FINANCIAL CONDITION (E) COMMITTEE

Draft: 8/20/24

Financial Condition (E) Committee
Chicago, Illinois
August 15, 2024

The Financial Condition (E) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway (CO); Doug Ommen and Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt (KS); Kevin P. Beagan represented by John Turchi (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman represented by John Sirovetz (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel and Tom Botsko (OH); Elizabeth Kelleher Dwyer and John Tudino (RI); and Scott A. White and Doug Stolte (VA).

1. Adopted its Aug. 2, June 12, and Spring National Meeting Minutes

The Committee met Aug. 2, June 12, and March 15. During its Aug. 2 meeting, the Committee adopted risk-based capital (RBC) proposal 2024-20-CR-MOD. During its June 12 meeting, the Committee discussed and exposed RBC proposal 2024-20-CR and discussed RBC proposal 2023-17-23.

The Committee also met July 15 with representatives of the Federal Insurance Office in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Kasinow, to adopt the Committee's Aug. 2 (Attachment One), June 12 (Attachment Two), and March 15 (*see NAIC Proceedings – Spring 2024, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded Committee members that after the Committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2024 Summer National Meeting as part of the Financial Condition (E) Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately.

With respect to the task force and working group reports, Commissioner Houdek asked the Committee: 1) whether there are any items that should be discussed further and 2) whether there are other issues not up for adoption that are currently being considered by task forces or workings groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met Aug. 12, July 10, June 26, June 6, June 3, May 8, and May 7 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met Aug. 12, May 10, and April 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies. The Group Solvency Issues (E) Working Group met July 15 and March 20 in regulator-to regulator session, pursuant to paragraph 8 (strategic planning issues related to international regulatory matters) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Eft, that with the exception of the proposed Securities Valuation Office (SVO) discretion policy adopted by the Valuation of Securities (E) Task Force, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; National Treatment and Coordination (E) Working Group (Attachment Three); and Risk-Focused Surveillance (E) Working Group (Attachment Four). Commissioner Houdek noted that the proposed SVO discretion policy would be considered by the Committee during a meeting subsequent to the Summer National Meeting. The motion passed unanimously.

3. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group heard an update from the American Academy of Actuaries (Academy) on its work toward developing a methodology for addressing collateralized loan obligations (CLOs). He noted that the Working Group had previously asked the Academy for support in creating an RBC framework for asset-backed securities (ABS). In connection with that, the Academy presented a list of six principles that would guide their work, and the Working Group supports these principles. The Academy is now working to identify a set of comparable attributes that can be used to segregate CLOs into risk buckets. Botsko noted that the Academy would likely identify different sets of comparable attributes for debt tranches versus residual tranches, and the Academy expects to present its findings in early 2025 on the CLOs. Subsequent to that, the Working Group is expected to make decisions on comparable attributes for the CLOs, and then ultimately, the Academy will develop factors and extend from CLOs to other ABS. Botsko noted that there was a slight delay in this timeline from the original estimates due to some data issues, and this is the reason the initial work by the Academy won't be ready by year-end as originally estimated.

4. Received an Update from the Valuation of Securities (E) Task Force

Mears reported that since the Spring National Meeting, the Valuation of Securities (E) Task Force adopted a host of administrative updates and finalized a definition of an NAIC designation. Regarding the proposed SVO discretion proposal, the Task Force adopted it after a multitude of exposure drafts, comments, and engagement with interested parties. Mears thanked all the commenters and all who were engaged in the process. Mears noted that hearing all the concerns and enhancements allowed the Task Force to incorporate many suggestions. Mears stated that the proposed SVO discretion proposal was unanimously adopted by the Task Force at this national meeting. Mears also reported that the Task Force heard an update on the CLO modeling process and how that was being aligned with the work from the Academy in terms of actual methodology and modeling procedures. She noted that the Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group would likely continue to hear updates that demonstrate the two workstreams are aligned on CLO work. Commissioner Houdek stated appreciation to Mears and the Task Force and all engaged parties for the work in finalizing the SVO discretion proposal.

5. Exposed a Draft RFP for Assistance with the Due Diligence Process of Rating Agencies

Commissioner Houdek reminded the Committee that at the Spring National Meeting, he highlighted a memorandum that he presented to the Executive (EX) Committee. The memorandum requested approval to start working on a request for proposal (RFP) to hire a consultant who would assist in developing a strong due diligence framework in its retention and ongoing utilization of credit rating providers. He stated that included in the materials was a draft RFP, and the Committee would like to provide all interested parties the opportunity to offer input and feedback. He directed meeting participants to the cover memo of the draft RFP, which asks a number of questions in order to receive specific input that will help make the product better. Commissioner Houdek suggested the Committee expose the RFP and cover memo (Attachment Five) for a 60-day comment period ending Oct. 14. The Committee agreed.

6. <u>Exposed a Revised Investment Framework and Related Documents</u>

Commissioner Houdek said that included in the materials was a memorandum summarizing the Investment Framework Drafting Group's responses to the comments received on the prior exposure of the investment framework. Also included was a revised investment framework and revised investment framework work plan. Finally, a chart was also included that summarizes ongoing work related to the investment framework.

Mears noted that most of the updates to the documents were minor and included, for example, simply updating the documents to remove the factors that led to the creation of the framework and replacing them with some of the principles that have been discussed in prior drafts. Therefore, the language is not new, but the updates ensure those points are reflected in the investment framework. She noted that the investment framework is not yet in its final form but is closer, and what is more relevant now is the investment framework work plan, which has been updated to include the status of the draft RFP. Mears also noted that originally the work plan included little on RBC and still does not include a great deal, but the language has been updated to be more current, and future recommendations will be included.

Mears noted that the Committee welcomes comments in line with the open and deliberative process, and it is open to several comment periods. She also noted that part of the process is for the Committee to continue to receive updates from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Valuation of Securities (E) Task Force.

The Committee agreed to expose the revised investment framework documents (Attachment Six) for a 60-day public comment period ending Oct. 14.

7. <u>Heard a Federal Update from NAIC Staff on Basel III</u>

Shana Oppenheim (NAIC) provided an update on the federal activities related to Basel III. She noted that the recent Basel III endgame proposal has significant implications for the insurance industry. U.S. federal banking regulators, including the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve, issued a proposed rule in July 2023 to revise large bank capital requirements. This proposal targets banks with $100 billion or more in assets and signals a shift away from tailored regulations, applying a consistent set of requirements across the board. For insurance, the impact is profound. Banks will be required to hold more capital for owning life insurance policies from non-publicly traded insurers, severely impacting the bank-owned life insurance (BOLI) market. This change threatens banks' ability to provide vital employee benefits. Additionally, the increased costs associated with hedging will require life insurers to tie up more capital in the futures and derivatives markets. These changes could restrict life insurers' ability to manage risk effectively and may result in less innovative products for consumers.

Capitol Hill has raised several concerns about the proposal, particularly its lack of economic analysis, transparency, and the potential for U.S. institutions to be disadvantaged compared to their European counterparts. The proposal, based on an agreement among U.S. and global regulators, was never submitted to the U.S. Senate or formally approved by the OCC, FDIC, and Federal Reserve. This lack of transparency has led to bipartisan concerns and numerous hearings. In March 2024, Federal Reserve Chair Jerome Powell informed Congress that "broad and material changes" to the proposal were forthcoming. Further, Republicans on both the Senate Banking and House Financial Services committees have called for a full re-proposal, arguing that significant changes without a new comment period would violate the Administrative Procedure Act (APA). Powell has expressed openness to this idea, prioritizing accuracy over speed. The process is further complicated by the requirement that all three banking agencies must agree on the proposal. The FDIC's leadership is in flux, with Chair Martin J. Gruenberg announcing his resignation once the Senate confirms his successor. As Nov. 5 approaches, the Senate Banking Committee's delayed vote on President Biden's nominee, Christy Romero, adds uncertainty to the FDIC's future leadership. Looking ahead, if Republicans regain the White House, this proposal will be scrapped entirely. If Democrats retain the White House, finalization on a scaled-back proposal is expected in early 2025, with implementation easing in at the beginning of 2026.

8. <u>Heard a Presentation from BlackRock on Commercial Mortgages</u>

Dan Harnick (BlackRock) stated his appreciation for partnering with the NAIC Structured Securities Group (SSG) for the past 10 years and supporting the annual RBC assessment of commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) securities. FMA is Blackrock's institutional advisory group, which works with a unique set of clients across a range of customized capital markets, advisory capital markets, and risk advisory-related services. FMA is subject to long-standing information barriers to segregate projects.

Harnick and Alex Symes (BlackRock) provided a presentation (Attachment Seven) on BlackRock's views of the commercial mortgage market. He noted that in summary of where the market sits, there are three main points. One, the capital markets have been dislocated, which is influencing the valuations of real estate. Two, looking at the fundamentals for the property market, last year's trends are relatively consistent with this year's and are likely going to stay consistent over the next year. Three, in the office market, he said there is a lot more color and interesting things happening.

Symes noted that in terms of the overall economy, inflation has decelerated but remains elevated. Looking at goods and services, the service component remains positive, and goods inflation has turned negative. Inflation in the services sector remains relatively sticky. Services include residential housing. Employment and economic growth have been moving along at a steady pace. It has been 52 months since the last recession, which is a pretty lengthy period, but the economy has not returned to pre-COVID-19 trends.

Symes noted the main four property types are office, industrial, apartments, and retail, and for all four, rent is being paid. For office, anyone trying to reduce their office space size has to wait until their lease ends, so BlackRock is expecting office growth return on investment to continue to decelerate and turn negative, but it is going to be a slow burn. Increased supply is coming, which is slowing down rent growth. However, after what is currently under construction gets delivered, there is nothing behind it. Developers cannot get financing, at least at the current valuation, which is driven by interest rates. The economy went from a low-interest-rate environment to a high-interest-rate environment, which is having a drastic effect on the overall values of real estate.

Symes said that transaction volume has declined quite a bit. He used the example of buying an apartment property for $100 million dollars in 2021. A buyer would receive 75% loan-to-value (LTV) financing on top of that amount, resulting in $75 million in debt. Moving forward to the present day, the loan would be due, and the values have shifted down, while the net operating income (NOI) has moved up; however, because of where the capital market sits, the valuation has to shift as well and is now at $91 million. If the loan were to be refinanced with a 75% LTV loan, the loan would be much lower. As a result, there is a gap between equity and what could be obtained in lending in a finance deal, and this needs to be filled somehow. He continued, saying it becomes a bigger problem if the lender is not willing to give a 75% LTV loan because many lenders want to keep the debt service coverage ratio (DSCR) between income and interest constant, which means instead of a 75% LTV ratio, it would go down to a 40% LTV ratio. He said there are a few ways to fill that, such as a mezzanine loan or extending the loan.

Symes continued, saying that transaction volume has declined quite a bit because landlords and buyers have not been able to come to terms with where the value is. Last year at this time, there were a lot of green shoots in the in the transaction market. People were getting excited post-Labor Day, and a lot of properties went on the market. Then, the Treasury moved to 5%, and once that happened, everything got pulled, and transaction volume that would have closed in January and February basically disappeared. This forced transaction volume to fall to the lowest level since the Great Financial Crisis (GFC). In terms of total returns for apartments and industrial, the valuation of these properties is the same as it would have been in 2014. Meanwhile, retail is back to 2013 evaluation levels, and office is back to 2010 or earlier levels.

Harnick discussed the makeup of the non-agency CMBS universe both in terms of issuance and outstanding volumes, with a focus on conduit loans (secured by a mortgage) and single-asset, single-borrower (SASB) transactions. Conduit was the dominant non-agency CMBS product. Issuance hit an all-time high of right around $200 billion running up to the start of the GFC. During the crisis, securitization markets essentially came to a halt, and non-agency CMBS issuance plummeted before increasing to about $50 billion annually as the market rebounded and, once again, became comfortable with securitization. Then, COVID-19 shocked the market, and since then, issuance levels have been fairly muted in the conduit space. SASB deals came into the picture following the GFC, as investors looked for trophy assets with simpler structures than conduit deals. The SASB market has also been utilized heavily by the larger alternative asset managers, in particular, Blackstone, which now makes up about 40% of the outstanding non-agency CMBS universe. More recently, issuance in both products dropped dramatically in 2023. Following more rate volatility, the market has gotten comfortable with the higher-for-longer paradigm, and issuance in both products has picked up this year and is likely on track to reach near 2021 volumes.

