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P&C perspective: Five little-known facts about IG private credit for U.S. insurers

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Investment grade private credit is a consistent top five alternative allocation for insurers, according to Nuveen's EQuilibrium survey. While often associated with life insurers, interest among P&C insurers is growing.

We share five little-known facts about investment grade (IG) private credit that P&C insurers should consider when investing in it.

1. NOT JUST FOR LIFE INSURERS

U.S. P&C insurers are newer and smaller investors in private credit compared with life insurers, but similar to the life industry, their exposures have rapidly grown over the last decade.

As most people know, life insurers have been at the forefront of investment grade private credit – primarily through private placements. These investments comprise over 44% of the U.S. life industry's holdings. This compares with only 19% of the U.S. P&C industry's holdings (as of 2024), although this figure has doubled from less than 11% a decade ago[1].

We estimate that the vast majority of these privatively placed bonds held by the P&C industry are 144a securities, with true private IG bonds (i.e. 4a2 bonds) representing only 3% of the total bonds for the P&C industry[2]. As comparison, about 19% the life industry's private placements are 4a2.

According to our analysis, ten large P&C players hold nearly 60% of these securities, with just two accounting for 22% of the P&C industry's private IG bonds. Figure 1 highlights the bond portfolio profiles of these P&C insurers relative to the overall P&C industry. It shows higher private bond allocations and bond portfolio yields (by 50 to 60 basis points) with relatively minor differences in average bond portfolio quality.

Figure 1: P&C insurers with above-average exposure to private IG bonds

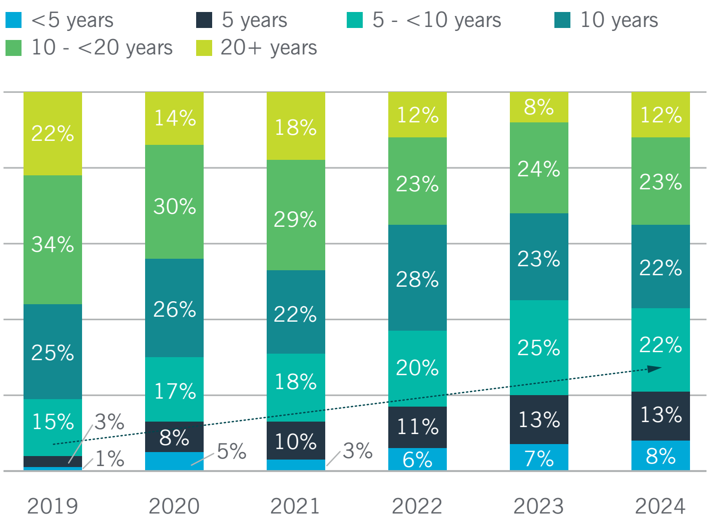
	P&C insurer #1	P&C insurer #2	P&C industry
Total bond holdings ($B)	$35	$40	$1,381
Privately sourced bonds (%)	49%	36%	19%
Private IG bonds – exc. 144a (%)	12.7%	8.4%	3.3%
Gross yield - bonds (%)	4.6%	4.4%	4.1%
Average bond quality (NAIC 1-6)	1.33	1.41	1.27

Sources: S&P Market Intelligence, Nuveen analysis of statutory Sch. D bond holdings, as of 31 Dec 2024

2. MUCH MORE THAN LONG DURATION

As the size and diversity of sectors within private IG has increased, so has the range of available securities. Figure 2 illustrates the growth of shorter maturity private deals over the past five years. In 2019, only 4% of deals had maturities of five years or less. By 2024, that figure increased to 21%, while 65% had maturities of 10 years or less (compared with 44% in 2019).

Figure 2. Evolving maturity profile of the private placement market



Source: BofA Private Placement Market Snapshot

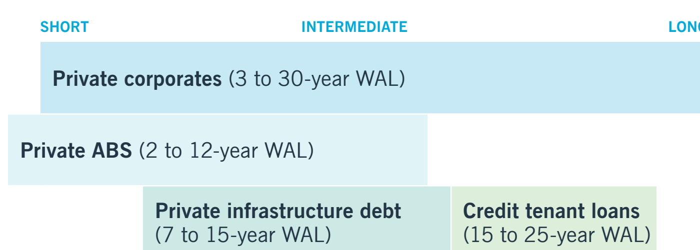
Figure 3 shows the wide duration spectrum of private IG credit securities, both within and across sectors, and which are available to P&C insurers.

