NAIC
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Private credit has attracted greater public attention as insurers' exposure to less liquid and more complex investments has grown. For state insurance regulators, however, oversight of these assets is not new. Investment supervision has long been a core component of the state-based solvency framework, through which regulators review insurer portfolios, enforce investment limits, assess the risks of individual holdings and require insurers to maintain capital appropriate to those risks.

State insurance regulators lead this work, and collectively through the National Association of Insurance Commissioners, have continued to adapt that framework as private credit markets have evolved. Their work includes strengthening financial reporting and transparency, refining risk-based capital treatment, enhancing asset adequacy and liquidity stress testing, and increasing scrutiny of credit ratings and asset-intensive reinsurance arrangements. These actions reflect a sustained supervisory approach focused on ensuring that insurers understand and manage their investment risks and remain able to meet their obligations to policyholders. Learn more about how state insurance regulators have taken regulatory actions to strengthen oversight in **recent years**, or **view a full timeline** of decades of state-based solvency oversight.

The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published **NAIC Capital Markets Bureau Special Reports** are available via its web page and the NAIC archives (for reports published prior to 2016).

Private Credit Analysis of the U.S. Insurance Industry

Analysts: Michele Wong, Jennifer Vento, and Tim Nauheimer

Executive Summary

- Private credit refers to debt or debt-like securities that are not publicly traded or issued, and they generally lack a secondary market but offer higher spreads and yields in exchange for this risk.

- While U.S. insurers have invested in private securities for years, the private credit market has evolved beyond transactions involving direct exposure to borrowers to include a broader range of asset types and increasingly complex structures.

- The NAIC has identified privately rated bonds, business development companies (BDCs), and private credit funds as areas of focus, and as of year-end 2025, U.S. insurers' exposure to these categories totaled $544 billion, representing approximately 6% of cash and invested assets and 9% of total bond holdings.

- While private placement bonds, bank loans, and middle-market collateralized loan obligations (MM CLOs) technically fall within a broad definition of private credit, U.S. insurers have a long history of investing in these asset classes, and they generally involve straightforward credit risks and structures.

- Much of private credit's rapid growth has occurred amid abundant available capital, strong economic conditions, and relatively low default rates, and so, it remains uncertain how private credit investments will perform under a more severe economic and market downturn.

Executive Summary *(continued)*

U.S. insurers have been investors in private credit for quite some time, initially serving as direct lenders in the 1980s to companies with strong borrowing standards. Private credit refers to debt or debt-like securities that are not publicly issued or traded. In addition, they generally lack a secondary market and offer higher spreads and yields in exchange for the risk. Over the years, the private credit market has evolved to include a wide variety of asset types and increasingly complex structures.

Since the definition of private credit varies across market participants, determining the size of the private credit market is dynamic. For the same reason, private credit assets under management (AUM) may not be comparable across institutions, depending on which asset types a particular firm considers to be private credit. Similarly, the estimate of total U.S. private credit investments has been cited as ranging from $1 trillion to $1.7 trillion by many financial and related firms, such as rating agencies, investment managers, and investment banks, depending on their respective definitions of private credit.

In July 2024, the NAIC Capital Markets Bureau (CMB) published a **private credit primer** to provide basic background on the topic and the associated investment involved. Based on the description of private credit in its primer, the NAIC CMB has focused its private credit exposure analysis on U.S. insurers' investments in bonds reported in Schedule D, Part 1, Section 1, and Schedule D, Part 1, Section 2, as well as other long-term investments reported in Schedule BA.
(Note: While some market participants view mortgage loans as private credit, the NAIC's analysis did not focus on investments outside of Schedule D and Schedule BA.)

WITHIN THESE SCHEDULES, THE NAIC HAS IDENTIFIED FIVE CATEGORIES IN WHICH U.S. INSURERS' EXPOSURES FIT THE GENERAL DESCRIPTION OF PRIVATE CREDIT. THEY ARE:

- **Private placement bonds**
- **Bonds with private letter ratings**
- **Bank loans and direct lending**
- **Middle-market collateralized loan obligations (MM CLOs)**
- **Business development companies (BDCs) and private credit funds**

An investment reported in Schedule D could fall into more than one of the aforementioned private credit categories. For example, a private placement bond may also have a private letter rating. When analyzing U.S. insurers' exposure to private credit, the NAIC CMB accounted for this and removed any identifiable overlap.

Private Placement Bonds

Private placement bonds are non-public securities exempt from U.S. Securities and Exchange Commission (SEC) registration and are generally issued through private offerings to institutional or accredited investors. Private placement bonds issued under Rule 144A are commonly issued by larger, more seasoned companies seeking to raise capital efficiently from large institutional investors without public disclosure requirements. While private placements issued under Regulation D (Reg D) or the general exemption to the Securities Act of 1933 are more often associated with direct corporate lending to small and middle-market borrowers seeking to raise capital from a smaller group of accredited investors, large investment-grade corporate issuers also use this market for financing. Private placement bonds are typically less liquid than publicly traded bonds because secondary market activity is limited, and trading is generally conducted through negotiated transactions rather than organized exchanges.