Harnick said that historically, retail and office were the largest property types in the conduit space, followed by multifamily with lodging and industrial rounding out the balance. In the mid-2010s, the first big shift was seen in property type concentrations, as retail decreased due to concerns about the future of malls. There was continued fallout from the GFC, including large-scale store closures and bankruptcies. More recently, during the peak of COVID-19, lodging volumes initially declined but rebounded as business and leisure travel resumed. Most notably, in recent years, office exposure has drastically fallen, as the world adjusts to a new post-pandemic normal. This is seen most acutely in the SASB space where office exposure has now fallen to low single digits. Offices had been 40% of the market over the past 40 years, and now over the last three years, office has decreased to 20% of the market.

Harnick said that DSCRs dropped from a high of 2.8 times in 2021 to 1.8 times more recently. However, the ratios are still above the low that was seen during the peak of pre-GFC issuance, which gives borrowers a buffer and protection from defaulting in the event of cash flow disruptions. There is also better underwriting in the form of higher debt yields. Regarding the uncertainty of the future of office space, delinquency levels are expected to increase over the next few quarters but should stay well short of the level seen during the GFC, assuming the economy continues to perform at its current level.

Going into the COVID-19 pandemic, Harnick said that delinquencies in all issuances were quite low for both conduit and SASB, but then, as COVID-19 hit and everything went into lockdown, delinquency on lodging and retail immediately shot up, as cash flows on these properties took a hit because they were essentially closed. Once retailers reopened and travel resumed, the performance of many of these assets quickly recovered, and the delinquency rate started the trend back down for those asset types. Industrial and multifamily continue to perform quite well, but there has been a slight uptick in multifamily delinquencies in some markets recently, as the current rate environment in the oversupply is impacting asset values and refinancing. The good news is that all sectors are still well below the peak level of the GFC.

Harnick continued, saying that lodging and retail have seen some decline in payoffs over the past few years, as some portion of those assets continue to struggle from COVID-19. However, the real standout is office where payoff rates have dropped over the past year, as these assets have struggled to refinance due to poor performance and the unwillingness of lenders to extend credit. This low payoff rate has pushed delinquencies up, and the rise in office severities is likely driven by the fact that at least some portions of the office liquidations are the result of functional obsolescence rather than solely poor performance or being over-levered.

Harnick asked what this all means for projected losses on post-GFC vantages, as BlackRock is concerned about this. First, largely because of deteriorating underwriting standards during the four years pre-GFC, as well as inflated valuations leading up to the GFC, the later vintages would experience greater price decline with less de-leveraging than earlier vintages. Considering how losses on post-GFC vantages will stack up, with current delinquency levels still lower than peak-GFC, more conservative underwriting, the lack of a broader session, and generally lower severity, losses on post-GFC vintages will be toward the lower end, with the exception of office. Losses in office are likely to be more in line with the 2005 vintage experience and, in more pessimistic scenarios, could approach levels seen in 2006 and 2007 vintages, which were above 10%.

Harnick pointed to a historical context, as well as a benchmark, for future potential loss levels on the last slide of the slide deck. Within each of these vintages, three bars represent the average deal losses for that vintage in dark blue, with the 75th percentile loss deal loss in gray, and the 90th percentile loss in lighter blue. Looking within the 2005 vintage, the average cumulative deal loss was 6.7%, and the 90th percentile loss was quite a bit higher at 10.8%.

Along the Y axis, Harnick said that there is deal cumulative loss percent, but there are also red horizontal lines that correspond to the average or indicative levels of credit enhancement in post-GFC deals for senior triple-A through original triple-B-minus tranches. This attempts to capture which tranches of post-GFC deals are at risk of taking a loss if they were subjected to the various ranges of losses. Looking back at the 2005 vintage, the triple-B-minus class of post-GFC deals would not be expected to take a loss if losses came in close to the average of that vintage. However, the 90th percentile loss experience would result in some losses to the triple-B-minus class of new vintages but would not be enough to reach the single-A-minus class.

Harnick noted that post-GFC deals also benefit from higher levels of credit enhancement for a given rating as compared to pre-GFC issuance, with credit enhancement generally three to five points higher now compared to where it was pre-GFC, e.g., the triple-B minus-class in pre-GFC deals used to attach at around 3.8%, whereas now, it is generally closer to 7 to 7.5%, providing some additional credit and protection for investors of those classes. He said that BlackRock generally believes that, on average, losses in post-GFC vantages will look much more like 2004, 2005, 2006, and 2007 vintages, and as such, it generally expects extremely limited losses in the single-A and up portion of the capital stack. In fact, losses even in the triple-B-minus space, should be fairly muted given the levels of credit enhancement in these deals. However, there will be some individual deals with particularly bad assets that may end up looking more like the 2006 and 2007 vintages, and there could be some losses in the single-A and potentially up to the double-A level, but on average, again, he said to expect losses to be quite a bit lower than that. Harnick concluded, saying that despite the headwinds currently facing the CMBS market, BlackRock believes that the overall level of losses should be reasonable and manageable, especially from an investment-grade standpoint.

Commissioner Schmidt asked if BlackRock has noticed a larger average default on large real estate. Symes responded no because, with larger deals, servicers are more willing to collaborate with the borrowers to produce a better outcome. Generally, with smaller assets, it is not worth the special servicer's time, effort, and money to work through those assets, so those are the ones that see more liquidations.

Commissioner Houdek asked if BlackRock has noticed any difference in geographic location in terms of risk due to states and cities having different policies on return to work versus remote work. Harnick responded not really, but that is a function of not just the demand but also the supply. He said developers got excited about areas with higher demand, and so that is where they are seeing greater amounts of supply.

Having no further business, the Financial Condition (E) Committee adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/081524 E Minutes.docx

Draft: 8/8/24

Financial Condition (E) Committee
Virtual Meeting
August 2, 2024

The Financial Condition (E) Committee met Aug. 2, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair (TX); Michael Conway represented by Carol Matthews (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan and Christopher Joyce (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White represented by Dan Bumpus (VA).

1. Heard Comments Received on Proposal 2024-20 CR

Commissioner Houdek noted that the meeting was a follow-up to the Committee's June 12 meeting, during which the Committee discussed risk-based capital (RBC) proposal 2023-17-CR but did not adopt the proposal. Instead, the Committee received a different RBC proposal (2024-20-CR) and exposed it for comment until the end of July. Houdek stated that during this meeting, the Committee would consider comments received on proposal 2024-20-CR, including those from the Mississippi Insurance Department (Attachment One-A) and the Joint Property/Casualty (P/C) Trades (Attachment One-B), which represent a modified RBC proposal (2024-20-CR MOD).

A. Mississippi Insurance Department

Browning stated that Mississippi developed its comments prior to receiving responses from the Joint P/C Trades and NAIC staff to questions from Committee members, but Mississippi's concerns still exist. From a small state perspective, the impact on the domestic industry, since they have mostly small to medium-sized domestic insurers, the cost impact is a concern.

B. Joint P/C Trades

Steve Broadie (American Property Casualty Insurance Association—APCIA), speaking on behalf of the Joint P/C Trades, which includes the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA), summarized their comments on the exposure. Specifically, he stated the Joint P/C Trades appreciate the work that has gone into this project from state insurance regulators, NAIC staff, and industry. He stated their comments represent a modified proposal from their previous proposal (2024-20-CR) and the original NAIC proposal (2023-17-CR). The Joint P/C Trades modified proposal would continue to have climate-conditioned catalogs for 2040 and 2025, but those are only an option for companies to consider. Companies could also choose from a frequency-adjusted approach by increasing the frequency by 50% in one run and 10% in another run. He reiterated his appreciation to all for the extra work getting their proposal into its final order. Colleen Scheele (NAMIC) thanked everyone for working with Joint P/C Trades on this proposal.

C. South Carolina

Director Wise noted that he submitted a letter (Attachment One-C) to Committee members after the comment deadline, so it did not have a chance to make it in the materials. However, he wanted to summarize its highlights. He noted that it is always appropriate to review why regulation is being created before adoption since there are costs to new regulation. He stated that while some of the costs are minimized in the industry's modified proposal, there are still costs and potential impacts on the cost of capital. He stated that as an actuary, he might be sensitive to the use of data but noted that if everyone is not submitting the same thing and using the same methodology, then it is not an apples-to-apples approach. This is especially true when combined with the fact that we do not know what the future holds and that this proposed disclosure is being used for something it was not intended for. He noted the things not being accounted for in the proposed disclosure, including the short-term nature of the policy, changes in reinsurance, and the fact that the disclosure relies on non-insurance models. Finally, he noted that the proposal utilizes RBC and questioned if that was the appropriate tool given its stated purpose, which is to facilitate conversations with insurers regarding underwriting and business strategy.

Birny Birnbaum (Center for Economic Justice—CEJ) suggested that reliance on short-term forecasts is misguided, noting the results of insurers and the increase in prices and property insurance. He noted that insurers have failed to prepare for climate change despite the fact that the NAIC started working on that project in the early 2000s. He stated it makes no sense given we know climate change will dramatically affect the risks insurers face and disagreed with the perspective offered by South Carolina.

2. Adopted Proposal 2024-20-CR-MOD

Bumpus made a motion, seconded by Director Dwyer, to adopt the modified Joint P/C Trades proposal 2024-20-CR-MOD (Attachment-D). The motion passed, with South Carolina voting no.

Having no further business, the Financial Condition (E) Committee adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/Attachment 1A-080224 E Minutes.docx

MISSISSIPPI INSURANCE DEPARTMENT

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Commissioner of Insurance
State Fire Marshal

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July 1, 2024

Mr. Dan Daveline
Director, Financial Regulatory Services
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Financial Condition (E) Committee - Proposal 2024-20-CR Joint Trades Proposal

Dear Dan,

The Mississippi Insurance Department supports proposal 2024-20-CR as submitted by the joint trades. This proposal requires industry to generate test scenarios utilizing a 50% increased frequency of major hurricanes and a 50% increased frequency of wildfire events which regulators can then compare with the company's current RCAT filing. This will provide valuable data for the regulator and require only minimum resources by the insurer as the impact can be modeled using the same CAT model utilized to develop its RCAT charge. By generating this data it will allow regulators to identify insurers that may have a greater degree of climate risk for these two perils.

We believe this proposal to be a more measured and efficient use of industry resources while still providing regulators with data needed to evaluate climate related CAT exposure for these two perils. In addition, it would be beneficial to have a cost/time analysis to further evaluate the two proposals.

We appreciate the opportunity to comment on this proposal, and appreciate the work of the E Committee.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

MC

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force	☐ Health RBC (E) Working Group	☐ Life RBC (E) Working Group
☒ Catastrophe Risk (E) Subgroup	☐ P/C RBC (E) Working Group	☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup	☐ Economic Scenarios (E/A) Subgroup	☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 5/28/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Steve Broadie**	Agenda Item # 2024-20-CR Year 2024
TELEPHONE:	**847-736-8258**	**DISPOSITION**
EMAIL ADDRESS:	**steve.broadie@apci.org**	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
ON BEHALF OF:	**APCIA, NAMIC , and RAA (“the Associations”)**	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
NAME:	**Steve Broadie**	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
TITLE:	**Vice Present, Financial & Counsel**	**OTHER:** ☐ DEFERRED TO ______
AFFILIATION:	**American Property Casualty Insurance Assoc**	☐ REFERRED TO OTHER NAIC GROUP
ADDRESS:		☐ (SPECIFY) ______

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks	☒ Property/Casualty RBC Blanks	☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions	☒ Property/Casualty RBC Instructions	☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula	☐ Property/Casualty RBC Formula	☐ Life and Fraternal RBC Formula
☐ OTHER ______		

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a replacement for the climate risk scenario analysis proposal adopted by the Capital Adequacy (E) Task Force, the Associations propose that insurers required to calculate the RCAT charge perform catastrophe model runs on their current books of business with:

- a 50% increased frequency of major hurricanes (Category 3 and higher, but for wind losses only), and
- a 50% increased frequency of all wildfire events.

These frequency adjustments are selected to fall within the reasonable distribution of hurricane and wildfire impacts suggested by climate modeling research for SSP2-4.5 by mid-century (~2°C by 2041-2060). Domestic regulators can then compare the 1/50-, 1/100-, 1/250-, and 1/500-year probable maximum losses generated from the model runs with those currently reported in the insurer’s RCAT filing and hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils.

