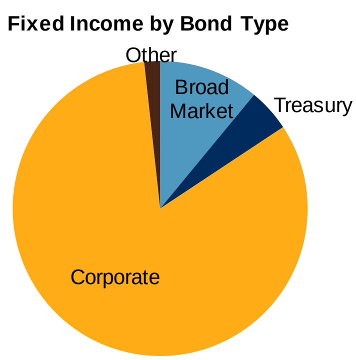
While the asset composition changed between the two quarters, the individual characteristics of the assets traded didn't vary between quarters. While there were minor deviations, the trade volume in both quarters was similar. Large Cap Equity dominated Equity trading followed by Blend Equity. Fixed Income ETF trading by insurance companies continued to be dominated by Investment Grade, Blend maturity, and Corporate bonds (see Exhibit 3)

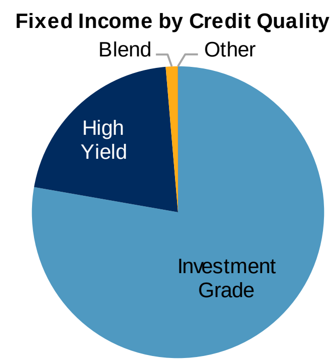
Extrapolating these values to annual levels implies a trade ratio of 1.5 for Equity, 2.1 for Fixed Income, and 1.7 for the whole portfolio.

Exhibit 3: H1 2021 ETF Trades by Various Asset Characteristics





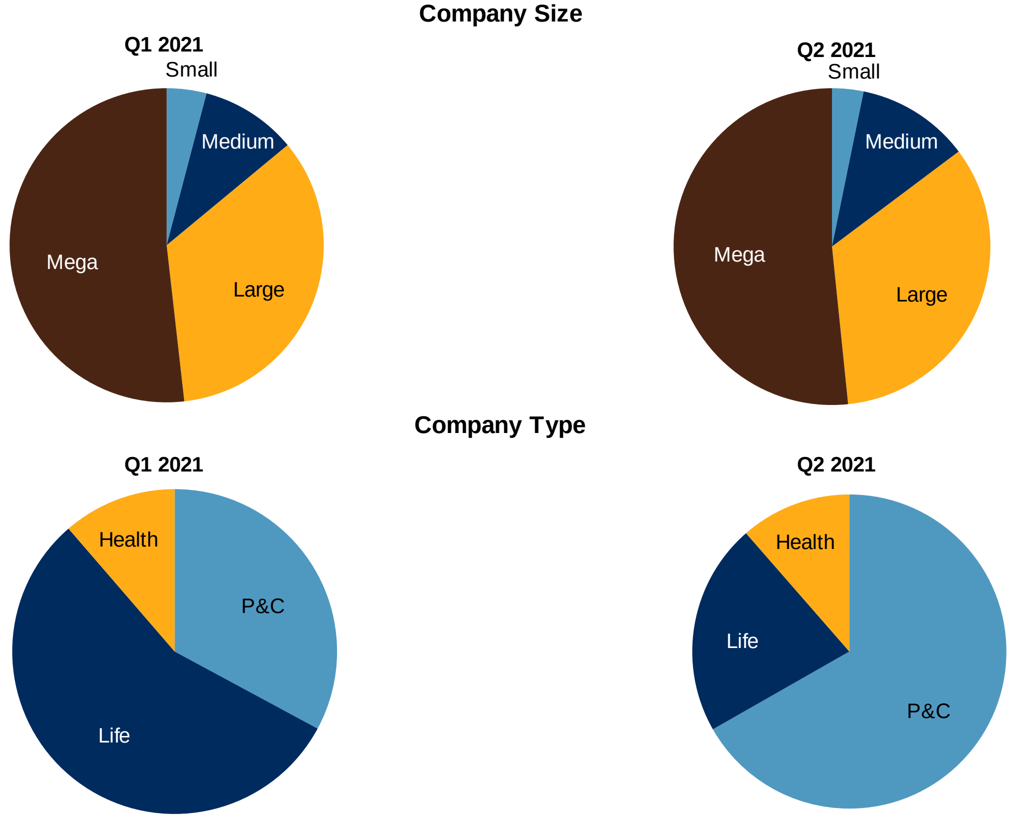




Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Charts are provided for illustrative purposes.

In terms of company size, trading volume was directly proportional to size. Mega companies traded the most, followed by Large, Medium, and Small companies. This didn't vary by quarter. Interestingly, Life companies traded more in the first quarter and P&C companies more in the second quarter (see Exhibit 4).

