



How State Insurance Regulators are Responding to Growth in CLOs and Private Credit

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- *Insurers are increasing their exposure to private credit and other complex credit markets in search of yield, raising important questions around liquidity, transparency, valuation, and risk management. CLOs provide one visible and measurable example of this broader trend and are one of many asset classes we are looking closely at.*
- *U.S. insurers held \$276.8 billion in CLOs at year-end 2024, up about 2 percent from year-end 2023, representing about 5.1 percent of total bonds and 3.1 percent of total cash and invested assets.*
- *Overall credit quality remained relatively strong, with about 80 percent of insurer CLO holdings rated investment grade or higher, including about 39 percent rated AAA. At the same time, regulators are focused on concentration, complexity, and whether capital treatment keeps pace with evolving structures.*

Background

Over the last decade, life insurers have increasingly moved into alternative and structured assets as they sought higher yields and greater portfolio diversification in a prolonged low-interest rate environment. CLOs are one of the clearest and most measurable examples of that broader trend. At year-end 2024, U.S. insurers held \$276.8 billion in CLOs, and while the annual growth rate slowed to about 2 percent in 2024, total insurer CLO exposure has more than doubled since 2018. CLOs now represent about 5.1 percent of total bonds and 3.1 percent of total cash and invested assets across the industry.

This exposure is concentrated primarily in the life insurance sector and among the largest insurers. Life insurers held 82 percent of all insurer CLO investments at year-end 2024, and insurers with more than \$10 billion in assets accounted for 82 percent of total exposure. At the same time, the overall credit profile of insurer CLO holdings has remained relatively strong, with about 80 percent rated investment grade or higher, including 39 percent rated AAA. These figures help explain why regulators are not treating CLOs or private credit as inherently inappropriate for insurance portfolios. The focus instead is on whether transparency, valuation, capital treatment, and supervisory tools are keeping pace with increasingly complex structures and growing concentrations.

More broadly, CLO exposure represents one of many asset classes regulators are examining closely and are a concrete lens into the same issues raised by recent private credit headlines: complexity, opacity, affiliated asset manager arrangements, and the need to ensure that insurer solvency oversight remains aligned with actual investment risk. State insurance regulators, through the NAIC, have responded by strengthening reporting, refining capital treatment, enhancing asset adequacy testing, and increasing scrutiny of offshore asset intensive reinsurance and credit ratings used for regulatory purposes.

Key Takeaways

- State insurance regulators are not waiting for a problem to emerge. The NAIC Capital Markets Bureau and state regulators actively monitor insurer exposure to private credit, CLOs, and other complex investments at both the industry and company level.
- Regulators have already strengthened the solvency framework, including the principles-based bond definition, annual CLO stress testing, a 45 percent RBC charge on CLO residual tranches, stronger asset adequacy testing under AG 53, and enhanced oversight of offshore asset-intensive reinsurance through AG 55.
- Even with growth in structured investments, most insurer CLO holdings remain investment grade, which reinforces that the regulatory question is less about the existence of these assets and more about ensuring that capital, disclosure, and supervision properly reflect the underlying risk.



What the NAIC Is Doing Now

Improving Transparency in Insurer Reporting

Beginning with 2026 reporting, insurers must provide more granular disclosures on private placements and other similar complex investments. The enhanced disclosures include classification as private investments, the fair value, Level 2 and Level 3 exposure (fair-value measurement categories under accounting standards that describe how observable the pricing inputs are), payment in kind interest, and private letter rating information.

Strengthening bond classification and capital treatment

NAIC's principles-based bond definition, effective January 1, 2025, requires assets to be classified based on economic substance rather than legal form. This is intended to prevent assets with equity-like or highly structured risk from receiving inappropriate bond treatment. Regulators have also increased the RBC charge on CLO residual tranches to 45 percent and continue to evaluate capital treatment for other asset-backed security exposures.

Enhancing portfolio monitoring and supervisory follow up

The NAIC Capital Markets Bureau and macroprudential monitoring tools are used to track industry-wide trends and identify firms with elevated concentrations or more complex exposures. Regulators use this analysis not only to monitor the market broadly, but also to support lead state engagement with individual companies where concentrations, valuation practices, or structural complexity warrant closer review.

Improving asset adequacy and reinsurance oversight

NAIC strengthened asset adequacy testing under AG 53 to increase scrutiny of the assumptions insurers use in cash flow testing to support long-duration liabilities. NAIC also adopted AG 55 to address the growth of asset-intensive annuity reinsurance by requiring additional disclosures and testing under moderately adverse conditions. In addition, state regulators also use the qualified and reciprocal jurisdiction framework and other authorities to assess the supervisory regime, collateral standards, and reliability of offshore and cross-border reinsurers, including offshore jurisdictions such as Bermuda and the Cayman Islands. The objective is not to block legitimate reinsurance, but to ensure reserve credit, collateral treatment, and group-wide oversight keep pace with market growth and complexity.

Reducing blind reliance on credit ratings

NAIC is developing a due diligence framework for credit rating providers and has adopted a discretion process to challenge ratings for regulatory use when they do not reasonably reflect investment risk. These reforms are intended to better align regulatory capital treatment with actual risk in increasingly complex investments.

Bottom Line:

State insurance regulators are already updating disclosure, capital, portfolio monitoring, reinsurance, and ratings oversight tools to respond to the risks highlighted by private credit and other complex investments.