Additional Staff Comments:

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE
PR027B2, PR027C2

These disclosures are intended to collect the impact of a major increase in the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge. The impact should be estimated using the following specific instructions:

- The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and greater, but only for wind losses) and a 50% increase for all wildfire events.
- Assume a static book of business at year end (no changes to book of business, to reinsurance strategy or to total insured value (TIV) inflation).
- The impact can be modeled using the same CAT model used to develop the insurer's RCAT charge.

The same basic information is required to be completed for this PR027B2 and PR027C2 as the previous pages PR027B and PR027C, including specifically as follows:

<u>Column 1 – Direct and Assumed Modeled Losses</u>
These are the direct and assumed modeled losses per the first footnote, Include losses only: no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P; i.e., losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

<u>Column 2 – Net Modeled Losses</u>
These are the net modeled losses per the footnote. Include losses only: no loss adjustment expenses.

<u>Column 3 – Ceded Amounts Recoverable</u>
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

CALCULATION OF CATASTROPHE RISK CHARGE FOR HURRICANE PR027B

	Hurricane	Reference	Modeled Losses (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1)	Worst Year in 50	Company Records				
(2)	Worst Year in 100	Company Records				
(3)	Worst Year in 250	Company Records				
(4)	Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled hurricane losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Hurricane Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Hurricane Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Hurricane Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Hurricane Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(7) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Hurricane Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, CoreLogic, RMS, KCC, the ARA HurLoss Model, or the Florida Public Model for hurricane; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C
(For Informational Purposes Only)

	Wildfire	Reference	Modeled Losses (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1)	Worst Year in 50	Company Records				
(2)	Worst Year in 100	Company Records				
(3)	Worst Year in 250	Company Records				
(4)	Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Wildfire Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Wildfire Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Wildfire Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Wildfire Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Wildfire Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Disclosure in lieu of model-based reporting:

		(8) Direct and Assumed	(9) Net
(11)	For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:		
	a. Provide the company's gross and net 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.		

b. Provide details on how the company estimated the amounts shown in 11a.

c. Provide a narrative disclosure about how the company manages its wildfire risk.

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, or KCC, or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

			50% Frequency Increase for Major Hurricanes	
		(1)	(2)	3†
Hurricane	Reference	Direct and Assumed	Net	Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. Modeling assumptions should be the same as those used in the RCAT charge, but climate impact is constrained to wind frequency only - no adjustments should be made for other subperils. The impact should be modeled using a 50% frequency increase for major hurricanes (Category 3 and greater).

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

PR027B2

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

			50% Increase for Wildfire Events	
	Wildfire	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. The impact should be modeled using a 50% increase for all wildfire events.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

PR027C2

South Carolina
Department of Insurance
Capitol Center
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Mailing Address:
P.O. Box 100105, Columbia, S.C. 29202-3105
Telephone: (803) 737-6160

HENRY McMASTER
Governor

MICHAEL B. WISE
Director

July 30, 2024

To: Members of the Financial Condition (E) Committee

RE: Climate Scenario Analysis - RCAT Change Proposal

Dear Members of the Committee:

I am writing to express my lingering unease regarding the Climate Scenario Analysis (CSA) proposal as currently presented. While I certainly appreciate the effort put into this initiative and recognize that the potential effect of climate change on the insurance industry is an important topic, I feel this proposal is not the direction in which we should move. In this letter, I have attempted to outline my most significant concerns in a concise manner.

The exact benefits of the CSA proposal are unclear for a project that stands to impose direct costs on the industry of perhaps $25,000 to $100,000 per company/group as well as opportunity costs and potential additional staffing expenditures. This would be disproportionately burdensome for small- to medium-sized insurers and be indirectly funded by consumers, and the costs may not stop with compiling the required data. Once collected, the ways in which the data are utilized could ultimately impact the cost of capital to a significant degree, resulting in decreased availability and affordability of property insurance coverage for consumers with hurricane and wildfire exposure.

The current CSA proposal allows for multiple approaches, meaning that comparisons and aggregation will be difficult and may even be inappropriate. Despite a stated intention not to aggregate the collected data, there is a risk that aggregated results may be misunderstood or inappropriately applied. Furthermore, the proposal does not account for changes in policy-level exposure characteristics, reinsurance strategies, underwriting, and other important factors, and it completely omits the perils of severe convective storms and flooding.

As evidenced by the creation of the new Third-Party Data and Models (H) Task Force, there are broad regulatory concerns centered around the development of models as well as the use of their output, especially so for models not tailored for insurance purposes. Although a detailed technical discussion is beyond the scope of this letter, I am concerned about model overfit (i.e., error arising when a model is too closely aligned to a limited set of data and therefore of questionable value for predictive purposes) based on the National Oceanic and Atmospheric Administration’s description of RCP 4.5.

I also question whether Risk-Based Capital, a solvency tool tied to specific company and regulatory responses, is the proper vehicle for analyzing potential impacts from climate change on the insurance industry. The stated purpose of the proposal is to facilitate conversations with insurers regarding their "underwriting, business and reinsurance strategy with respect to climate change," not determine solvency. Even if it were, the data sought would not provide an adequate picture of solvency given differences in books of business, underwriting criteria, deductible options, portfolio changes over time, etc. Additionally, the timeframe involved does not make sense for property insurance, a line of business with a relatively short tail. An insurer's solvency over the next three to five years seems unlikely to be affected by projections for 20 to 30 years from now.

In conclusion, I have considerable concerns with fundamental elements of the CSA proposal and am unsure of its value to members of the NAIC as well as our stakeholders. As always, I greatly appreciate your time and the ability to have an open dialogue on matters such as this.

Best,

Michael Wise

Michael Wise
Director
South Carolina Department of Insurance

MBW/dss

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Plenary ☒ Financial Condition (E) Committee

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**5/28/2024**
CONTACT PERSON:	**Steve Broadie**
TELEPHONE:	**847-736-8258**
EMAIL ADDRESS:	**steve.broadie@apci.org**
ON BEHALF OF:	**American Property Casualty Insurance Assoc**
NAME:	**Steve Broadie**
TITLE:	**Vice Present, Financial & Counsel**
AFFILIATION:	**American Property Casualty Insurance Assoc**
ADDRESS:	

FOR NAIC USE ONLY

Agenda Item # 2023-17-CR MOD
Year 2024

DISPOSITION

ADOPTED:
☐ Plenary
☑ Financial Condition (E) Aug. 2, 2024
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☒ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The Solvency Workstream of the Climate & Resiliency (EX) Task Force was tasked with considering the development of climate scenario analysis. The workstream held three public panels on the topic in 2022 and in 2023 learned that commercial CAT modelers have products known as “Climate Conditioned Catalogs” that reflect adjusted frequency and severity for certain time horizons (e.g. 2040 or 2050) that if compared side by side with existing RBC data in PR027 would provide an estimate of climate change for hurricane and wildfire. The information is intended to be useful for domestic regulators holding conversations with insurers that may have a greater degree of risk levels for these perils.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027C, PR027, PR027B2, PR027C2, PR027B3, PR027C3
AND PR027INT

Detail Eliminated to Conserve

DISCLOSURE OF CLIMATE IMPACT ON CATASTROPHE EXPOSURE
PR027B2, PR027B3, PR027C2, PR027C3

These disclosures aim at collecting the impact of climate related risks on the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. These disclosures will be effective for YE 2024, YE 2025 and YE 2026 reporting. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge.

An insurer may elect to provide its response as either time-based or frequency-based, with the insurer responding to yes-no questions to indicate which approach is taken along with additional corresponding questions (if any). The impact should be estimated using the following specific instructions:

- For any approach used, the insurer must assume a static in-force book for business at year end (no changes to book of business, to reinsurance strategy, or to total insured value (TIV) inflation over the projected time horizon).
- For a time-based approach:
  - Representative Concentration Pathway (RCP) represents a set of projections that are meant to serve as an input for climate modeling, pattern scaling and atmospheric chemistry modeling. For purposes of these instructions, companies should utilize an RCP of 4.5 (or equivalent SSP).
  - The impact should be assessed separately under two-time horizons 2040 and 2050.
  - The impact can be modeled using either a Climate Conditioned Catalog developed by a commercial CAT model vendor or equivalent view of climate risk internally developed by the insurer or that is the result of adjustments made by the insurer to vendor provided catalogs to represent the own view of climate risk.
  - The two interrogatories PR027B2 for 2040 and 2050 should be populated for hurricane and the two interrogatories PR027C2 for 2040 and 2050 should populated for wildfire.
- For a frequency-based approach:
  - The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and higher, but only for wind losses) and all wildfire events, and a 10% increase in frequency for major hurricanes and all wildfire events.
  - The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge
  - The modeling assumptions should be the same as those used in the RCAT charge. For the hurricane peril, the adjustments should be constrained to wind frequency only—no adjustments should be made for other sub perils.
  - The two interrogatories PR027B3 10% and 50% should be populated for hurricane and the two interrogatories PR027C3 10% and 50% should populated for wildfire.

The same basic information is required to be completed for these PR027B2 and PR027C2 and PR027B3 and PR027C3 as the previous pages PR027B and PR027C, including specifically as follows:

Column (1) – Direct and Assumed Modeled Losses
These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

Column (2) – Net Modeled Losses
These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

Column (3) - Ceded Amounts Recoverable
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

For a time-based approach, in addition, the insurer should provide the following information about the view of climate risk used to determine the climate conditioned modeled losses under each time horizon:

- If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog.
- If it is internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers, provide a brief description of assumptions/adjustments made including the sources of climate science research used

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

	Hurricane	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE   PR027B2
(For Informational Purposes Only)

	Hurricane	Reference	Climate Impact on Modeled Losses - 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

	Hurricane	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

((6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

	Hurricane	Reference	Climate Impact on Modeled Losses - 50% Frequency Adjustment		
			(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

	Wildfire	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

View of climate impact used:

	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

			Climate Impact on Modeled Losses - 2050		
	Wildfire	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

	Wildfire	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	 (2) Net	 3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

	Wildfire	Reference	Climate Impact on Modeled Losses - 50% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

Draft: 7/1/24

Financial Condition (E) Committee
Virtual Meeting
June 12, 2024

The Financial Condition (E) Committee met June 12, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair, represented by Will Davis (SC); Cassie Brown, Co-Vice Chair, and Jamie Walker (TX); Michael Conway (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White (VA). Also participating was Kathleen Birrane (MD).

1. Discussed a Proposed Change to RBC in 2023-17-CR—Climate Scenario Analysis

Commissioner Houdek stated that the purpose of the meeting is to consider a proposed change to risk-based capital (RBC) in proposal CR 2023-17-CR, as adopted by the Capital Adequacy (E) Task Force, and also consider an alternative proposal from the joint property/casualty (P/C) trade groups. Commissioner Houdek requested Commissioner Birrane, chair of the Solvency Workstream of the Climate and Resiliency (EX) Task Force, which developed the initial proposal adopted by the Capital Adequacy (E) Task Force, to provide background on the proposal.

Commissioner Birrane noted that the development of the RBC proposal has been part of a strategic initiative of the NAIC for the past three years, and work on the topic began in 2022. During that time, the Workstream held three public panels over the course of a year, which included, among other things, a thorough set of presentations from different international insurance regulators about how each of them viewed climate scenario analysis. The requirements from each of these nation-states have varied greatly, ranging from detailed and burdensome, such as the Bank of England's requirements, to more practical approaches using existing regulatory tools, such as Bermuda's requirements.

Based on the information presented, the Workstream received further education from NAIC staff on the topic, as they attempted to find a solution that met the Workstream members' suggested proposal characteristics. Distinct options were presented to the Workstream, and at the end of 2023, the Workstream exposed a directive to NAIC staff, which guided them to develop a proposal that would be presented to the Catastrophe Risk (E) Subgroup. The industry was invited to comment on the approach proposed, and it expressed concerns. As a result, the Workstream members requested the industry develop an alternative approach. Commissioner Birrane noted that regulators did adjust their proposal to address some of the industry's concerns. However, regulators are concerned that the industry proposal is a single stress test as opposed to a climate scenario analysis. Commissioner Birrane closed by noting that while the proposal was initiated by the Solvency Workstream, it has received large support from regulators within various RBC working groups that report to the Capital Adequacy (E) Task Force.