Exhibit 4: Q1 and Q2 2021 ETF Trades by Company Characteristics



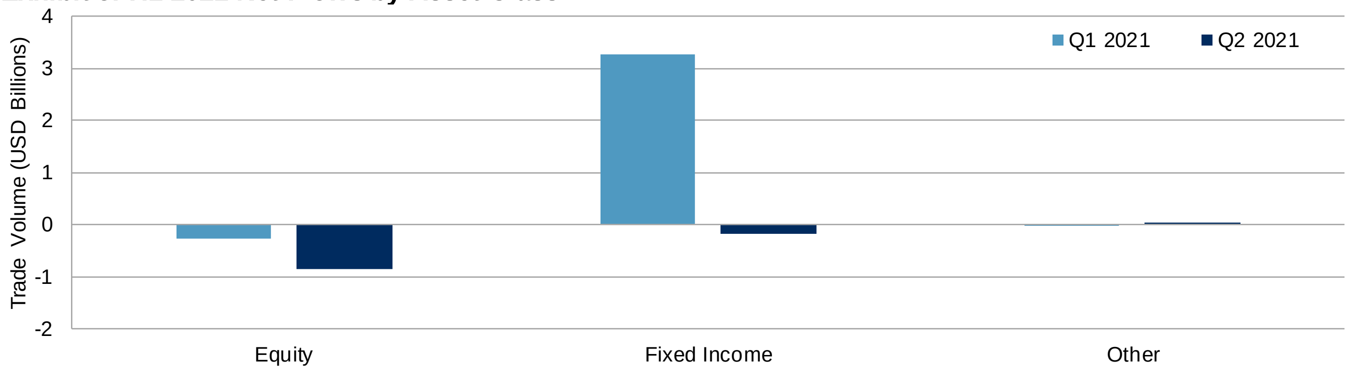
Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Charts are provided for illustrative purposes.

NET FLOWS

Even though insurance companies traded roughly the same amount in each quarter, the impact was different. In the first quarter, companies added roughly USD 3 billion to their portfolios. In the second quarter, they withdrew roughly USD 1 billion. For the first half of the year, companies added USD 2 billion to their portfolio.

In the first quarter, companies added greatly to Fixed Income and withdrew slightly from Equity. In the second quarter, companies withdrew even more from Equity but without the offsetting addition to Fixed Income (see Exhibit 5).

Exhibit 5: H1 2021 Net Flows by Asset Class

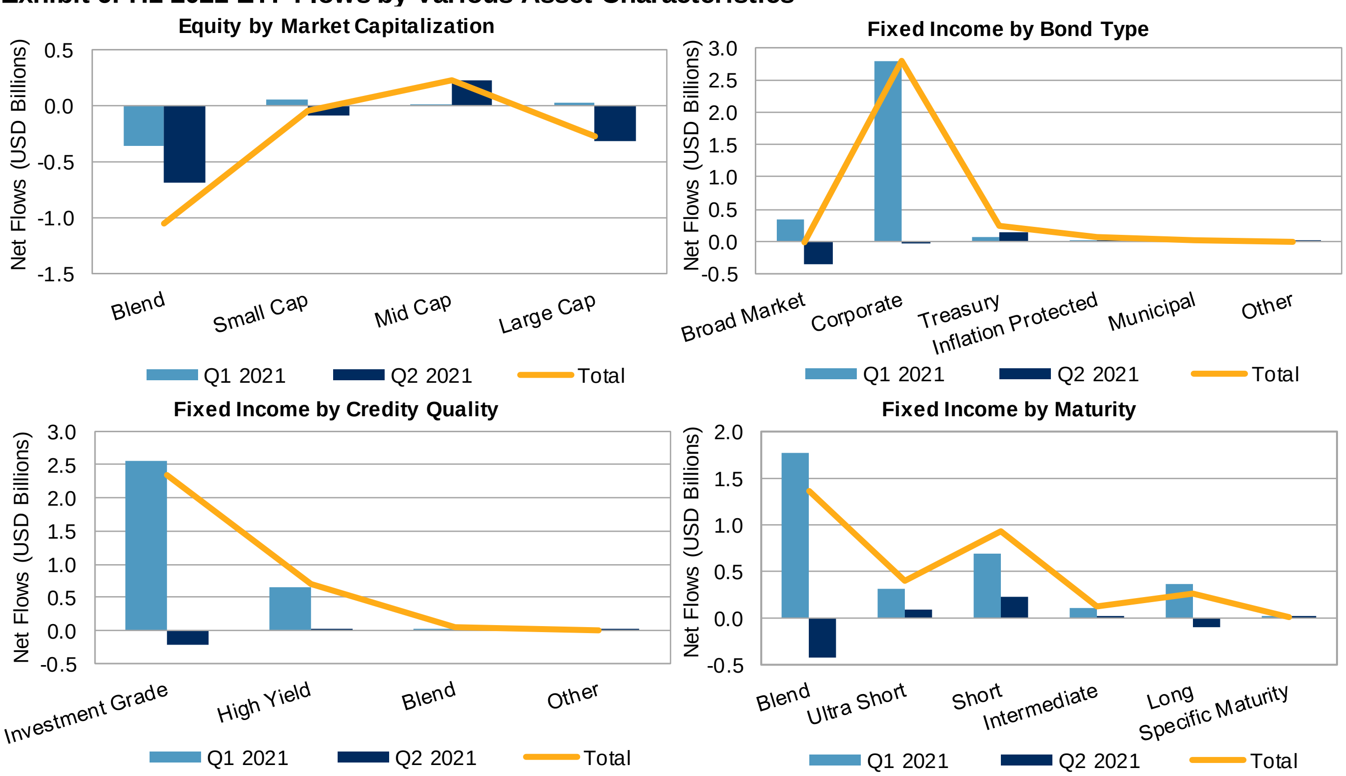


Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Chart is provided for illustrative purposes.

