



State Regulatory Oversight of Private Credit and Complex Investments

Private credit and other complex investments are becoming more significant in some insurer portfolios, especially in the life sector. These assets can offer diversification and yield benefits, but they also raise important questions around valuation, transparency, liquidity, and capital treatment. State regulators are continuing to refine their solvency regime to account for this shift and ensure policyholders are protected.

What State Regulators Are Doing Now

Improving transparency in insurer reporting

Beginning with year-end 2026 reporting, insurers will provide more granular financial disclosures on private placements and other complex investments, giving regulators better visibility into insurers' links to private credit markets. Additionally, the NAIC's principles-based bond definition, effective January 1, 2025, requires assets to be classified based on economic substance rather than legal form to prevent assets with equity-like or highly structured risk from receiving inappropriate bond treatment.

Strengthening capital treatment

Regulators have increased the Risk Based Capital (the framework that ties minimum insurer capital requirements to the level of risk in their investments and operations) charge on CLO residual tranches to 45% and continue evaluating capital treatment for other structured credit exposures. We've also undertaken a longer-term, holistic review of our entire risk-based capital system to ensure equal capital for equal risk.

Improving asset adequacy and modeling

The NAIC has strengthened life insurer asset adequacy testing by requiring more rigorous cash-flow modeling and stress testing to ensure assets supporting long-term liabilities remain sufficient under adverse conditions regardless of credit ratings (*See AG 53*). Large life insurers are subject to the NAIC liquidity stress testing framework to identify cashflow concerns under severe stress scenarios. A revised Generator of Economic Scenarios will be used by insurers to project possible future economic scenarios when calculating capital and reserves to better reflect risks and interest rate fluctuations.



Reinsurance and risk transfer oversight

We have strengthened oversight of asset-intensive reinsurance by looking through reinsurance structures to the actual assets backing policyholder obligations. Insurers must test whether those assets can support liabilities under moderately adverse conditions and verify a true economic transfer of risk (*See AG 55*). State regulators also use the qualified and reciprocal jurisdiction framework and other authorities to assess offshore and cross-border reinsurers, including in Bermuda and the Cayman Islands.

Reducing blind reliance on credit ratings

State regulators are developing a credit rating provider due diligence framework to reduce blind reliance on ratings within our regulatory capital processes, particularly if ratings do not reasonably reflect investment risk, thereby posing a threat of insufficient capital to meet insurer obligations. Working in tandem with the broader credit rating provider due diligence framework currently under development, regulators have implemented a process to identify ratings that differ from internal analysis by three or more notches and subject them to additional regulatory scrutiny to decide whether those ratings can be utilized to assign an NAIC designation.

Ongoing portfolio monitoring and supervisory follow up

State insurance regulators conduct ongoing analysis of insurer investment portfolios supported by centralized NAIC analytical resources. The NAIC Capital Markets Bureau and macroprudential monitoring tools track industry-wide trends and identify insurers with elevated concentrations or more complex exposures, supporting lead-state regulator review processes where concentration risk, valuation practices, or structural complexity may warrant. Portfolio-level investment review is one part of a layered solvency framework, complementing entity-level reviews, national coordination, and exams. As part of examinations, regulators evaluate insurer governance, risk management, and internal controls over investment activities, including how investment strategies are developed, monitored, and overseen by senior management and the board. These reviews assess whether insurers have appropriate policies, procedures, and controls commensurate with the complexity and risk of their investment portfolios.