Commissioner Houdek thanked Commissioner Birrane for her leadership and hard work, and he also thanked the regulators involved for their work, which was demanding.

Elizabetta Russo (NAIC) summarized CR 2023-17-CR. Russo noted that it amends the catastrophe risk section of the RBC instructions and interrogatories. The purpose of the proposal is to collect information on how modeled losses (probable maximum losses—PMLs) for hurricanes and wildfires could change under a climate scenario of a moderate increase in greenhouse gas emissions trajectory (so-called RCP 4.5 or Equivalent SSP2) in 2040 and 2050 for the current book of business. This data collection is intended to be information only and not to revise the calculation of the catastrophe risk charge in the RBC formula. The proposal has been developed by the NAIC under the direction of the Solvency Workstream of the Climate and Resiliency (EX) Task Force after a comprehensive, two-year due diligence process. The proposal has a sunset clause of three years, after which regulators will decide whether to continue the collection of climate-conditioned PMLs via the RBC filing.

The proposal provides valuable data for regulators to engage with their domestic P/C insurers and discuss what climate risk means for their businesses. Climate-conditioned PMLs can then be compared to baseline PMLs that are currently disclosed for these perils in the annual RBC filing and to current policyholder surplus, hence aiding an effective discussion on how climate risk may impact business strategy, underwriting strategy, and reinsurance strategy. The climate conditioned PMLs are nothing new to the many insurers that are already obtaining these numbers from catastrophe (CAT) model vendors or reinsurance brokers. Russo noted that NAIC staff believe the calculation of climate-conditioned PMLs provide value to those insurers, especially the small regional writers with geographical concentration that may not have yet to begin to consider the impact of climate risk on their book of business and probably should. As part of the due diligence process, the NAIC and the sponsoring regulators of this proposal have engaged with climate scientists, insurers, CAT model vendors, reinsurers, and reinsurance brokers, as well as foreign insurance regulators that have developed their own guidance on climate scenarios. The driver behind this extensive engagement is to deliver a proposal that is methodologically sound, comprehensive, fit for regulatory purposes, and offers flexibility to insurers so they can present their own view of climate risk and control the costs of this exercise.

Shaveta Gupta (NAIC) explained how the costs could be controlled. Gupta noted that under CR 2023-17-CR, RBC filers can use climate-conditioned catalogs developed by their commercial CAT model vendors/brokers that have produced baseline PMLs, or they can translate the climate scenario into their own adjustment by starting with regional landfall frequency and its relevant impact to event footprint backed by the divergent views of climate science. Gupta noted that the trade groups will present their proposal, which represents one extreme stress test consisting of a 50% adjustment to limit the cost of the exercise for insurers and on the grounds of the limited capability of commercial CAT models and reinsurance brokers. The NAIC proposal CR 2023-17-CR does not want to pick one stress test/one adjustment. Gupta noted this choice belongs to the insurer, as well as how much money they are willing to invest in developing their own view of climate risk based on the value they give to this exercise.

Gupta said that from a capability point of view, NAIC staff have spoken to all the commercial CAT model vendors and to the main reinsurance brokers. The CAT model vendors told NAIC staff that their models for hurricanes and wildfires have climate-conditioned catalogs for future time horizons. In addition, the reinsurance brokers told the NAIC that they stand ready to assist insurers in articulating their own view of climate risk at a minimum cost to the insurer. Most of the cost is incurred by the broker, who can either license the catalog from the CAT model vendor and run the scenario for the clients, or the broker can collaborate with the client to articulate the client's view of risk. The insurer can also work with academia and other external and in-house climate specialists to produce their own view of climate risk. Gupta noted that NAIC staff reviewed many climate disclosure surveys and saw all these routes followed by insurers in quantifying the impact of climate change risk. However, NAIC staff have not seen the single "extreme" stress test of 50% used, which is being proposed by the trade groups. Because of the diversity of the U.S. market, insurers should be allowed to choose a different "realistic" view of how the regional impact of hurricanes and wildfires will be influenced by climate scenarios.

Director French indicated appreciation for the work that has gone into this before being presented to the Committee and the information already provided on the call. Director French stated that she had questions, particularly about the impact on smaller companies. She said that while she has received an explanation on this impact, she still has concerns and expressed a desire to keep the discussion going. She said she recognizes the need to do something, but noted she was not ready to say what that is and is interested in other thoughts about the value of continuing the discussion a little bit longer. Commissioner Chaney stated agreement with Director French.

Commissioner Brown stated appreciation for the summary, as well as conversations over the past few days, and highlighted the point made by NAIC staff, which is that the NAIC proposal does not focus on a single view of risk for the entire market but rather makes sure that insurers are considering climate risks for their particular book of business, and the goal is for regulators to better understand this point. Commissioner Brown asked if that was an accurate statement. Russo responded that she was spot on.

Commissioner Conway said he believes the Committee is working toward a June 30 deadline in order to get this up and running by year-end 2024. He asked if continuing the conversation would effectively delay implementation for a year. Dan Daveline (NAIC) said that it would delay implementation, and depending upon how long the conversation continued, it would likely push the effective date back to year-end 2025 due to deadlines from the annual statement software vendors. Commissioner Conway noted that they have carriers that are definitely building climate risk into their rates, which means that the Committee should consider the other side of that equation. He also noted that he was hesitant to wait another year to get this up and running, but maybe that conversation can occur after the Committee hears the industry's presentation.

2. <u>Exposed RBC Proposal 2024-20-CR—Climate Stress Test</u>

Steve Broadie (American Property Casualty Insurance Association—APCIA), spoke to the Committee on behalf of the joint P/C trade groups, which also include the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA). He stated appreciation for the Committee, NAIC staff, Commissioner Birrane, and the work completed so far, and he noted that it is unusual for the Committee to discuss an RBC proposal. In December 2023, he said the trade groups were surprised when the proposal was released, and they have been working diligently since then to address Commissioner Birrane's request to produce an alternative proposal. Broadie noted the description of 2023-17-CR states that the NAIC proposal, if compared side by side with existing RBC data, would provide an estimate of climate change for hurricanes and wildfires, and the information is intended to be used by domestic regulators during conversations with insurers that may have a greater degree of risk levels for these perils.

Broadie noted they have discussed this proposal with companies and CAT modelers, and they said this process would not produce meaningful data for conversations with insurers that have a higher degree of risk levels. It may be useful for other purposes but not for those conversations. He continued by saying that if option one of the proposal is used, it would be at a significant cost, both financially and by limiting staff resources that could be used in more productive climate risk assessments.

As a result, the trade groups developed an alternative that they believe will accomplish these goals more efficiently and at a significantly lower cost than the NAIC proposal. Under their proposal, insurers will run existing CAT models with a frequency increase of 50%, which approximates the effect of a two-degree centigrade increase in earth temperature over the 2040 and 2060 time periods. The PMLs produced by this run have the one in 50, 100, 250, and 500, scenarios, and are compared with the same PML data under the current RBC formula. Under the industry proposal, data could also be aggregated, but more importantly, regulators and companies could see the results of a large but plausible scenario. This would produce more comparable results between companies and would be far less expensive in both money and staff resources. He noted that they are not seeking to delay adoption for 2024 reporting and suggested that, if the Committee is open to this proposal, it be exposed for the next two weeks and then the Committee could take immediate action afterward.

Cate Paolino (NAMIC) noted that some of the problematic aspects of option one in the NAIC proposal are carried forward to option two in the NAIC proposal, such as the time horizon of 2040 and 2050 and the one-in-1,000-year requirement. She stated appreciation to the Committee for considering the relative utility of the two proposals, including cost-benefit, the improvement of dialogue, and making it useable for smaller insurers. Paul Martin (RAA) stated RAA's agreement with the APCIA and NAMIC and appreciated the Committee's time to hear industry concerns. Commissioner Chaney asked Broadie if any companies have run the climate stress test. Broadie was not sure but noted that it would not be difficult to do, as one of the APCIA member companies indicated it could be done in an afternoon.

Birny Birnbaum (Center for Economic Justice) stated his support for the NAIC proposal and noted the industry proposal was flawed for several reasons. First, it does not provide any basis for communication or discussion with the regulator. It is simply the application of a multiplier, and therefore, there is nothing in the proposal that forms the basis for a discussion of the company's climate risk with regulators, which defeats the very purpose of the exercise. Second, it will clearly result in a delay beyond this year. Third, it diminishes the importance of a climate risk scenario approach. He believes that it conveys the message of not wanting to put the time and resources into the proposal, which he believes is ridiculous. Birnbaum said that the industry has been fighting climate risk disclosure since 2003 when the NAIC first started its work on climate and until President Joe Biden was elected. He said this proposal continues the industry's reluctance to embrace the actual analysis of climate risk and respond accordingly. Birnbaum said the NAIC's failure to take action on this today will be fodder for more federal involvement in insurance regulation.

Commissioner White said that a recurring question is how flexible a company's approach can be. The proposal summarized by NAIC staff allows companies to use their own view of risk or the view of their CAT model vendors or reinsurance brokers. He asked for clarification on the flexibility allowed in the proposal summarized by NAIC staff. Gupta noted that the 50% adjustment in the industry proposal is something that could be used by a company under the NAIC proposal because it means that the company could choose the RCP 4.5 as their view of risk if they want.

Director French said she believes the specific flexibility noted in the NAIC proposal is not a practical option for smaller companies because it is still resource-intensive. She asked to hear from the industry on this point. Gupta noted that per industry comments earlier, that option can be run in an afternoon. Director French also asked for the industry to comment on the cost because she is hearing estimates of $50,000, which is not a meaningful cost for larger companies, but it would be for smaller- and medium-sized companies.

Paolino noted that even if the financial resources of the climate-conditioned catalog were not necessary, they still would require expertise to translate the model, which not all companies have at their disposal. Broadie noted that the industry proposal could be run in an afternoon, and he apologized if he misunderstood that the NAIC proposal could also run the same option in the same amount of time. He said he would be happy to discuss this with NAIC staff in the interim. Broadie reiterated that the industry is not seeking to delay this proposal past the 2024 adoption. The industry was given reason to believe that a brief exposure of their proposal, such as two weeks, would be workable if the Committee decided to have an immediate vote after an exposure.

Commissioner Conway agreed with Director French's concerns about being cognizant of cost and not requiring something unduly burdensome. He stated he did not think it was unduly burdensome if it is within the $50,000 range and, in particular, if the industry's approach can be utilized by a company under the NAIC's proposal. He asked for clarification if this could be done in two weeks. Daveline responded yes. He said the Committee often considers more controversial RBC proposals in early July, and historically, the Committee has adopted those proposals and sends a message to the Annual Statement software vendors that an RBC proposal has broad support, even though it's not officially adopted until adopted by the Plenary.

Commissioner Birrane suggested that whatever action the Committee takes, it would be helpful to have specific quantification, fiscal impact, and examples. There have been suggestions that this could cost $50,000 for a small company, but that is a vague statement. She asked the joint trades to provide concrete cost examples that Commissioners could rely on to present to companies.

Jeff Czajkowski (NAIC) noted that using the climate-condition catalogs would likely be the costliest option, but that is not definite because it depends on the relationship between the insurer and the model vendor. Based upon the conversations the NAIC has had with reinsurance brokers, the most flexible option is using a reinsurance broker because it has developed its own view of risk already, and implementing it would be a minimal cost, whether the companies are large, medium, or small. Birnbaum noted that if the foundation for option two can be the industry methodology, it is completely illogical to expect any insurer using the methodology would face exponentially higher costs than the industry has presented for its option. He also noted the most important application of this climate risk scenario is for small- and medium-sized companies, as they are not the most well-capitalized companies that one should worry about. He noted the companies that desperately need to be considered are in Louisiana and Florida, as well as some of the smaller mutuals in Iowa. He suggested considering these proposals as you would the cost of accounting or the cost of filing annual statements, as risk management should be a building block for what these companies do.

Commissioner Houdek said the Committee has three options. The first option is to adopt the climate scenario analysis before the Committee. The second option is to expose the industry proposal for a brief period, such as two weeks. The third option, which was suggested by Director French, is to delay the vote, allowing everyone more time to understand the issue and gather information.

Cross made a motion, seconded by Davis, to expose the industry proposal and adopt the additional time with a delay until year-end to understand the cost implications on the industry.

Commissioner Beard said she was supportive of a delay, and while a lot of work has gone into both proposals, she wants to make sure she understands everything; therefore, she was supportive of the proposal.