Private asset-backed securities (ABS) tend to be shorter, making the sector a good fit for P&C portfolios. The weighted average life, however, can vary greatly depending on the underlying collateral and structural features, including varying amortization profiles. For example, oil and gas PDP deals (deals collateralized by proved, developed and producing oil and gas reserves) and most consumer loan deals tend to be relatively short, data centers are usually mid-tenor, and Commercial Property Assessed Clean Energy (C-PACE), private equity (PE) management fee and structured settlements transactions are likely to be longer in tenor.

Private corporates have a wide range of maturities, sometimes as low as three years. Corporate transactions often consist of multiple maturity tranches and typically have call protections, offering P&C investors a range of options to fit their duration profile. Private infrastructure deals are typically longer duration to match the cash flows expected to be generated by the project.

At the longest end of the spectrum are credit tenant loans (CTLs). They can have maturities up to 30 years or more owing to the long-dated nature of the leases in place with the underlying investment grade credit tenant. However, the majority of CTLs and many project finance transactions are amortizing structures resulting in a weighted average life much shorter than the final maturity.

Figure 3: Diverse duration spectrum of private IG platform



WAL: weighted average life. Source: Nuveen

3. MUCH MORE THAN IG CORPORATES

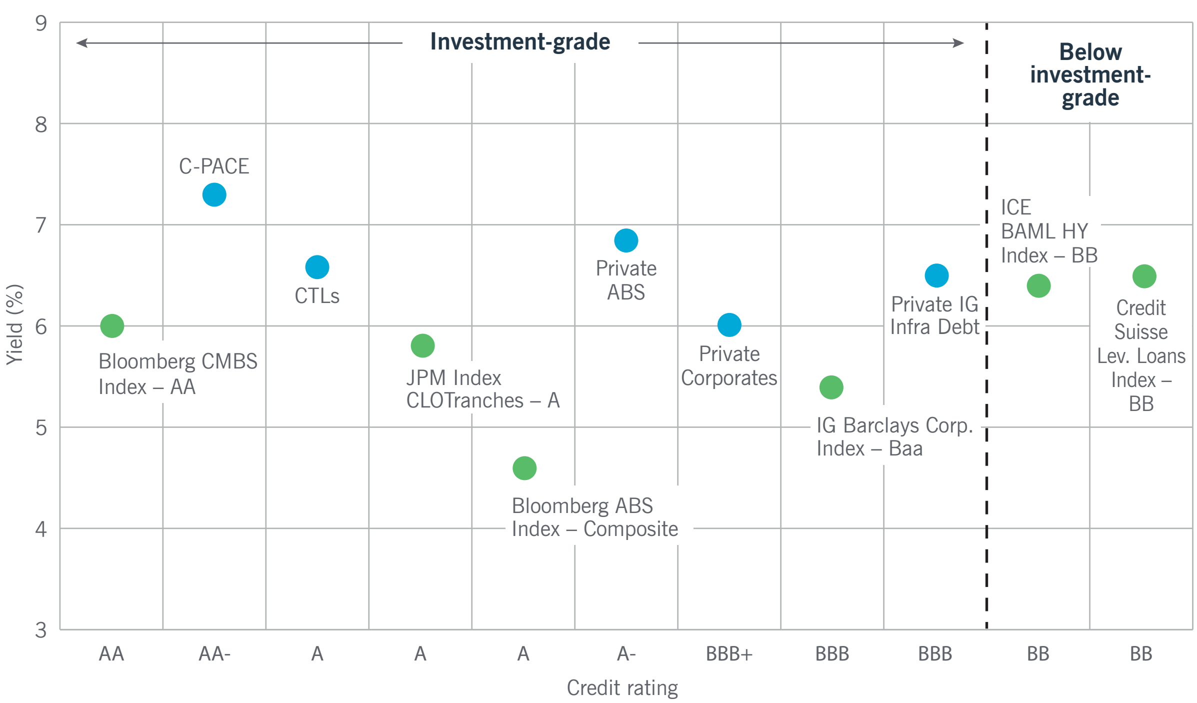
Originally concentrated in corporates and infrastructure debt, the private IG asset class has grown significantly. Based on studies produced by market participants, annual private placement market volume is estimated to be in the range of $75 to $100 billion over the last two years[3]. However, given the volume of proprietary transaction activity in the market, the actual volume is likely much greater than those estimates.

