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BUILT TO LAST: HOW LIFE INSURERS MANAGE LIQUIDITY RISK

Life insurers exist to make guarantees that can last a lifetime. Meeting those guarantees requires not only long-term financial strength but also immediate access to cash when policyholders need benefits. That's where **liquidity management** comes in — supporting insurers' ability to meet obligations under any circumstances while sustaining long-term investments in communities.

WHY IT MATTERS

Liquidity strength allows life insurers to deliver long-term products that help people manage risk — at a **once-in-a-generation longevity moment.** By 2030, one in five Americans will be 65 or older, and by 2050, the number of centenarians is projected to quadruple. As lifespans increase, so does concern about outliving savings. That is why more people are turning to long-term solutions, and we are uniquely positioned to **meet this demand.**

OUR BUSINESS MODEL

Life insurers are experts at managing long-term risk. Our business model is designed to move slowly and deliberately. Here is how we meet our obligations to policyholders — tomorrow, next year and decades from now:

- **Predictable commitments.** Policyholder benefits are actuarially modeled, creating steady and reliable cash flow needs.
- **Diverse product mix.** A broad range of products with varying liquidity and risk profiles helps life insurers manage risk and reduce liquidity pressure.
- **High-quality investment portfolio.** Our holdings include highly liquid assets like public corporate and government bonds, as well as less liquid investments like infrastructure, real estate debt and high-quality private placements. Our long-term focus and the "sticky" nature of life insurer obligations allow us to invest in assets that capture the illiquidity premium — meaning we can confidently buy and hold long-term investments until maturity.
- **Aligned investments.** Investments are selected with maturity and liquidity profiles that closely align with the timing of policyholder claims. Long-term obligations are paired with long-term assets, ensuring resources are there when needed — while also channeling capital into communities to support growth, resilience and opportunity.

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ROBUST REGULATION

Life insurers' conservative business model is reinforced by strong regulatory safeguards that directly address liquidity, including:

- **Liquidity stress testing.** Large insurers undergo annual stress testing using a framework developed by the National Association of Insurance Commissioners (NAIC) to model extreme but plausible scenarios, including mass surrenders, sharp interest rate moves, market downturns and combined shocks. The NAIC monitors and evaluates the results, and rating agencies conduct additional stress testing using severe scenarios.
- **Reserve requirements.** Regulators require life insurers to maintain full reserves for every issued policy, ensuring obligations are always covered.
- **Cash flow adequacy testing.** Supervisors require proof that asset cash flows are sufficient to meet liabilities under both normal and stressed market conditions.
- **Continuous monitoring.** Liquidity and solvency metrics are monitored through regular stress testing, cash flow testing, quarterly and annual statements that include disclosure of every asset held by a life insurer and risk-based capital requirements. Regulators also use over 70 financial analysis surveillance tools and routine examinations that give them detailed insight into the solvency of firms' portfolios.
- **Global oversight.** The International Association of Insurance Supervisors (IAIS) assesses insurers' liquidity through an annual Global Monitoring Exercise. The IAIS has reported that insurers hold large amounts of highly liquid assets and increasing levels of cash, building buffers against economic shocks.

Our track record speaks for itself. We deliver even in the most turbulent times. During COVID, we paid out a record **$100 billion** in life insurance benefits and still maintained our financial strength — holding more than twice the amount of capital required by regulators.

THE BOTTOM LINE

Life insurers are built to be a steady source of strength in good and bad times. By combining long-term promises with prudent investment strategies and strong oversight, we deliver financial security to families while investing in America's future.