Commissioner Conway stated he was not in support of a delay until the end of the year. He noted he would be supportive of option one to adopt the proposal before the Committee, as these conversations have been occurring since January, and there does not seem to be an excessive cost imposed on the industry. He said that if the Committee needs to decide how to make the NAIC proposal clear so that it encompasses the joint P/C trade groups' proposal, that makes sense and can be done between now and the Summer National Meeting. Commissioner Conway also noted that he was fine with exposing the joint P/C trade groups' proposal but not delaying until the end of the year and reiterated that insurance companies today are already building these risks into their rates; therefore, it does not make sense that the Committee would not also look at also understanding the impact on solvency.

Commissioner Houdek asked the Committee if it could have a slightly longer delay than two weeks to gather more information for questions that were raised by Committee members, but it would not need to be delayed until the end of the year. He suggested the end of July. Commissioner Houdek asked Cross if she would be willing to modify her motion to the end of July. Cross verified she would modify her motion to expose the industry proposal for a 48 day public comment period ending July 30.

Davis noted that he had heard several people suggest that another year of delay is not a good idea. He said he understood that a lot of work has gone into the proposal and asked if someone could provide a concise response on why the delay would be such a great harm.

Commissioner Chaney stated that giving the industry proposal more exposure time made sense to him.

Davis modified his second to indicate that he supported a motion to expose the industry proposal for a 48 day public comment period ending July 30.

Commissioner Houdek stated the exposure time would also include soliciting questions from Committee members and providing those responses to Committee members before the end of the exposure period.

The motion passed unanimously.

Having no further business, the Financial Condition (E) Committee adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/061224 E Minutes.docx

Draft: 8/5/24

National Treatment and Coordination (E) Working Group
Virtual Meeting
July 24, 2024

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met July 24, 2024. The following Working Group members participated: Debbie Doggett and Kelly Hopper, Co-Chairs (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); William Mitchell and Jack Broccoli (CT); Sherry Wilson (DE); Jennifer Milam (FL); Tangela Byrd and Stewart Guerin (LA); Kari Leonard (MT); Ursula Almada (NM): Karen Feather (PA); Amy Garcia (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Doug Melvin (WY). Also participating was: Sandra Bigglestone (VT).

1. Adopted Proposal 2024-02

Doggett said that proposal 2024-02 (Expansion Application, Form 2) includes modifications to Form 2 (General Information) to include the addition of "doing business as" (DBA) and address information for multiple expansion states and relocating the agent for appointments to the jurisdiction attachment section of the electronic application. Doggett added that these were minor modifications that the Working Group could consider for adoption without exposure.

Pastuch made a motion, seconded by Garcia, to adopt proposal 2024-02 (Attachment Three-A). The motion passed unanimously.

2. Adopted Proposals 2024-03 and 2024-04

Piatt explained that the purpose of proposals 2024-03 (Questionnaire, Form 8) and 2024-04 (Narrative) is to align the company information and remove redundancies from or incomplete responses to either the questionnaire or the narrative. Proposal 2024-03 shows the removal of questions 14 through 23, and proposal 2024-04 shows the addition of several new sections to incorporate information from questions 14 through 23 and to make each section of the narrative required.

Piatt suggested that the Working Group consider adoption of the proposals without the need for exposure to move information from one form to another.

Sueoka made a motion, seconded by Malm, to adopt proposals 2024-03 (Attachment Three-B) and 2024-04 (Attachment Three-C). The motion passed unanimously.

3. Exposed Proposal 2024-04

Doggett updated the Working Group on a referral from the Chief Financial Regulator Forum received during the April call regarding entities not regulated by the department of insurance (DOI) in their domestic state. A survey was sent in April, and 29 states responded. Doggett said that Jane Barr (NAIC) was compiling the results to create a chart to share with the Chief Financial Regulator Forum at the Summer National Meeting. Once finalized, the chart will be available on the NAIC/Uniform Certificate of Authority Application (UCAA) website and the Working Group will consider incorporating revisions to the NAIC's *Company Licensing Best Practices Handbook* (Handbook).

Doggett said that a referral from the Financial Analysis (E) Working Group was received in 2023 regarding licensing health insurers due to recently troubled health entities. The Financial Analysis (E) Working Group suggested additional guidance in the Handbook. Proposal 2024-04 has incorporated a few suggested changes, and Doggett suggested that a 60-day exposure would allow Working Group members, interested state insurance regulators, and interested parties to comment or provide suggestions on other areas of the Handbook that should be modified and to update the review processes regarding the new electronic application portal.

Doggett said the survey asked two separate questions: 1) What entities are not regulated in your state? and 2) Has your state licensed any entities that were not regulated by the DOI in their domestic state, and how is your state regulating that insurer? Barr stated that states regulating specific types of insurance would include those lines on Form 3, lines of business. If the state does not include a specific line, the company should remove that state from its expansion application or delete the application entirely. Barr said that a bigger question would be whether the expansion state would license a line if the domiciliary state did not regulate that line. She said the reference chart would help those expansion states. Malm asked whether the chart would include all states or just the 29 that responded. Barr said that all UCAA charts include all jurisdictions, and for the jurisdictions that did not respond, the chart will say "contact state for requirements" so that industry or states will not assume that they regulate all types of insurance.

Bigglestone asked what the Handbook meant by referencing "captives" on page 72, in the second paragraph under Priority Two. She added that in unique circumstances, based on the line of business offered and the market conditions, an expansion state may consider the application appropriate to pursue licensure if heavily monitored. A small specialty insurer may not demonstrate the quality of a priority four or three company. Such a company may have a commercial policyholder with operations located in a state where it is not licensed to continue to provide coverage to the policyholder. Therefore, the captive must seek licensure in the additional state. Doggett said that Missouri would license the captive outside of UCAA. Bigglestone suggested that the language regarding captives be stricken from the Handbook unless examples are provided since captives should not have a license in more than one state. Piatt said that Ohio has licensed captives that are also licensed in other states. He suggested further discussion is warranted before removing it from the Handbook. Hathaway asked if other states license a company with restrictions because Colorado does not. Malm said Wisconsin will, at times, give restrictions to limit writing. Doggett said that Missouri is considering doing that as well. Hathaway asked how Wisconsin monitors that. Malm stated that they make sure the limitations on their certificate of authority are monitorable.

Doggett thanked Bigglestone and Hathaway and looked forward to seeing comments regarding their suggested edits to the Handbook. Hearing no objections, the Working Group exposed proposal 2024-04 for a 50-day comment period ending Sept. 20.

4. Discussed Other Matters

Barr said that Phase II began May 13 and consists of moving the current expansion and foreign corporate amendments application into the new portal and creating a domestic corporate amendment application. The expansion application is moving along, and the developers are finishing up the state-specific requirements and multi-state review and enhancements based on feedback received from Phase I. The portal will be available for production by Nov. 1 or earlier, based on the training schedule for October. Announcements will be made during the Working Group's call, on the UCAA website, and in the electronic portal. Barr said that when the new portal is available, the legacy portal will no longer be available to start an expansion application but will be available for states to finish their review. The corporate amendment application for foreign and domestic will begin development by mid-September, with an anticipated release date of February 2025. Announcements will be made on all calls and posted on the UCAA website.

Feather asked how many applications have been submitted in the new portal. Barr said that roughly 100 have been created, 59 have been submitted for review, and at least 20 of those have been certified. Feather expressed concerns about turning off the old portal without a strong understanding of the new portal. Without experiencing many primary applications, Feather said Pennsylvania would appreciate a higher level of state training. Hathaway also expressed the need for more training. Barr said training videos are posted on the Company Licensing SharePoint site for state insurance regulators and offered to conduct state-specific training for whoever wants to set up that training. Barr reiterated that Phase I went live Oct. 31, 2023, with two separate applications: one for start-ups and alien insurers, which is the primary, and one solely for redomestications. Redomestications can be cloned for corporate amendment applications. Eventually, primary applications for companies that are part of a holding company structure can be cloned for expansion as well as Form As (mergers and change of control) can be cloned for corporate amendment filings. The domestic corporate amendment could also be cloned for a foreign corporate amendment.

Barr quickly demonstrated the highlights of the state review and reiterated that she is available to conduct one-on-one training for any state. She added that a Company Licensing Forum call will be scheduled when the expansion application is available in Beta.

Doggett announced that she and Barr will provide a training session at the Insurance Summit on the primary application review and at the Society of Financial Examiners (SOFE) in Oklahoma. She added that this would be a good opportunity for any state insurance regulator reviewing expansion applications to receive training.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.

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National Treatment and Coordination (EX) Working Group

UCAA Proposal Form	FOR NAIC USE ONLY Agenda Item # 2024-02 Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

DATE: 6/20/24

CONTACT PERSON: Jane Barr
ON BEHALF OF:
NAME: National Treatment and Coordination (E) Working Group
TELEPHONE:

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [X] UCAA Electronic Application

Check One or More of the Following, as Applicable:
Application:
[X] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [ ] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Included additional options for specific DBA information and address information as needed for specific expansion Jurisdictions and remove the question pertaining to agent appointments. Agent appointments can be added as a state specific option under jurisdiction requirements.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

During the conversion of the existing expansion application into the new portal it was discussed by the Expansion and Corporate Amendment Ad Hoc Group to provide options for additional company names and company addresses based on specific jurisdiction requirements and to remove agent appointments since only a few states require this information with an expansion application.

**** This section must be completed on all forms.** **Revised 07/06/24**

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

###applicationType### APPLICATION

To the Insurance Commissioner/Director/Superintendent of:
Alabama; Colorado; Connecticut, Delaware; Idaho; Kansas; Missouri, Mississippi; Montana; New Hampshire; Neveda; Ohio; Oregon; Pennsylvania; Rhode Island; Washington; Wyoming.

The undersigned Applicant Company hereby certifies that the classes of insurance as indicated on the Lines of Insurance, Form 3R, are the lines of business which the Applicant Company is authorized to transact.

COMPANY INFORMATION

Company Information *(all of this section is required)

Name: ###companyName###
NAIC Cocode: ###companycode###
Doing Business As

CA	
CO	
DE	
IN	
IL	
MO	
SD	
PA	

Previous Name (if applicable): ###previousName###
Group Code: ###groupCode###
Group Name: ###groupName###
Ultimate Owner/Holding Company:
Date Incorporated:

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Form of Organization:
State or Country of Domicile:
Date Organized:
Date of Last Amendment of Charter, Bylaws or Subscriber's Agreement:
Date of Last Financial Examination:
Par Value of Issued Stock:$
Surplus as regards to policyholders: $
Certificate of Deposit $:

~~The Applicant Company hereby designates (name natural persons only)________________to appoint persons and entities to act as and to be licensed and terminate said appointments as agents in the State of__________. NOTE: This does not apply to those states that do not require appointments.~~

Has the Applicant Company ever been refused admission to this or any other state prior to the date of this application?
If Yes, Explain:
Is Applicant Company a member of a group that is required to file an Own Risk Solvency Assessment (ORSA) report with your lead state? Yes or No

Previous Admission History *

Has the Applicant Company ever been refused admission to this or any other jurisdiction prior to the date of this application?