Privately Rated Bonds

A privately rated bond is assigned a credit rating by a rating agency in the form of a letter or report, commonly referred to as a private letter rating (PLR). Unlike public ratings, PLRs are issued confidentially and only distributed to the issuer and a specified investor group, making the privately rated security less transparent to the marketplace. Privately rated investments held by insurers must have a PLR from a Credit Rating Provider (CRP) to the NAIC. While a PLR can be issued for publicly or institutionally distributed securities (e.g., Rule 144A bonds), in practice it is most often used with privately distributed securities (e.g., bonds issued under Reg D or general exemption). Privately rated bonds are therefore less transparent to the marketplace regarding underlying collateral, deal terms, structural features, and transaction mechanics. Generally, there is a very limited or no secondary market for privately rated bonds.

The limited availability of public disclosures and independent market information can make it more difficult to assess credit risk and determine appropriate valuation. To partially mitigate concerns regarding the lack of transparency, insurers are required to file rating rationale reports for PLRs with the NAIC's Securities Valuation Office (SVO). Rating rationale reports are intended to explain the transaction structure, disclose the methodology relied upon, and include an analytical review of the credit, including business, financial, industry, and legal risks. However, regardless of whether a security is publicly or privately rated, if it is eligible for exemption from filing with the SVO for assignment of an NAIC designation, the rating will be translated to its corresponding NAIC designation based solely on the CRP ratings.

Privately Rated Bonds *(continued)*

There are currently two initiatives underway to reduce the NAIC's blind reliance on CRP ratings, including private ratings, for the assignment of NAIC designations. One initiative grants regulators and the SVO authority to challenge CRP ratings[1] they believe are not reasonable reflections of risk. The other is the development of a **CRP due diligence framework** to make the NAIC a more responsible consumer of CRP ratings.

Recently, privately rated bonds have evolved to include alternative assets (such as infrastructure debt, real estate debt, and asset-based finance) and/or have more complex structures (e.g., CFOs[2] and rated feeder funds[3]) than previously existing private credit transactions. They introduce additional structural complexity and opacity, making it even more difficult to assess the investment's true risk profile. However, identifying exposure to these investments within insurers' reporting schedules is challenging due to current reporting classifications and limited public disclosures.

Bank Loans and Direct Lending

In the 1980s, bank loans to middle-market companies, typically defined as those with less than $250 million in earnings before interest, taxes, and depreciation, represented a specialized financing strategy known as direct lending[4]. Along with banks, U.S. insurers began issuing loans to companies, becoming key lenders during the leveraged buyout boom. This direct lending activity was the beginning of U.S. insurers' entry into private credit. Two decades later, when banks began tightening lending standards after the Great Financial Crisis (GFC), many insurers increased their allocations to this market and/or entered it, issuing loans to both large and middle-market companies. Loans that U.S. insurers directly originate to a borrower, without bank involvement, are not technically bank loans, but they are generally viewed as private credit. They are also reported collectively with insurers' bank loan investments (such as those that are acquired) in Schedule D Part 1.

[1] For details of the discretion process, refer to the **Purposes and Procedures Manual of the NAIC Investment Analysis Office** "Process for Excluding an Eligible NAIC CRP Rating From Filing Exemption for a Specific Security" (Part Two, Paragraphs 133-151).

[2] Collateralized fund obligations (CFOs) are structured transactions backed by a pool of limited partnership (or other) interests in investment funds. Typically, a special purpose vehicle (SPV) purchases the pool of underlying fund investments, which are then used as collateral to back the issuance of debt and equity.

[3] A feeder fund is an investment vehicle that pools capital from investors and invests or "feeds" the capital into a master fund. A rated feeder fund is similar to a CFO in that the pool of underlying investments is used as collateral to back the issuance of rated debt and equity. However, it differs in that the underlying collateral can be varied and is not limited to partnership interests. This structure is attractive to insurance companies because it provides exposure to esoteric asset classes, such as private equity, through a bond-like instrument.