Once comprising mainly private corporates and infrastructure debt/project finance investments, the private investment grade asset class expanded more recently to include private ABS, CTLs and C-PACE. ABS is a diverse sector with multiple types of unique and high-quality collateral, while CTLs monetize real estate or equipment lease streams with real assets as collateral. Most recently, some insurers have embraced C-PACE, recognizing its attractive investment and sustainability characteristics in the private IG universe.

Investments in these growing sectors not only bring diversification, but also are potential sources of spread premiums, including liquidity, structuring and/or complexity, without reducing credit quality.

Insurers can now build a diversified portfolio of private IG credit that offers yield enhancement and an improved risk profile. Figure 4 highlights the range of investable private IG opportunities across the risk and return spectrum compared to public benchmarks. P&C insurers could achieve a yield pickup of 140 basis points (bps) investing in similarly rated private fixed income asset classes (ranging from 60 bps pickup in BBB-rated corporates to 240 bps pickup in ABS) and/or could invest in a similar yielding asset class at an improved credit quality.

Figure 4: Fixed income alternatives for P&C insurers



Blue dots represent private IG, green dots represent public market benchmarks.
Source: Nuveen

4. MORE OPPORTUNITIES FOR RELATIVE VALUE

Like public bonds, private IG is measured by the metrics that are important to P&C insurers:

- Yields (income)
- Defaults/losses

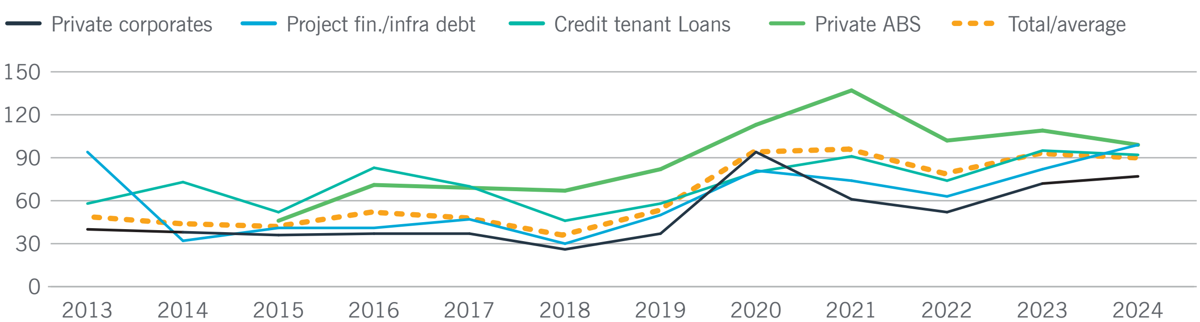
Yields (income) One of the main portfolio benefits of private IG credit is the spread premiums above public benchmarks. Over the last five years (2020-2024), these average spread premiums have nearly doubled compared to pre-2020 average levels[4]. In 2024, private corporates had an average public spread premium of 77bps, while private ABS and private infrastructure had average public spread premiums of 99bps. Compared with U.S. Treasuries, these premiums translated into spreads of 194bps for private corporates and 306bps for private ABS.

Spread premiums over publics have historically reflected the less liquid nature of private assets, and more recently, structural and complexity premiums. However, spread premiums increasingly are driven by proprietary sourcing.

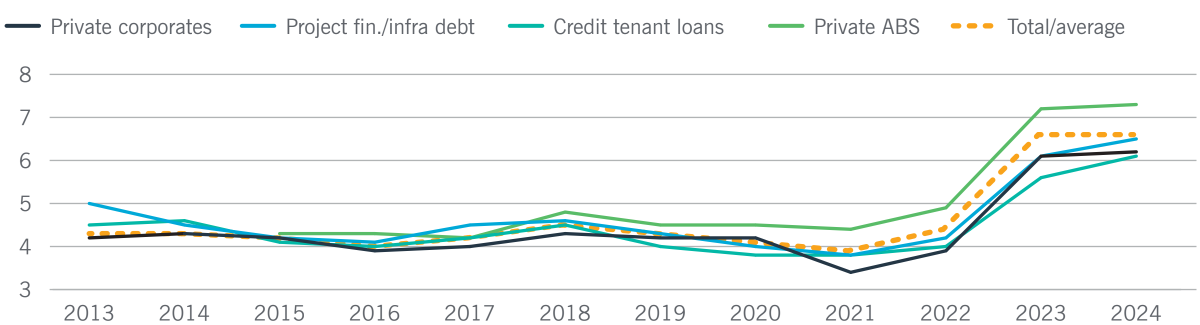
Proprietary origination stems from investing in deals with limited distribution (as measured by a high proportion of direct/sole investor and club transactions) and providing access to differentiated deal flow that drives enhanced value. These opportunities typically result from strong relationships with agents, brokers and issuers, as well as being a consistent presence in the market.

