

**INVESTMENT FRAMEWORK
RECOMMENDED WORK PLAN FOR THE FINANCIAL CONDITION (E) COMMITTEE**

During the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed a draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review* (Investment Framework or Framework). On Oct. 25, 2023, the Committee received 17 comment letters on the exposed Framework and, during the 2023 Fall National Meeting, received oral summaries of the written comments. Subsequent to that meeting, the Committee formed a drafting group, which, among other things, developed this work plan to guide the implementation of the Investment Framework.

NOTE: This work plan is intended to be a working document. Additional action plans may be added, and current action plans may evolve as more information becomes available. The drafting group will provide updates to the Committee, including the work plan, on a regular basis.

Core Principles

- (1) The goal of the Framework is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. It does not have an objective of reaching technical conclusions on ongoing initiatives.
- (2) The primary objective of the Framework and all supporting initiatives is to ensure state insurance regulators have appropriate tools to ensure the solvency of insurers. While other impacts will be assessed in the design and implementation of current and future initiatives, they will be secondary to ensuring insurer solvency.
- (3) Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and produce iterative feedback to inform future progress toward its objectives. As is always the case, workstreams and the Framework are subject to future refinement based on this iterative process of incorporating new information.
- (4) Initiatives are, and will continue to be, regulator-driven. Any enhancements to centralized resources are for the benefit of regulators, and regulators will retain the authority over how to use such resources.
- (5) This work plan commits to being fully transparent, with multiple checkpoints for deliberation with interested parties.
- (6) The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be “outsourced” to CRPs or the regulators.

Action Item #1

The drafting group will propose updates to the exposed Framework to the Committee as deemed appropriate. The Committee will re-expose the Framework for comment and further discussion at the next NAIC national meeting or an interim or virtual meeting as deemed appropriate. The Committee will engage in public discussion. Avoiding any perception of the drafting group not being all-inclusive is emphasized.

The updates to the Framework may be somewhat minimal at the beginning of the process. The drafting group anticipates the ultimate Framework will be the ongoing foundation of principles for investment oversight and less of an “action plan” as it exists today.

Action Item #2

The Committee will request approval from the NAIC Executive (EX) Committee to develop a request for proposal (RFP) to hire an independent consultant to provide recommendations for a due diligence framework for CRPs.

- If approved, the drafting group will work in concert with the NAIC Securities Valuation Office (SVO) to create a robust RFP proposal with consultant independence as a priority. We note that the selection of a consultant needs to consider potential conflicts with CRPs or industry.
- The consultant would deliver a comprehensive recommendation/request for the Committee to consider.
- The Committee would expose this communication for industry comment, including encouraging CRPs to comment.

Action Item #3

Consistent with the commitment not to pause or delay any of the current workstreams, the Committee will ensure implementation of the Framework in parallel and without interference with the work that the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group are developing related to the Framework. This work being completed by these groups (workstreams) is directionally consistent with the Framework. Therefore, the Committee will continue to defer to the workstreams as they progress toward and reach outcomes. Further, the workstreams must not slow their progress in waiting for the Framework's finalization. For example, the Valuation of Securities (E) Task Force is deliberating potential changes to regulator discretion over CRP ratings. The Framework's consideration of a due diligence framework over CRPs must not alter or impede any changes being considered or adopted by the Valuation of Securities (E) Task Force to CRP ratings.

Action Item #4

The Committee or the drafting group will begin an assessment of a conceptual centralized investment expertise (CIE). This term purposely differs from references to NAIC investment staff currently used, such as the Investment Analysis Office (IAO), Structured Securities Group (SSG), and SVO. While we expect much overlap between those existing organizations and this conceptual organization, we want to be deliberate when referring to a conceptual outcome.

Following are examples of initial discussion points (regulator- and comment letter-driven, but not exhaustive):

- Conducting a survey of all states, asking what output they would like from a CIE to assist in individual insurer examination/assessment. For instance, how could current portfolio reviews be improved?
- Investment risks that should be incorporated into a CIE. The current SVO is predominantly focused on credit risk in terms of a designation assessment for Schedule D investments.
- The enhancement of macroprudential and prospective risk capabilities.
- The ideal structure of a CIE, focusing on overarching holistic regulatory policy advisory staffing supported by strong capabilities in credit assessment, portfolio/market risk, asset adequacy, and macroprudential risk assessment.
- The enhancement of structured asset modeling capabilities to support due diligence, validation, and stress testing.
- Tools and resources (beyond personnel) that should be considered.
- The establishment of standards for validating tools and processes, including periodic assessments, model governance, etc.

Discussions should include open dialogue with interested parties.

An external consultant resource can be considered to add additional independent expertise.

This will and should be a longer-term initiative to ensure robust dialogue and value-added changes. However, regulators should consider phased implementation to have more timely results and manage costs.

Action Item #5

The drafting group will recommend appointing an investment-focused working group to support the Committee, the Financial Analysis (E) Working Group, the Valuation Analysis (E) Working Group, and other working groups.

- Define potential charges for this working group, which will help identify the appropriate time for formation. For example, charges may include support for initiatives not slated until 2025 or later.

Action Item #6

The drafting group will develop and implement best practices for enhanced coordination between the Committee's workstreams. Such efforts to harmonize efforts may involve regular reporting to the Committee and/or this new investment-focused working group, identification of dependencies and impacts between projects, and fostering improved communication between workstreams. These types of best practices can be informed by the work on the collateralized loan obligation (CLO)-related projects in process within the Valuation of Securities (E) Task Force and Risk-Based Capital Investment Risk and Evaluation (E) Working Group, including current efforts to highlight the coordination between the two during progress updates.

Action Item #7

The work plan does not include action items related to risk-based capital (RBC) recommendations at this time, but it will continue to review appropriate incorporation into the final Framework and whether an action item should be included in the work plan in a future iteration.