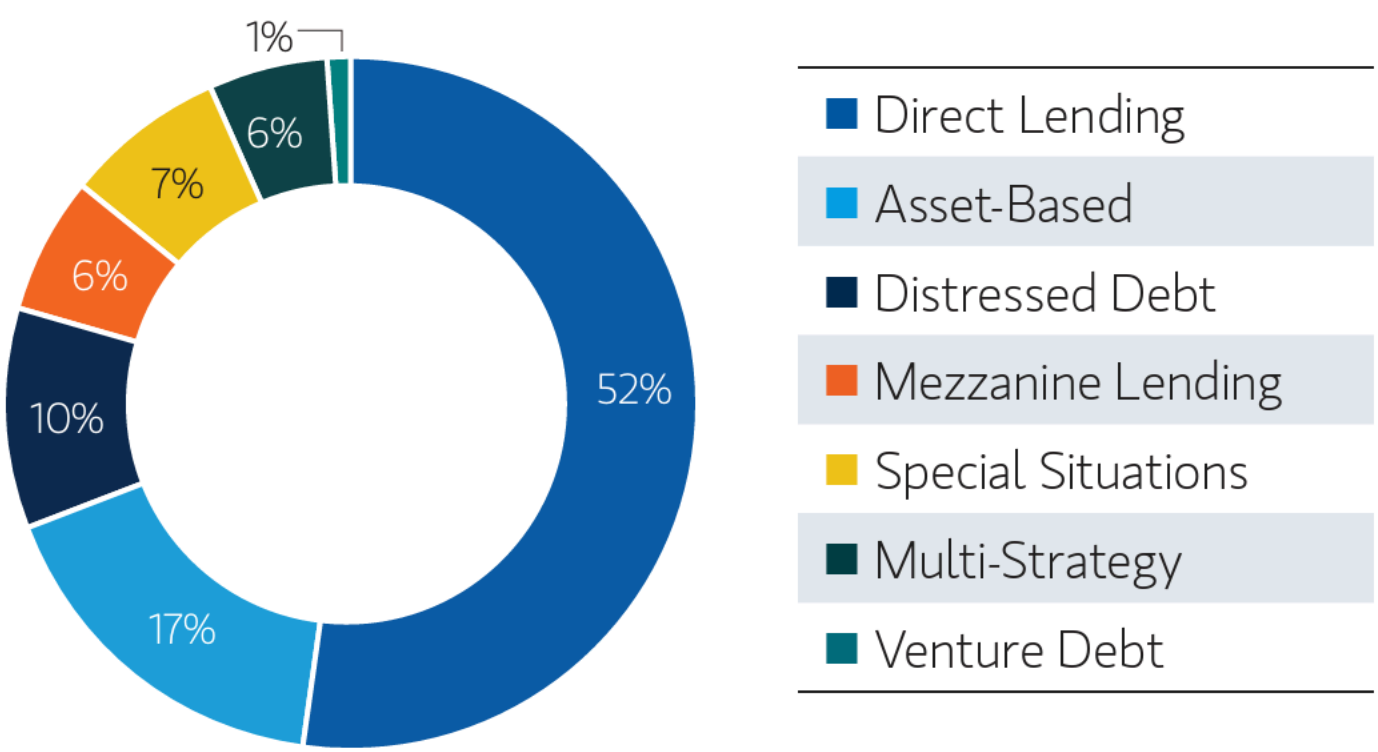
[4] Morgan Stanley Investment Management, The Evolution of Direct Lending, March 2026.

Bank Loans and Direct Lending *(continued)*

Current lenders of private credit include banks, credit unions, and private institutions, such as private equity firms. They may also include non-depository financial institutions (NDFIs) (e.g., mortgage companies, private equity funds, hedge funds, insurers, and BDCs). Direct loans are negotiated between the borrower and the lender and are not publicly traded. According to Morgan Stanley Investment Management (MSIM), direct lending comprised more than half of the total private credit market as of Sept. 30, 2025, up from about 18% in 2010. (Refer to Chart 1.) The increase is due in part to a significant decline in the number of U.S. banks from the mid-1980s through 2025, driven by conservative lending standards and new bank regulations imposed after the GFC.

Chart 1:

SHARE OF GLOBAL PRIVATE CREDIT AUM BY SUB-STRATEGY



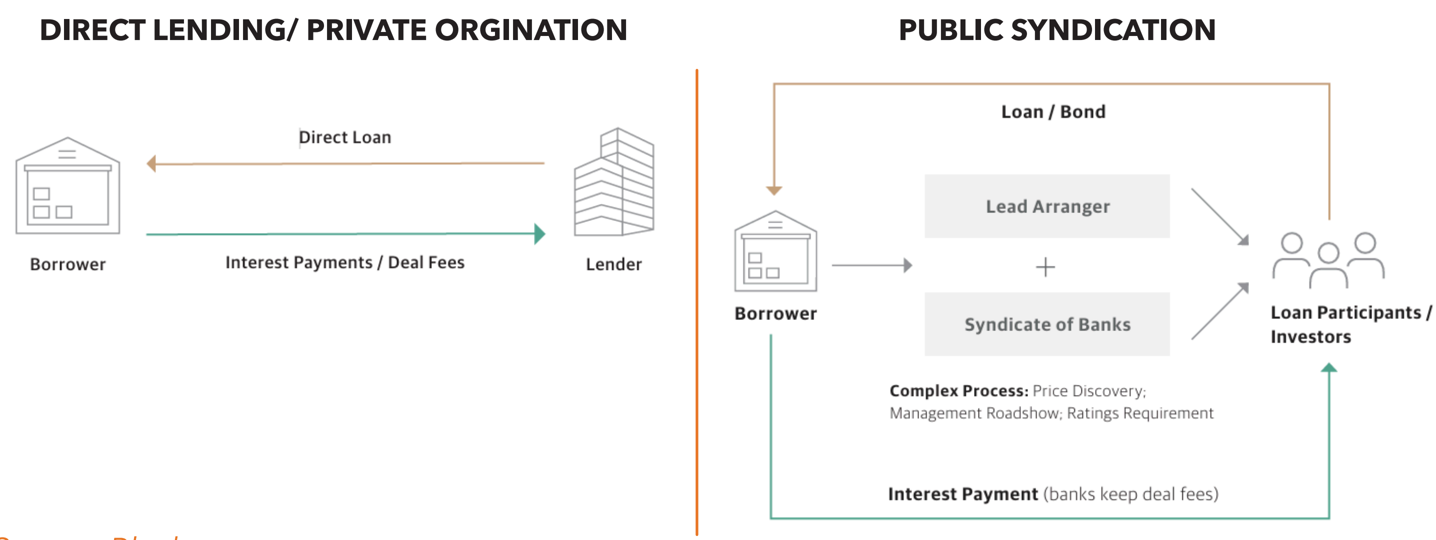
Source: PitchBook, LSEG, Morgan Stanley Investment Management. Gross invested assets inclusive of leverage applied. Excludes uncalled capital in drawdown funds. As of September 30, 2025.