Figure 5: Historical spread premiums over publics and yields by sector

Historical spread premiums over publics by private placement sector (bps)



Historical book yields by private placement sector



Note: Premium amounts have been reduced to compensate for structural enhancements and/or financial covenants. Spread to publics computed on a deal-by-deal basis by comparing to the most comparable publicly-trade security.

Source: Nuveen Private Placements as of 31 Dec 2024.

Defaults/losses Private IG credit also benefits from favorable loss and recovery rates relative to publics. The most recent study from the Society of Actuaries in the U.S. finds that, from 2003 to 2015, senior unsecured private placements had a 14% higher recovery rate than their public bond equivalents (62% vs. 48% respectively)[5].

Favorable loss experience reflects downside protections in the form of measurable and consequential covenants and/or collateral. Given continued strong covenant protections in the current market, we expect loss/recovery experience to remain favorable within the private IG asset class during the next credit downturn. Furthermore, in sectors with a high proportion of direct/sole and club transactions, insurers are better positioned to control and hold the line on structural terms and covenants, increasing the ability to have a seat at the table to negotiate in times of stress (and which can be aided by having a dedicated workout team).

Figure 6 lists some of the typical covenants found in private corporates and private ABS sectors. Approaching and/or breaching covenants can lead to restructuring of terms that benefit both the investor and issuer in the form of fewer defaults and additional compensation.

Figure 6: Most common covenants in private IG credit

Private corporates

- **Leverage covenant:** Debt/EBITDA
- **Coverage covenant:** EBITDA/interest
- **Limitation on priority debt:** Priority debt < X% consolidated total assets

Private ABS (thresholds vary by collateral type)

- LTV covenant / triggers
- DSCR covenant / triggers
- Concentration limits

5. HOW PRIVATE IG FITS IN P&C PORTFOLIOS

Private IG credit can be viewed as a complement to existing core public bond portfolios given their similarities, while also potentially offering enhancements to a P&C insurer's entire fixed income allocation.

Consistent with public holdings, private IG credit:

- pays coupons
- is held on Schedule D of insurers' statutory balance sheets as issuer credit obligations or asset-backed securities
- is rated by a nationally recognized statistical rating organization (NRSROs) or, in the case of some privates, are filed with the Securities Valuation Office (SVO) for NAIC designations

Since most P&C insurers take a buy-and-hold approach to fixed income (including public bonds), having an allocation to private credit should not detract from their overall strategy. That said, private credit is not a replacement for more liquid assets.

Compared with public fixed income portfolios, private IG provides meaningful issuer diversification and can help insurers avoid "owning the benchmark", which can occur in public bond portfolios. Most issuers in the private corporate and ABS markets do not issue in public markets. Additionally, differentiated collateral types are available in the private markets, adding further diversification. Examples include unique ABS collateral, bespoke infrastructure debt projects and credit tenant loans with government or municipal leases.

Given the potential for yield enhancement, downside protection and issuer diversification relative to publics, private IG credit can have a complementary place within P&C insurers' asset allocation framework.

To find out more about the range and opportunity in investment grade private credit, visit nuveen.com/igprivatecredit

Endnotes

1 Source: Nuveen analysis based on data from S&P Market Intelligence, statutory Schedule D bond holdings and CapIQ.

2 For our analysis, true private securities represent 4(a)(2) transactions by an issuer not involving any public offering or distribution, and are exempt from registration offers and sales by the issuer.

3 Sources: Bank of America Private Placement Market Snapshot as of December 31, 2024, National Australia Bank Private Placement Newsletter, Q4 2024 Review.

4 Based on Nuveen calculations.

5 Source: 2003-2015 Credit Risk Loss Experience Study; Private Placement Bonds, Society of Actuaries.

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