Answer: ###wasRefusedAdmissionYesNo###

Explanation: ###wasRefusedAdmissionExplanation###

Attachment: ###wasRefusedAdmissionAttachments###

CONTACT INFORMATION

Authorized Representative *

Full Legal Name: ###authorizedIndvName###
Title: ###authorizedIndvTitle###
Address: ###authIndvaddress###
Email: ###authIndvEmail###
Phone: ###authIndvPhone###

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Is the authorized representative an employee of the applicant company:
###isAuthorizedRepEmployee### *

Company Contact

Full Legal Name: ###financialContactName###
Address: ###financialContactAddress###
Email: ###financialContactEmail###
Phone: ###financialContactPhone###

ORSA

Is the Applicant Company required to file an ORSA report with its lead state? Yes or No
If yes to either ORSA question, please provide:
Lead State: ________ Lead State Contact Name: _______________
Email: _____________Phone number: ________________

ADDRESS INFORMATION

Statutory Office Address: ###statutoryOfficeAddress### *
Email: ###statutoryEmail###
Phone: ###statutoryPhone###

Additional Address Information

Administrative Office
Address: ###adminAddress###
Email: ###adminEmail###
Phone: ###adminPhone###

Mailing Office
Address: ###mailingAddress###
Email: ###mailingEmail###
Phone: ###mailingPhone###

Billing Office
Address: ###billingAddress###
Email: ###billingEmail###
Phone: ###billingPhone###

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Premium Tax Office
Address: ###premiumTaxAddress###
Email: ###premiumTaxEmail###
Phone: ###premiumTaxPhone###

Producer Licensing Office
Address: ###producerLicensingAddress###
Email: ###producerLicensingEmail###
Phone: ###producerLicensingPhone###

Rate/Form Office
Address: ###rateFormAddress###
Email: ###rateFormEmail###
Phone: ###rateFormPhone###

Consumer Affairs Office
Address: ###consumerAffairsAddress###
Email: ###consumerAffairsEmail###
Phone: ###consumerAffairsPhone###

Are these addresses the same as those shown on the Applicant Company's Annual Statement?
If no, Explain

National Treatment and Coordination (EX) Working Group

UCAA Proposal Form

FOR NAIC USE ONLY
Agenda Item
2024-03
Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

DATE: 06/20/24

CONTACT PERSON: Jane Barr
ON BEHALF OF: National Treatment and Coordination (E) Working Group
NAME: Expansion & Corp. Amend. Ad Hoc Group

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [ ] UCAA Manual

Check One or More of the Following, as Applicable:
Application:
[ ] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [X] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Removal of the following questions on the Questionnaire (Form 8) 13B; 14-23.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

The purpose of removing the questions noted above is to reduce redundancy between the questionnaire and narrative. The narrative will make specific sections required, so the Applicant Company can provide a more thorough response to their business plan.

**** This section must be completed on all forms.** **Revised 02/06/06**

Company Name: ###companyNameHeader###
Cocode: ###cocode###
FEIN: ###fein###
Tracking Number: ###trackingNumber###

UCAA UNIFORM CERTIFICATE of AUTHORITY APPLICATION

EXPANSION APPLICATION – MAIN QUESTIONNAIRE

1. I hold the following position(s) with the Applicant Company: ###positionHold###.

2.
   A. Has the Applicant Company transferred or encumbered any portion of its assets or business, or has its outstanding capital stock been directly or indirectly pledged?

      Answer:

      Explanation:

      Attachments:

   B. Has the Applicant Company merged or consolidated with any other company within the last five years?

      Answer:

      Explanation:

      Attachments:

3. Is the Applicant Company presently negotiating for or inviting negotiations for any transaction described above?

   Answer:

   Explanation:

   Attachments:

4. Has the Applicant Company ever changed its name?

   Answer:

   Explanation:

   Attachments:

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

5.

A. Has the Applicant Company undergone a change of management or control since the date of its latest annual statement filed in support of this application?

Answer:

Explanation:

Attachments:

B. Does the Applicant Company contemplate a change in management or any transaction that would normally result in a change of management within the reasonably foreseeable future?

Answer:

Explanation:

Attachments:

6.

A. Has the Applicant Company's certificate of authority to do business in any state been suspended or revoked within the last ten years?

Answer:

Explanation:

Attachments:

B. Has the Applicant Company’s application for admission to any state been denied within the last ten years?

Answer:

Explanation:

Attachments:

7. Has any person who is presently an officer or director of Applicant Company been convicted on, or pleaded guilty or nolo contendere to, an indictment or information in any jurisdiction charging a felony for theft, larceny or mail fraud or, of violating any corporate securities statute or any insurance statute?

Answer:

Explanation:

Attachments:

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

8. Is the Applicant Company presently engaged in a dispute with any state or federal regulatory agency?

   Answer: N

   Explanation:

   Attachments:

9. Is the Applicant Company a plaintiff or defendant in any legal action other than one arising out of policy claims?

   Answer:

   Explanation:

   Attachments:

10. Does the Applicant Company intend to purchase investment securities through any investment banking or brokerage house or firm from whom any of Applicant Company's officers, directors, trustees, investment committee members or controlling stockholders receive a commission on such purchases?

    Answer:

    Explanation:

    Attachments:

11. Is the Applicant Company a:

    A. Bank

       Answer:

    B. Bank holding company, subsidiary, or affiliate

       Answer:

    C. Financial holding company

       Answer:

    D. Other financial institution

       Answer:

       Explanation:

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~**Attachments:**~~

12. Has the Applicant Company, since its inception, done any of the following:

    A. Made a loan to an entity owned or controlled directly or through a holding corporation by one or more of Applicant Company's officers, directors, trustees, or investment committee members, or to any such person?

    Answer:

    B. Sold or transferred any of its assets or property, real or personal, to any such entity or person?

    Answer:

    C. Had its outstanding capital stock directly or indirectly pledged for the debt of an affiliate?

    Answer:

    D. Purchased securities, assets, or property of any kind from an entity owned or controlled by one or more of the Applicant Company's officers, directors, trustees, or any persons who have authority in the management of the Applicant Company's funds (including a controlling stockholder)?

    Answer:

    Explanation:

    Attachments:

13. Executive Management Information

    A. Attach an organizational depiction (in the format of a flow chart) showing the various executive management, directors and officers and related material functions that require internal control oversight of the Applicant Company, with the name and official title of those responsible for those offices/functions and the portions of the organization they oversee.

    Attachments:

    ~~B. Material functions should include, but are not limited to, underwriting, claims adjustment/payments, premium accounting, claims accounting, marketing, financial reporting, and investment management. Note any executive or key staff that has access to funds or bank accounts. Submit a map or narrative explaining where offices are/ or will be geographically located and the approximate number of employees at each location. The attachments should include the following information:~~

    - ~~Designate any common facilities and/or any of the above functions that are shared with affiliate~~
    - ~~Designate any of the above office/functions that are delegated to third parties~~
    - ~~Attach copies of signed agreements for office functions delegated to either affiliates or third parties~~

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

- ~~As applicable, attach a separate chart reflecting any other management positions (if different than what was noted above) that exercise control over insurance operations in other jurisdiction where the Applicant Company is seeking admission~~
- ~~Attach any similar information that was submitted to lenders or investment partners~~
- ~~Attach a copy of the Applicant Company's investment policy (required for primary and redomestication applications only)~~

~~**Explanation:**~~

Attachments:

Commented [JB1]: covered under Operating Agreements & Management and Operations sections

~~14. Provide a detailed description of the Applicant Company's sales techniques. The description attached should include the following information:~~

- ~~Information regarding recruitment and training of sales representatives~~
- ~~Identification as to whether the Applicant Company will be a direct writer or will use agents, brokers, or a combination thereof~~
- ~~Explanation of the compensation and control to be provided by the Applicant Company to its agents, brokers, or sales personnel~~
- ~~Sample copies of any agreements entered into between the Applicant Company and its agents or brokers~~
- ~~If the Applicant Company will use a specific agency or managing general agent, identification of the agency or managing general agent and a copy of the agreement for this arrangement~~
- ~~Sample contract forms of all types used and remuneration schedule, including those for general agents, if any~~

~~**Explanation:**~~

~~**Attachments:**~~

Commented [JB2]: Covered under Marketing and Agency Force (Narrative)

~~15. For Each State, Explain the following:~~

Commented [MB3]: Worded different than Q17 Expansion Questionnaire. Need to add "For each state in which the Applicant Company is filing" before "Explain the following."

- ~~The product lines currently sold or planned by the Applicant Company,~~
- ~~Specialty line or lines currently sold and planned,~~
- ~~Captive business,~~
- ~~The Applicant Company's marketing plan, including a description of the financial, corporate or other connections productive of insurance,~~
- ~~The Applicant Company's current and expected competition (both regionally and nationally), and~~
- ~~How each state in which admission has been requested fits into the marketing plan. General description of the classes to be transacted is not an adequate response. For example, if the Applicant Company plans to market credit life and disability products tailored for use by credit unions, simply stating that it will transact credit life and disability is inadequate.~~

~~**Explanation:**~~

Commented [JB4]: Remove the option for an explanation and only keep the option for an attachment for each state they are expanding into. (validate a response for each state.).

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~**Attachments:**~~

~~16. Provide a detailed description of the advertising that will be used by the Applicant Company to market its products in each state. Include a detailed explanation as to how the Applicant Company will develop, purchase, control and supervise its advertising.~~

~~**Explanation:**~~

~~**Attachments:**~~

~~17. For each State, Provide a detailed explanation of each of the following:~~

~~A. How the Applicant Company's policies will be underwritten, including the issuance of policies and endorsements~~

~~**Explanation:**~~

~~B. How policies will be canceled~~

~~**Explanation:**~~

~~C. How premiums and other funds will be handled~~

~~**Explanation:**~~

~~D. How personnel will be trained, supervised, and compensated~~

~~**Explanation:**~~

~~**Attachments:**~~

~~18. Attach a detailed explanation how the Applicant Company will adjust and pay claims, include the following:~~

~~A. Describe how the Applicant Company will train, supervise, and compensate the personnel handling claims adjusting and claims payment~~

~~**Explanation:**~~

~~B. Provide detailed information as to how and by whom claim reserves will be set and modified~~

~~**Explanation:**~~

~~C. Will the Applicant Company pay any representative given discretion as to the settlement or adjustment of claims whether in direct negotiation with the claimant or in supervision of the person negotiating, a compensation which is in any way contingent upon the amount of settlement of such claims?~~

~~**Answer:**~~

Commented [JB5]: Covered under Lines of Business Section (Narrative)

Commented [JB6]: Remove the option for an explanation and have a required attachment for each expansion state.

Commented [JB7]: Covered Under Marketng & Agency Force (Narrative)

Commented [JB8]: Remove the option for an explanation.

Commented [JB9R8]: There can be one attachment per state to cover items A through D

Commented [JB10]: Covered under Underwriting Section (Narrative)

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~**Explanation:**~~

~~**Attachments:**~~

Commented [JB11]: Covered under Underwriting and Claims Handling Sections (Narrative)

~~19. Does the Applicant Company have any reinsurance contracts which contracts that in effect provide that Applicant Company will reimburse or indemnify the Reinsurer for losses payable there under?~~

Commented [BJ12]: Covered under Claims Handling

~~**Answer:**~~

~~**Explanation:**~~

~~**Attachments:**~~

~~20. Does any salaried employee or officer, exclusive of a director, presently have in force a license as an insurance broker issued by this Department of Insurance?~~

Commented [BJ13]: Covered under Management and Operations

~~**Answer:**~~

~~If yes, attach a copy of his/her license and indicate position held with applicant.~~

~~**Attachments:**~~

~~21. Does the Applicant Company have outstanding unexercised stock options?~~

~~**Answer:**~~

~~A. If yes, to whom and in what number of shares?~~

~~**Answer:**~~

B. ~~If options are outstanding for a number of shares greater than 10% of the number of shares presently issued and outstanding, a copy of the option form and of the plan pursuant to which they were granted~~ are attached.

Explanation:

Attachments:

~~22. Are any of the Applicant Company's policies being sold in connection with a mutual fund or investment in securities?~~

~~**Answer:**~~

~~**Explanation:**~~

~~**Attachments:**~~

Commented [BJ14]: Covered under Operating Agreements section of the Narrative

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~23. Does the Applicant Company pay, directly or indirectly, any commission to any officer, director, actuary, medical director or any other physician charged with the duty of examining risks or applications?~~

Commented [BJ15]: Covered under Management and Operations of the Narrative

~~**Answer:**~~

~~**Explanation:**~~

~~**Attachments:**~~

~~24.~~ 14. Does the Applicant Company have any permitted practices allowed by its current state of domicile?

Answer:

Explanation:

Attachments:

~~25.~~ 15. Does the Applicant Company's current state of domicile prescribe any practices of the Applicant Company that are not in accordance with:

A. Laws, regulations or bulletins of proposed state of domicile

Answer:

B. Reserving requirements of proposed state of domicile

Answer:

C. NAIC guidelines

Answer:

Explanation:

Attachments:

~~26.~~ 16. ~~Will~~ the Applicant Company's investments comply with the investment laws, regulations or bulletins of the proposed state of domicile?

Answer:

Explanation:

Attachments:

~~27.~~ 17. Does the Applicant Company have any outstanding surplus notes?