Bank Loans and Direct Lending *(continued)*

Historically, direct lending has posted relatively strong returns compared to fixed income and other asset classes, according to MSIM. In addition, direct loan lenders are compensated with a higher interest rate for the added risk of lending to smaller companies versus larger ones, as well as an "illiquidity premium" for issuing loans that are not tradeable and are instead held to maturity. A few market participants[5] cite that the U.S. direct lending market totaled about $1 trillion by the end of 2025.

There are several factors that differentiate direct lending from traditional bank lending, such as broadly syndicated bank loans. (Refer to Chart 2.) With direct lending, loans are privately originated and negotiated between the lender and borrower and are held until maturity. Whereas traditional bank loans are public and broadly syndicated by a lead bank and/or several banks and are sold to several investors. They may be sold in the secondary market[6] and thus are relatively liquid. The execution timeframe for direct lending is also shorter and more flexible than traditional bank lending, as is the origination and underwriting process, due in part to the "club deal" nature of the loans, in which intermediaries are not involved.

Chart 2:



Source: Blackstone

[5]Ibid. Bank of America Securities, CLO Weekly: Saving Private Credit, March 21, 2026.
[6]Blackstone, Private Credit: Cutting Through the Jargon, February 2022.

Bank Loans and Direct Lending *(continued)*

U.S. insurers' exposure to bank loans (reported in Schedule D, Part 1, Section 1, and Schedule DA) includes those that insurers have acquired as well as those that have been issued by the insurer or an affiliate. Bank loans acquired by insurers may include tranches, or "pieces," of broadly syndicated bank loans, as well as other loan types such as revolvers, term loans, or even loans originated through direct lending by a financial institution (NDFIs). A bank loan issued by the insurer implies direct lending; that is, it is a bilateral agreement between the insurer and the borrower. For the last few years, acquired bank loans accounted for more than 80% of insurers' bank loan investments, with the remainder originated by the insurers or the reporting entity, according to annual statement filings.

Middle Market CLOs

Some market participants have been referring to MM CLOs as "private credit CLOs" as a growing share of middle-market funding has come from private credit. MM CLO tranches are often assigned credit ratings and are publicly traded. The underlying collateral of MM CLOs consists predominantly of senior secured loans to small- and medium-sized companies. Furthermore, active management of the underlying loan portfolio, along with the structural features of MM CLOs (similar to other CLO types), allows CLO managers to trade collateral and mitigate the near-term impact of borrower-level deterioration.[7]

Business Development Companies and Private Credit Funds

BDCs are investment vehicles that typically provide investors with exposure to a diversified pool of private credit assets. They generally engage in direct lending to small- and middle-market companies, as well as developing or financially distressed businesses.

Private credit funds provide non-bank lending, typically through direct lending, mezzanine debt, distressed debt, or other privately negotiated credit strategies. These funds are often structured as private partnerships and are primarily offered by alternative asset managers (such as Blackstone) or institutional investment banks (such as Goldman Sachs).

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[7] Moody's, **Asset quality indicators point to emerging risk in private credit direct lending**, April 28, 2026.

U.S. Insurers' Exposure to Private Credit as of Year-End 2025

Quantifying U.S. insurers' exposure to private credit is challenging because there is no standard definition of private credit, and the market participants, regulatory bodies, and policymakers who refer to it do so from different perspectives and in continually evolving ways. For the purpose of this report, the NAIC identified U.S. insurers' exposure to the aforementioned five categories to encompass insurer exposures to "private credit." Note that the numbers identified as U.S. insurers' exposure to private credit in this report are best estimates based on insurers' current reporting requirements and data availability. Further enhancements to insurers' reporting requirements are expected to improve the NAIC's ability to identify U.S. insurers' private credit exposure.