In Equity, companies sold mostly Blend and Large Cap Equity ETFs, while adding slightly to Mid Cap Equity ETFs. The industry withdrew USD 276 million in the first quarter and USD 870 million in the second quarter for a combined rate of USD 1.15 billion for the first half of 2021.

In Fixed Income, the insurance industry added USD 3.3 billion in the first quarter but withdrew USD 168 million in the second for a net inflow of USD 3.1 billion for the first half of 2021. As expected, most of the additions came in Investment Grade ETFs. Companies added across all bond types, except for Broad Market ETFs; but that was only down USD 12 million for the first half. Insurance companies added across all maturities for the half year but did pull money from Blend maturity ETFs in the second quarter (see Exhibit 6).

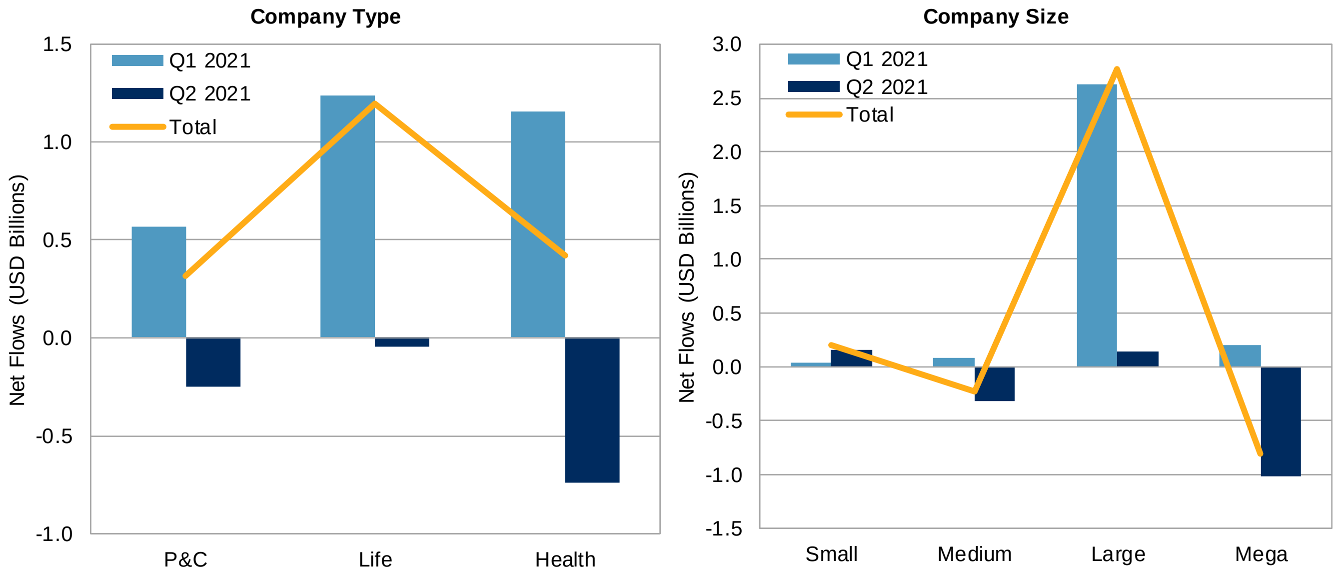
Exhibit 6: H1 2021 ETF Flows by Various Asset Characteristics



Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Chart is provided for illustrative purposes.

By company size, all companies added to ETFs in the first quarter, but withdrawals by Mega and Medium companies in the second quarter moved their first half flows to negative for the period. In terms of company type, all companies added in the first quarter and all withdrew in the second quarter. However, combining the two quarters, all companies added to ETFs in their portfolio for the first half of 2021 (see Exhibit 7).

Exhibit 7: H1 2021 ETF Flows by Various Company Characteristics



Source: NAIC via S&P Global Market Intelligence. Data as of June 30, 2021. Charts are provided for illustrative purposes.

CONCLUSION

So far in 2021, the trading in ETFs by insurance companies is a tale of two quarters, with companies generally adding to ETFs in the first quarter but withdrawing funds in the second. Companies added to Fixed Income ETFs in the first quarter but withdrew funds in the second quarter. However, the use of Equity ETFs declined in both periods. Overall, trading volume has been steady across both periods. Equity trading was running slightly higher than in prior years, but Fixed Income and overall trading were at the lower end of historical levels.

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 June 5, 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 dollar amount of the transaction. Using information from S&P Global Market Intelligence and CFRA ETF Data, we analyzed the trades and flows.

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