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

Answer:

Explanation:

Attachments:

National Treatment and Coordination (EX) Working Group

UCAA Proposal Form	FOR NAIC USE ONLY Agenda Item #2024-04 Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

DATE: 6/25/24

CONTACT PERSON: Jane Barr
ON BEHALF OF: National Treatment and Coordination(E) Working Group
NAME: Expansion and Corp. Amendment Ad Hoc Group

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [ ] UCAA Manual

Check One or More of the Following, as Applicable:
Application:
[ ] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [X] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Additional instruction provided on the Narrative that was previously included on the Questionnaire, specifically to sections: Advertising; Marketing and Agency Force; Underwriting; Claims Handling; Operating Agreements; Investment Management and Management and Operations.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

The purpose of placing these items on the Narrative and removing them from the Questionnaire is to ensure that thorough responses are provided and to eliminate redundancy between the questionnaire and narrative.

**** This section must be completed on all forms.** **Revised 02/06/06**

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

UCAA UNIFORM CERTIFICATE of AUTHORITY APPLICATION

PRIMARY APPLICATION – NARRATIVE

Overview

The Plan of Operation should include significant information ~~not captured as part of the Questionnaire~~ for each section that the Applicant Company feels is beneficial to the approval of the application.

~~This outline is an illustration only and is not a required format; these specific subject headings are not required.~~

Lines of Business *

Please provide any additional context on lines of business. See below for examples:

- *The product lines currently sold or planned by the Applicant Company.*
- *Specialty line or lines currently sold and planned.*
- *Captive business, if any.*
- *Surplus Lines*
- *Risk Retention Group*

Explanation: ###linesOfBusinessExplanationAttachments###

Attachment

Strategic Plan *

Explain:

- *The product lines currently sold or planned by the Applicant Company.*
- *Specialty line or lines currently sold and planned.*
- *Captive business, if any.*

Explanation: ###strategicPlanExplanationAttachments###

Attachment

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Advertising*

Provide a detailed description of the advertising that will be used by the Applicant Company to market its products generally and for each state that may differ in that approach. Include a detailed explanation as to how the Applicant Company will develop, purchase, control and supervise its advertising.

Explanation: ###advertisingExplanationAttachments###

Attachment

Marketing and Agency Force *

Provide a detailed description of the Applicant Company's sales techniques. The description should include:

- *Information regarding recruitment and training of sales representatives.*
- *Identification as to whether the Applicant Company will be a direct writer or will use agents, brokers or a combination thereof.*
- *Explanation of the compensation and control to be provided by the applicant to its agents, brokers or sales personnel.*
- *If the Applicant Company will use a specific agency or managing general agent, identification of the agency or managing general agent.*

Explanation: ###marketingAndAgencyForceExplanationAttachments###

Attachment

Underwriting *

Explain in detail how (a) the Applicant Company's policies will be underwritten, including the issuance of policies and endorsements (b) policies will be cancelled and (c) premiums and other funds will be handled, including:

- *Identify the entity that will perform each of these functions.*
- *Describe how the personnel will be trained, supervised, and compensated.*
- *If personnel performing these functions will be shared with another entity or, if another entity will be performing these functions, please provide an explanation of this arrangement.*

Explanation: ###underwritingExplanationAttachments###

Attachment

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Claims Handling *

Explain in detail how the Applicant Company will adjust and pay claims.

- *Identify the entity that will perform the Applicant Company's claims adjusting and claims payment functions.*
- *Describe how the personnel handling claims adjusting and claims payment will be trained, supervised and compensated.*
- *If personnel for claims adjusting or claims payment will be shared with another entity or another entity will be performing the applicant's claims adjusting and claims payment, please explain this arrangement, including any affiliation with the applicant.*
- *Provide detailed information as to how and by whom claim reserves will be set and modified.*
- *Identify any reinsurance contracts which in effect provide that the Applicant Company will reimburse or indemnify the Reinsurer for losses payable.*

Explanation: ###claimsHandlingExplanationAttachments###

Attachment

Operating Agreements *

If the Applicant Company is a member of a group of companies that shares common facilities, services and/or is a party to a tax allocation agreement, explain the division of costs between participants. If costs are pro-rated, what is the basis for division? Include a summary of relevant contracts.

- *If the Applicant Company uses a third party to manage the applicant's investments, provide detailed information as to the compensation that will be paid for management of the applicant's investments.*
- *List any policies being sold in connection with mutual funds or investment in securities.*
- *List outstanding unexercised stock options, include the number of shares greater than 10% of the number of shares presently issued and outstanding, a copy of the options form and the plan pursuant to which they were granted should be attached.*

Explanation: ###operatingAgreementsExplanationAttachments###

Attachment

Investment Management*

If the Applicant Company uses a third party to manage the applicant's investments, provide detailed information as to the compensation that will be paid for management of the applicant's investments.

Explanation: ###InvestmentManagementExplanationAttachments###

Attachment

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Management and Operations *

Explain the material functions for the management and operations of the underwriting, claims adjustment, payments, premium accounting, claims accounting, marketing, financial reporting, and investment management. Note any executive or key staff that has access to funds or bank accounts. Submit a map or narrative explaining where offices are/ or will be geographically located and the approximate number of employees at each location. The attachments should include the following information:

- *List any common facilities and any of the above functions that are shared with affiliate*
- *List any of the above offices and functions that are delegated to third parties.*
- *Attach copies of signed agreements for office functions delegated to either affiliates or third parties*
- *As applicable, attach a separate chart reflecting any other management positions (if different than what was noted above) that exercise control over insurance operations in other jurisdictions where the Applicant Company is seeking admission.*
- *Attach any similar information that was submitted to lenders or investment partners*
- *Attach a copy of the Applicant Company's investment policy (required for primary and redomestication applications only)*
- *Identify any salaried employee or officer, exclusive of a director who presently has in force a license as an insurance broker issued by this Department of Insurance.*
- *Identify any officer, director, actuary, medical director or any other physician charged with the duty of examining risks or applications who is paid directly or indirectly any commission.*

Explanation: ###managementAndOperationsExplanationAttachments###

ATTACHMENT

Other

Include any other relevant information that pertains to the operation of ~~your company~~the Applicant Company in the application jurisdiction(s)

Explanation: ###otherExplanationAttachments###

ATTACHMENT

Draft: 7/24/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
July 17, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met July 17, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Michelle Lo (CA); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Jackie Obusek (NC); Tadd Wegner (NE); Pat Gosselin (NH); John Sirovetz (NJ); Mark McLeod (NY); Dwight Radel (OH); Eli Snowbarger (OK); Diana Sherman (PA); John Tudino (RI); Amy Garcia (TX); Jennifer Blizzard and Greg Chew (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Adopted its May 30 Minutes

The Working Group met May 30 and took the following action: 1) referred proposed guidance on affiliated investment management services to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; 2) discussed a referral received from the Financial Analysis (E) Working Group on run-off insurers; and 3) received an update on the status of 2024 Peer Review Program sessions.

Chew made a motion, seconded by Obusek, to adopt the Working Group's May 30 minutes (Attachment Four-A). The motion passed unanimously.

2. Exposed Proposed Regulatory Review Guidance for Run-Off Insurers

Malm stated that in accordance with instructions received from the Working Group on its May 30 call, NAIC staff developed guidance for the Working Group to consider in response to a referral from the Financial Analysis (E) Working Group. The referral recommended additional best practices for monitoring insurers that have been placed in run-off status.

Bruce Jenson (NAIC) provided an overview of the guidance to incorporate the recommendations proposed by NAIC staff, which includes additions to both the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. Jenson stated that while both handbooks already include some guidance on customizing solvency monitoring activities for insurers in run-off status, staff propose edits to incorporate several best practices outlined in the referral. The best practices include new guidance on reviewing a company's run-off plan, assessing a company's record keeping, maintaining communications with other stakeholders, closely monitoring legal risks, monitoring IT system changes and employee retention, evaluating changes in liquidity and reserving risk, and closely monitoring reinsurance collections and disputes.

Malm asked for comments or questions on the proposed revisions. Broccoli stated that his department has found it beneficial to request a feasibility study be performed in support of the run-off status and for the department actuary to scrutinize the reasonableness of the study. Malm stated that she envisions this being part of the department's review of the run-off plan outlined in the proposed guidance.

Lo asked whether a run-off plan is required. Malm stated that NAIC handbooks cannot mandate requirements for companies but the proposed language indicates that a run-off plan should be received. Lo asked whether the plan for regulator communication with other stakeholders discussed in the guidance is expected to be written. Jenson stated that the communication plan is a best practice to encourage timely and effective communication with other stakeholders, but a formal written plan is not expected.

Weaver made a motion, seconded by Radel, to expose the proposed guidance for a 45-day public comment period ending Aug. 30. The motion passed unanimously.

3. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the Working Group is planning two additional Peer Review Program sessions for the remainder of 2024. The first is a financial exam session scheduled for the week of Aug. 26, which is already filled and underway. The second will be a financial analysis session scheduled for the week of Oct. 14, with the application period for the session opening in the coming weeks.

4. Discussed Other Matters

Malm asked if there were any other matters for discussion. Peter Gould asked if he could comment on the proposed run-off guidance. Gould stated that the recent issues at PHL Variable Insurance Company should be considered when developing the guidance. Gould stated that policyholders will likely be at risk of losing benefits and potentially running up against guaranty fund caps through the rehabilitation plan. As such, communication with policyholders and consumers should be a priority when a company is placed in run-off status.

Weaver stated that run-off plans and other details of financial regulation are often kept confidential to avoid a run-on-the-bank scenario when concerns are noted at a company. Therefore, it might not always be possible to notify or warn the public regarding regulatory efforts in this area. In addition, Weaver stated that this would be a market conduct or consumer protection initiative, as opposed to something financial regulators would take the lead on.

Gould thanked Weaver for this response and encouraged regulators to consider whether their concept of materiality should be altered when monitoring a company in run-off status due to the potential impact on policyholders. Malm thanked Gould for the verbal comments and encouraged the submission of written comments during the exposure period.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

SharePoint/Support Staff Hub/Committees/E CMTE/2024_2Summer/RFSWG/Surveillance WG 7-17-24 Minutes.docx

Draft: 5/31/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
May 30, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met May 30, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Lindsay Crawford, Vice Chair (NE); Blase Abreo (AL); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Stewart Guerin (LA); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Pat Gosselin (NH); Paul Lupo (NJ); Mark McLeod (NY); Jackie Obusek (NC); Dale Bruggeman (OH); Eli Snowbarger (OK); John Tudino (RI); Johanna Nickelson (SD); Brenda Talavera (TX); Malis Rasmussen (UT); Jennifer Blizzard (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Referred Proposed *Financial Analysis Handbook* Additions to the to the Financial Analysis Solvency Tools (E) Working Group and Proposed *Financial Condition Examiners Handbook* Additions to the Financial Examiners Handbook (E) Technical Group

Malm stated that the first agenda item is to discuss the Working Group's efforts to develop guidance for state insurance regulator use in reviewing affiliated investment management services and agreements by insurers. This topic was originally referred to the Working Group by the Macroprudential (E) Working Group in 2022, which recommended additional regulatory guidance in this area. After discussing these topics broadly at the 2023 Summer National Meeting, the Working Group formed an Affiliated Investment Management Agreement Drafting Group to discuss the issue further and propose guidance for the full Working Group to consider.

The Drafting Group comprises state insurance regulators from Connecticut, Florida, Iowa, Maryland, Michigan, Missouri, Nebraska, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, and Wisconsin. The Drafting Group met several times in late 2023 and early 2024 to discuss the referral and develop guidance. Proposed additions to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* were presented to the Working Group during its March 16 meeting, where they were exposed for a 45-day public comment period ending April 30.

One comment letter was received from America's Health Insurance Plans (AHIP) during the exposure period. Tom Finnell (AHIP) summarized the recommendations made in the comment letter, which suggested removing language encouraging the financial analyst to obtain and review all investment management agreements in place at all insurers. Mike Monahan (American Council of Life Insurers—ACLI) stated his agreement with AHIP's comments.

Bruce Jenson (NAIC) stated that the Drafting Group agreed with the comment and proposed revisions to this language in the updated draft to address the concerns raised. The revisions encourage the financial analyst to verify that all investment management agreements required to be filed with the department have been filed and to consider requesting other agreements that have not been filed. Finnell stated that the updated language adequately addressed AHIP's concerns.