U.S. insurers have been investing in private credit for decades, having entered the market with direct lending, or bank loans, and private placements. Over the years, they expanded into other types of investments with greater structural complexity, lower transparency, or indirect exposure to underlying borrowers, such as privately rated bonds (i.e., those assigned a private letter rating) and private credit funds. Note that the Schedule D categories are not mutually exclusive, and there is some overlap between them. For example, a private placement bond may have a private letter rating, or a bank loan may be privately placed and privately rated. While private placement bonds are an established form of private credit, those that have been assigned private letter ratings may be viewed as having higher investment risk due in part to their additional lack of transparency and illiquidity.

The U.S. insurance industry's exposure to all private credit was estimated to be $1.2 trillion as of year-end 2025, representing approximately 13% of cash and invested assets and about 21% of total bond holdings. (Refer to Table 1.) This total includes direct lending investments, which generally have simpler structures and more readily identifiable credit risks. However, the NAIC's primary focus is on private credit exposures that may introduce additional risks through greater structural complexity and/or underlying exposure to alternative assets. In particular, the NAIC has identified privately rated bonds, BDCs and private credit funds as areas of focus. These investments can be relatively opaque, making it more challenging to assess underlying borrower credit quality, valuation, liquidity, and overall risk characteristics. As of year-end 2025, U.S. insurers' exposure to these categories totaled $544 billion, representing approximately 6% of cash and invested assets and 9% of total bond holdings. While a relatively modest portion of the industry's overall investment portfolio, these exposures have grown in recent years and warrant close monitoring.

U.S. Insurers' Exposure to Private Credit as of Year-End 2025
(continued)

Table 1:

U.S. INSURERS' PRIVATE CREDIT EXPOSURES – YEAR-END 2025 (BACV$ IN BILLIONS)

Asset Category		Total
Private Placements[1]	$	580
Privately Rated Bonds		512
Bank Loans		44
Middle Market CLOs		42
BDCs/Private Credit Funds		32
Total	**$**	**1,210**
% of Cash & Invested Assets		13%
% of Bonds[2]		21%

[1] Does not include private placements with private letter ratings.
[2] Includes private placements, privately rated securities, bank loans and middle-market CLOs.
Note: Numbers included in the table are best estimates based on insurers' current reporting requirements and data availability.

Private placement bonds were identified in Schedule D based on Committee on Uniform Security Identification Procedures (CUSIP) numbers containing a designated symbol (i.e., @, #, or *). As of year-end 2025, U.S. insurers reported approximately $990 billion in private placement bond exposure. Notably, U.S. insurers, primarily life insurance companies, have a long history of investing in Rule 144A securities and private placement direct lending arrangements, whereby the ability to meet contractual obligations is the primary investment risk. New reporting disclosures were adopted in 2026 to provide greater transparency into the types of private placement securities, including distinctions among Rule 144A securities, private placements (that is, securities under Reg D or the general exemption to the Securities Act), and securities otherwise exempt from registration requirements. These enhanced disclosures will be included in year-end 2026 annual statement filings and are expected to improve the identification and classification of private credit exposures and refine exposure analyses.

U.S. Insurers' Exposure to Private Credit as of Year-End 2025
(continued)

U.S. insurers are required to identify bonds reported in Schedule D that are privately rated and assigned a PLR. Based on year-end 2025 reporting, insurers held approximately $512 billion in privately rated bonds with a PLR. Privately rated bonds issued recently include alternative, non-corporate assets and/or have more complex structures than previously existing private credit transactions. A simplified analysis using text searches for rated feeder funds and CFOs, for example, indicated that a portion of these investments either had CUSIP numbers associated with private placements, were privately rated, or both. While this simplified methodology may not fully capture the industry's total exposure to these structures, it suggests that at least a meaningful share of that exposure is captured within the broader privately rated bond category.

At year-end 2025, U.S. insurers reported a total of $95 billion in bank loan exposure. This includes bank loans acquired as well as those issued by the reporting entity. Within this exposure, about $44 billion was identified as private placements and private credit, excluding any overlap.
U.S. insurers' MM CLO exposure at year-end 2025 was estimated to be about $65 billion, the majority of which were reported on Schedule D, with the remainder (i.e., residual tranches) reported in Schedule BA. Approximately $23 billion of this exposure was privately rated. While the underlying portfolio consists predominantly of loans to mid-sized companies, the debt tranches typically assigned credit ratings by one or more nationally recognized statistical rating organizations (NRSROs) are tradable in a secondary market.

Private and perpetual non-traded BDCs and private credit funds are primarily reported in Schedule BA under the reporting lines for joint ventures, partnerships, or LLCs with underlying assets that have bond characteristics or debt securities that do not qualify as bonds. As of year-end 2025, insurers reported approximately $32 billion of investments in this reporting line.

