ETF Transactions by U.S. Insurers in Q1 2020

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

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

[Chart showing ETF trades by asset class]


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% were 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).

Exhibit 3: Equity and Fixed Income Trades by Various Characteristics

[Charts showing equity and fixed income trades by various characteristics]

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).

Exhibit 4: ETF Trades by Company Characteristics

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).

Exhibit 5: ETFs Bought and Sold by Month

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.


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.


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.

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.

Even though the net flows were flat in March, companies were more active in trading ETFs 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).

Exhibit 9: ETF Flows

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).

Exhibit 10: ETF Flows by Asset Class
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


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

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).

### Exhibit 13: Fixed Income ETF Flows by Bond Type

![Graph showing ETF flows by bond type]


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).

### Exhibit 14: Monthly Fixed Income ETF Flows by Maturity

![Graph showing ETF flows by maturity]

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**


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).

**Exhibit 16: ETF Flows by Company Type**


**Exhibit 17: Monthly ETF Flows by Company Type**

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

![Figure 18: Monthly ETF Flows by Company Size](image1.png)


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).

Exhibit 19: Monthly ETF Flows by Ownership Structure

![Figure 19: Monthly ETF Flows by Ownership Structure](image2.png)


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

Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR’S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor’s Financial Services LLC, a division of S&P Global (”S&P”). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC (“Dow Jones”). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively “S&P Dow Jones Indices”) do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (“Content”) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively “S&P Dow Jones Indices Parties”) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN “AS IS” BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.