Features and Performance Trends with Private Credit

PAYMENT IN KIND

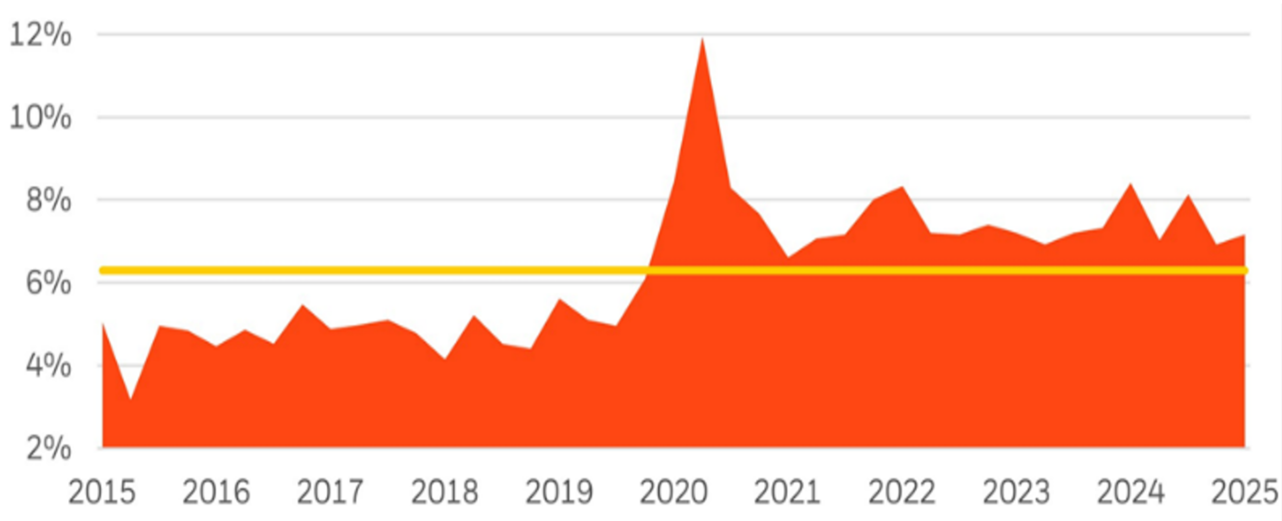
Like other investment types, private credit investments may be structured with certain features that have operational and strategic implications. This includes the ability of borrowers to pay in kind (PIK), whereby interest owed is paid in debt, that is, added to the outstanding principal balance of the credit, rather than being paid in cash when due. While this frees up cash to the borrower and, in turn, provides liquidity relief, it increases outstanding debt over time, with repayment typically deferred until maturity. The lender benefits from receiving a higher interest rate to compensate for the increased risk and riskier leverage. PIK may be used as a strategic tool (for liquidity) or during times of financial stress, depending in part on the terms decided at origination. That is, the PIK feature may be structured at loan origination to support growth or high-cash-need strategies, i.e., often observed in private credit transactions in the technology and health care sectors, or it may be added via an amendment when a company cannot meet its cash interest obligations, signaling financial distress. A “PIK Toggle” feature is a hybrid structure allowing borrowers to switch between cash and in-kind interest payments, often based on performance triggers.

While PIK agreements can offer borrowers financial flexibility by preserving cash to support growth, they can also mask underlying credit deterioration and delay the recognition of losses. Borrowers who have the option to PIK interest can avoid a payment default and potentially defer a credit rating downgrade, even as their financial condition weakens. As a result, an investment’s reported performance may not fully reflect its underlying credit risk, delaying impairment recognition or loss realization. In addition, multiple investments with PIK options within a single insurer’s portfolio could negatively impact asset-liability management by reducing expected cash inflows needed to meet policyholder obligations. In comparison, seasoned loans that are subsequently amended to include a PIK option due to borrower stress provide a more transparent indication of deteriorating credit quality.

The use of PIK options has increased since before the pandemic. (Refer to Chart 3.) The percentage of PIK by private borrowers increased to approximately 7% as of November 2025, according to the Cliffwater Direct Lending Index (CDLI), which tracks the performance of private middle-market corporate loans, and it was higher than the decade average of about 6%.

Chart 3:

PERCENTAGE OF PIKS BY PRIVATE BORROWERS

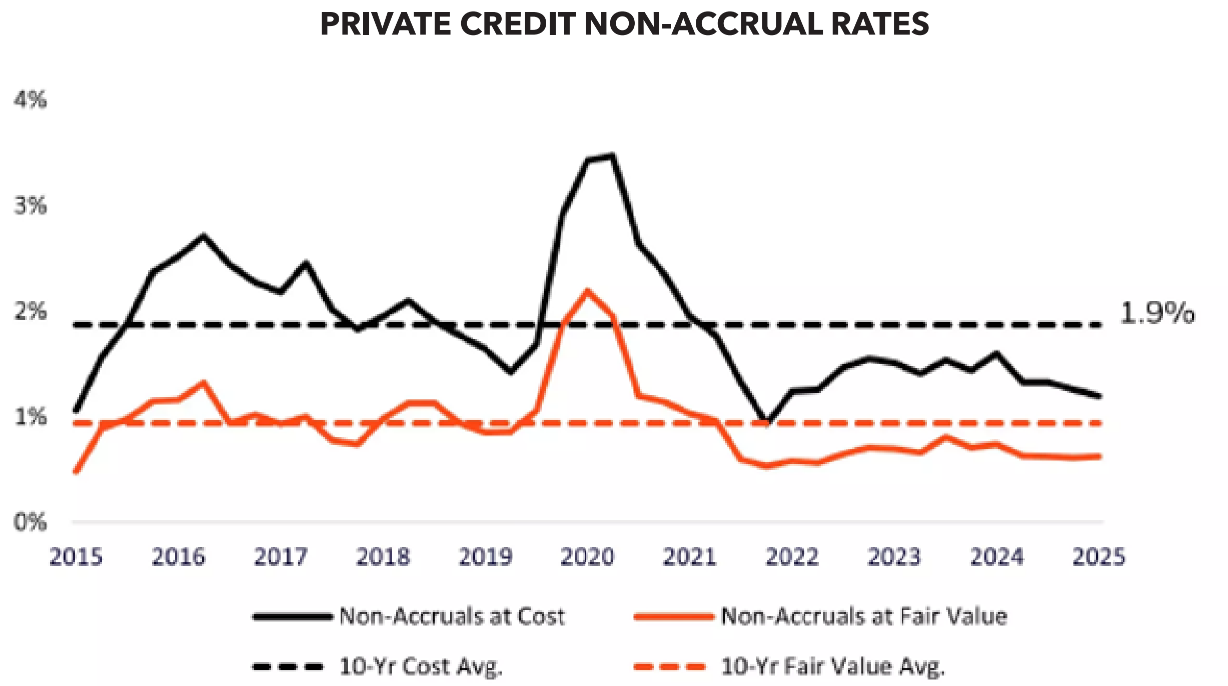


Source: Cliffwater Direct Lending Index, Nov. 1, 2025

NON-ACCRUALS AND DEFAULTS

Non-accruals occur when borrowers stop paying interest or principal, typically for 90 days or more, indicating distress and causing the lender to stop recording interest income. This is not unique to private credit as it occurs across all types of lending. As of the third quarter of 2025, non-accruals for private credit lending were below the 10-year average, measured at both cost and fair value, according to the CDLI. (Refer to Chart 4.)

Chart 4:

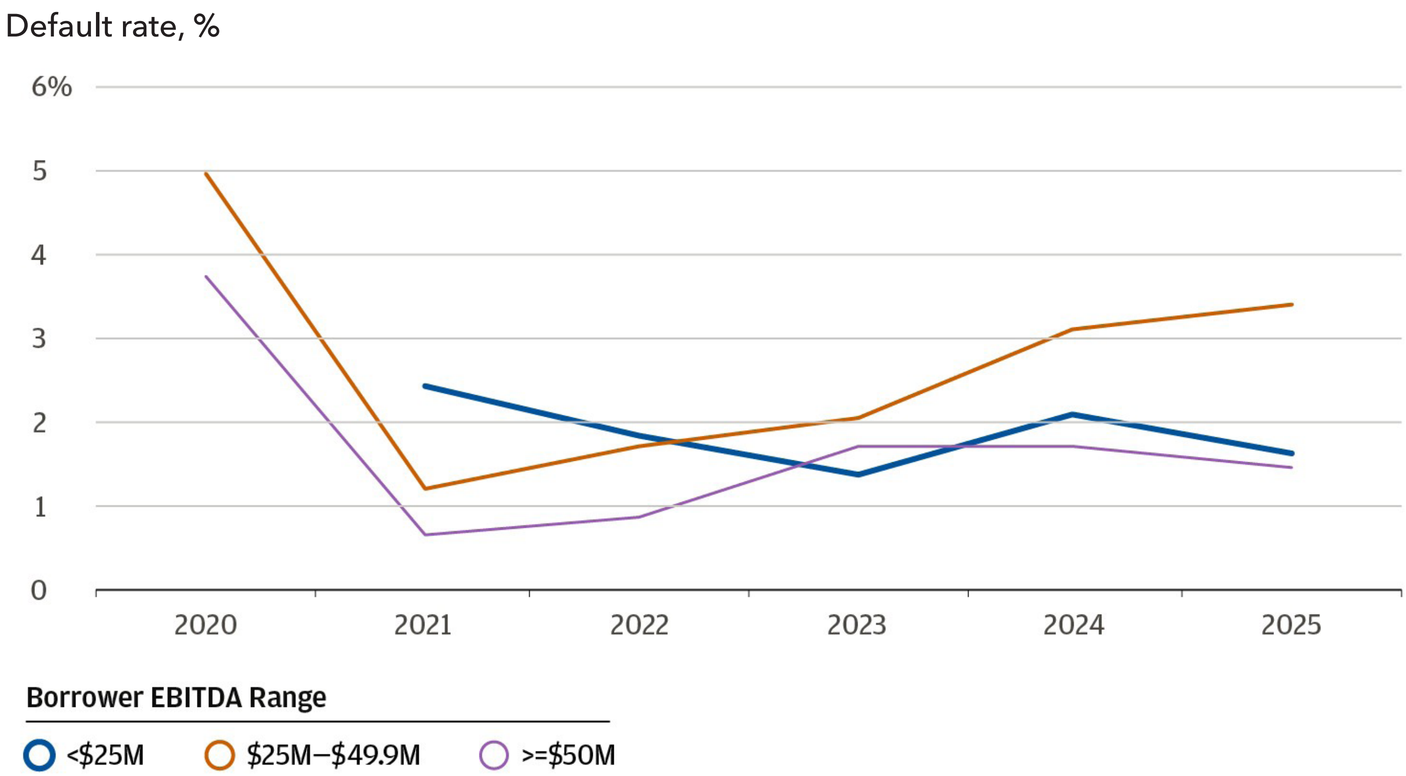


Source: Blackrock

Non-accruals are an indicator of probable near-term defaults. According to J.P. Morgan research, default rates on private credit have been relatively stable over the last few years except for mid-sized companies with earnings before interest, taxes, depreciation, and amortization (EBITDA) in the $25 million to $50 million range. (Refer to Chart 5.) For companies with less than $25 million EBITDA and larger companies with more than $50 million EBITDA, the default rate has been at or below 2%. A large portion of defaults have taken the form of distressed exchanges/PIK, whereby investors take a small principal loss in exchange for receiving new debt, allowing companies to avoid bankruptcy proceedings in the short-term. However, many of these issuers default a second time and ultimately file for bankruptcy. A record 40% of default actions in 2025 were from issuers that had previously experienced a default action.

Chart 5:

PRIVATE CREDIT DEFAULTS TICK UP IN MEDIUM SIZE BUSINESSES



Sources: Proskauer, JPM Global Alternative Investment Solutions. Data as of February 2026. Default rate represents average quarterly default rate.

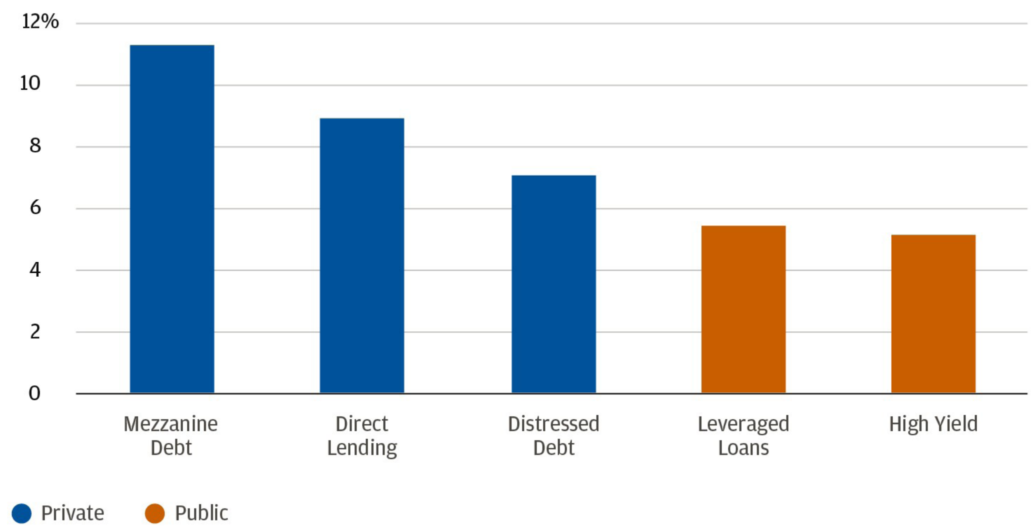
HIGHER RETURNS ON PRIVATE CREDIT

For the last decade or so, investors in private credit have been compensated for the incremental risk they assume relative to other types of debt, according to J.P. Morgan research. (Refer to Chart 6.) That is, because of the risks associated with opacity and illiquidity, private credit returns tend to be higher than most other speculative-grade asset types, such as leveraged loans and high-yield bonds.

Chart 6:

PRIVATE CREDIT INVESTORS HAVE BEEN COMPENSATED FOR INCREMENTAL RISK

Annualized return 2014-2024



Sources:JPMAM Guide to Alternatives, Bloomberg, Cliffwater, Gilberto-Levy, Preqin. Direct Lending: Cliffwater Direct Lending Index; Distressed Debt: Preqin Quarterly Distressed Debt index; Investment Grade: Bloomberg US Aggregate Credit - Corporates - Investment Grade Index; High Yield: Bloomberg US Aggregate Credit - Corporate - High Yield Index; Leveraged loans: JP Morgan Leveraged Loan Index; Mezzanine Debt: Preqin Quarterly Mezzanine Debt Index. Annualized return and volatility represents a 40-quarter period ending 12/31/2024. Data are based on availability as of January 31, 2026.

While below-average non-accruals and stable defaults may indicate favorable credit performance, the private credit market has yet to be tested by a prolonged and fully stressed credit cycle. Much of private credit's recent rapid growth has occurred during a period characterized by abundant liquidity, strong economic conditions, and relatively low default rates. As a result, it remains uncertain how private credit investments with alternative underlying assets and/or more complex structures will perform under a more severe economic and market downturn.

Questions and comments are always welcome.

Please contact the Capital Markets Bureau at **CapitalMarkets@naic.org**.

For media inquiries, please contact **news@naic.org**.