Arfanis made a motion, seconded by Mathis, to refer the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group and the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Discussed a Referral from the Financial Analysis (E) Working Group

Malm stated that the second agenda item is to discuss a referral recently received from the Financial Analysis (E) Working Group. This group meets annually to discuss potentially troubled insurers and insurance groups, as well as industry trends and issues that might warrant communication and coordination with other NAIC groups. As a result of these discussions, some best practices related to monitoring insurers that have been placed in run-off were referred to the Working Group for its consideration. The referral notes that although some guidance on monitoring run-off insurers already exists in NAIC handbooks, there could be an opportunity to enhance such guidance by considering the sound practices highlighted in the referral.

Finnell asked how the Working Group intends to incorporate the sound practices highlighted in the referral into NAIC handbooks. Malm stated that the Working Group could either ask for volunteers to form a drafting group to address the referral or NAIC staff could be directed to draft proposed revisions for consideration. Malm asked about the Working Group members' preference for addressing the referral. Weaver stated a preference for directing staff to draft proposed revisions for the Working Group's consideration. Malm agreed and directed staff to proceed in this area.

3. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the Working Group is moving ahead with planning for two additional Peer Review Program sessions for the remainder of 2024. The first will be a financial exam session scheduled for the week of Aug. 26, and the second will be a financial analysis session scheduled for the week of Oct. 14. The financial exam session has already been filled through applicants deferred from previous sessions but the application period for the financial analysis session will open in the coming weeks.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

SharePoint/Support Staff Hub/Committees/E CMTE/2024_2Summer/RFSWG/Surveillance WG 5-30-24 Minutes.docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

FROM: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

TO: Interested Regulators & Interested Parties of the Financial Condition (E) Committee

DATE: August 2, 2024

RE: Request for Comments on the Draft Request for Proposal

At the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed its *Framework for Regulation of Insurer Investments – A Holistic Review* document. Included in that framework is the recommendation that the NAIC engage a consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs). At the 2024 Spring National Meeting, the Executive (EX) Committee approved the Committee to engage in the development of a request for proposal (RFP).

The Committee, with the assistance of state insurance regulators from the Valuation of Securities (E) Task Force, and its Investment Framework Drafting Group, both chaired by Carrie Mears (IA), have developed a first draft of such an RFP. Such an initial draft was necessary to facilitate further discussion and development of a final RFP, but at this time, the Committee would like to engage all interested parties on this RFP. To that end, the Committee intends this to be a fully transparent and constructive process. The RFP document proposed to be exposed is a *draft* document. ***This is not a release of the RFP for bid nor a solicitation of RFP responses.***

We recognize there is not an "out of box" product to be delivered in response to this RFP. We anticipate that our selection of a consultant will be predicated upon experience in providing solutions for similar quantitative and qualitative issues rather than providing the solution in response to the RFP. Therefore, the RFP is drafted as such to welcome proposals from many parties.

We acknowledge this RFP could be improved to ensure the best possible response outcome. As a result, we are exposing this draft RFP for 60 days to obtain feedback on the following:

CRP Due Diligence and Objectives
(1) Are all objectives clear and understood? Do any need to be refined?
(2) Are there additional objectives we should consider that are not included here?
(3) Are there objectives that interested parties feel should be excluded, and why?
RFP Response Requirements
(1) Are all requirements clear and understood? Do any need to be refined?
(2) What additional response requirements could be included to ensure the best receipt of material for selection purposes?
(3) Are there response requirements that interested parties feel should be excluded, and why?
Selection Process and Assessment Criteria
(1) Is the selection process clear and understood?

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Other

(1) Any other feedback that would aid in improving the RFP.

Please direct comments to Dan Daveline (ddaveline@naic.org) by 10/14/2024. Comments are welcome from all interested parties, including industry, CRPs, and potential respondents to the RFP.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

August 2, 2024

RFP #XXXX | Credit Rating Provider Due Diligence

In 2023, the National Association of Insurance Commissioners' (NAIC) Financial Condition (E) Committee introduced a Framework for Regulation of Insurer Investments – A Holistic Review that was revised and exposed for comment at the 2024 Spring National Meeting. The Executive Summary of the framework is as follows:

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.
- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.
- At the most basic level, the question has arisen – what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?
- The historical focus of the Securities Valuation Office (SVO) has been on risk assessment of individual securities, with filing exempt securities (FE) blindly reliant on credit rating providers (CRPs) for designations.
- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics.
- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.
- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.
- The framework provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.
- The framework also provides high-level guidelines for considering consistency of capital across assets as the investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

Currently, risk-based capital charges that support the capital framework to identify weakly capitalized insurers, rely upon NAIC Designations as the measure of investment risk, for assets reported as bonds, as well as limited risk assessment for non-bond holdings. NAIC Designations are either provided directly by the SVO for filed securities or, for the majority of insurer investments, by a direct translation of a credit rating from a CRP for those securities that are exempt from filing (FE). There are currently no criteria for becoming a CRP beyond being an U.S. Securities and Exchange Commission (SEC) registered NRSRO and under its regulatory authority, the SEC is unable to opine on the quality of NRSRO methodologies and ratings. As such, the NAIC "blindly" relies on the CRP ratings. There is no mechanism for overall due diligence around CRP usage, no process to assess the reasonability of a CRP's ratings, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Based on this Framework, the NAIC is planning several workstreams to address the issues identified. Specific to this Request for Proposal (RFP), the NAIC is looking for detailed technical recommendations that would aid in its objectives to:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.

- At the conclusion of this the project that will result from this RFP there should be a quantitative and qualitative due diligence analytical framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).

At this time, the NAIC is soliciting proposals from qualified third-party firms for the development of a "Credit Rating Provider (CRP) Due Diligence Framework", and detailed quantitative and qualitative analysis that supports the full development and implementation of the framework that can be repeated periodically by regulators and staff.

A clarification and question and answer session will be held at **TBD pm Central Time, Month Day, Year.** Firms interested in submitting a proposal are encouraged to attend this WebEx session. Please click (link) to register.

Firms intending to respond to this RFP are asked to submit an email indicating their intent to bid and Point of Contact details by **5pm Central Time, Day, Month, Year**, via email to Jim Woody at Proposals@naic.org.

To receive consideration, final proposals must be sent electronically to Proposals@naic.org no later than **5pm Central Time, Day, Month, Year**.

Proposals must address each item described within the RFP Response Requirements: 1| Respondent Company Overview, 2|Detailed RFP Response / Proposal, 3| Additional Required Documentation , and 4| Additional Instructions.

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RFP | Schedule

	RFP released
	Clarification & Q&A Session register here
	Vendor intent to Bid due to Proposals@naic.org
	Vendor RFP questions due to Proposals@naic.org
	NAIC responses to vendor questions
	Vendor submissions due by 5pm CT to Proposals@naic.org
	Vendor Interviews, if needed
	Projected Vendor Selection and RFP Award*
	Projected Project Start

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

Selection Criteria

The RFP Selection Committee will base the vendor selection on criteria including:

- Completeness and quality of the proposal
- Experience with similar projects and the credit ratings process
- Professional reputation of the firm and qualifications of individuals assigned to this project
- Proposed project timeline and cost
- Analytical alignment of the proposed framework to the NAIC's financial solvency objectives.

The NAIC reserves the right to reject any or all proposals, request new proposals or request additional information. The NAIC reserves the right to further negotiate with any or all bidders.

Questions

Proposal-related questions should be submitted to Proposals@naic.org by **5pm Central Time, Day, Month XX, Year**. Answers to each question submitted will be posted on the NAIC RFP website by **Day, Month, Year**.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

Respectfully,

James W. Woody

James Woody, Chief Financial Officer, National Association of Insurance Commissioners

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

Request for Proposal- #(number)

Credit Rating Provider Due Diligence Framework

Table of Contents

Background Information

About the NAIC

The National Association of Insurance Commissioners (NAIC) is a 501(c) (3) not-for-profit organization.

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Role of the VOSTF

The NAIC has determined that assessing the risk of an insurance company's investments is a good starting point for assessing that insurer's financial solvency risk over its investments. CreditInvestment risk is one of the NAICs branded risk classifications monitored by state solvency regulators and which includes considering the credit quality for bond type securities. The Valuation of Securities (E) Task Force (VOSTF) formulates the NAIC's policies for securities that can be assigned the NAIC's measure of investment risk, an NAIC Designations. The Task Force's polices are documented and published in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The NAIC has assigned the Securities Valuation Office (SVO) and Structured Securities Group (SSG) the responsibility of carrying out the policies of the VOS/TF and assigned the Task Force with the responsibility to oversee of the operations of these NAIC departments. The SVO and SSG, when referred to jointly, are called the Investment Analysis Office (IAO).

SVO and SSG

The SVO and SSG are staffed by investment professionals whose careers have been dedicated to investment analysis. The analysis staff in these departments typically have over 25-years of investment experience, all have a bachelor's degree, 84% have an MBA, roughly a third are chartered financial analysts (CFA) or have some other advanced level certification or degree, and two-thirds have prior work experience at rating agencies.

The SVO conducts credit quality and investment risk assessments of securities owned by state-regulated insurance companies through insurer submissions of investment documents into the NAIC's VISION application and performs other functions such as: the administration of the filing exemption process (the NAIC's automated process for translating credit rating provider ratings into an NAIC Designation), compilation and publication of the SVO List of Investment Securities (a data set of all NAIC Designations published in the NAIC's AVS+ application), list of credit ratings eligible for translation, the list of funds eligible to receive NAIC Designations, the list of qualified

U.S. financial institutions that can issue letters of credit for reinsurance purposes, assessment of derivative counterparties, the list of sovereign NAIC Designation equivalents, and any other process mandated in the P&P Manual.

The SSG assesses the credit quality and investment risks in securitizations and other complex financially engineered securities through the utilization and oversight of external financial modeling vendors. Typically, these are residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), mortgage reference securities and, beginning in 2025, collateralized loan obligations (CLOs).

NAIC | Mission Statement

The mission of the NAIC is to assist the state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient, and cost-effective manner, consistent with the wishes of its members:

- *Protect the public interest;*
- *Promote competitive markets;*
- *Facilitate the fair and equitable treatment of insurance consumers;*
- *Promote the reliability, solvency, and financial solidity of insurance institutions; and*
- *Support and improve state regulation of insurance.*

The Use of Credit Ratings of NRSROS in NAIC Processes

Providing Credit Rating Services to the NAIC

The NAIC uses credit ratings for a number of regulatory purposes, including, to administer the filing exempt rule. Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services to the NAIC for the classes of credit ratings for which it is registered as an NRSRO.

Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

The NAIC acts solely as a private consumer of credit ratings. The sole NAIC objective in obtaining and using credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO. The VOS/TF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of credit rating opinions.

The NAIC does not select, approve or certify NRSROs or other rating organizations or distinguish among them for any public or policy purpose whatsoever. Nor does the NAIC endorse the credit rating or analytical product of any CRP or rating organization or distinguish between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

NAIC Designations

NAIC Designations are proprietary symbols of the NAIC. The SVO, the SSG and, under certain circumstances, insurers, produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOSTF in the P&P Manual. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law. They must be considered in the context of their appropriateness and consistency of use in the NAIC Policy Statement and Financial Regulation Standards (SFRS) and other NAIC guidance.

NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension or liquidity risk. NAIC Designations shall be identified by the NAIC 1 through NAIC 6 symbols (as modified by NAIC Designation Categories) which indicate the highest quality (least risk) to the lowest quality (greatest risk), respectively.

Investment risk is the likelihood that an insurer will receive full and timely principal and expected interest. It differs from “credit risk” which focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk is, at times, too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return and, therefore, the PPS could pay no interest with no event of default by the issuer. As such, focusing solely on credit risk could limit the SVO’s ability to assess the risk of the performance component of a principal protected security or on potential risks posed by other investment types.

NAIC Designation Category – Means and refers to 20 more granular delineations of investment risk in the NAIC 1 through NAIC 6 investment risk scale used by the VOS/TF to relate investment risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of investment risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of investment risk within the NAIC Designation grade. The more granular delineations of investment risk are distributed as follows: 7 for the NAIC 1 Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C and 1 delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in the P&P Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

NAIC Designation	+	NAIC Designation Modifier	=	NAIC Designation Category
1		A		1.A
1		B		1.B
1		C		1.C
1		D		1.D
1		E		1.E
1		F		1.F
1		G		1.G
2		A		2.A
2		B		2.B
2		C		2.C
3		A		3.A
3		B		3.B
3		C		3.C
4		A		4.A
4		B		4.B
4		C		4.C
5		A		5.A
5		B		5.B
5		C		5.C
6				6

An objective of the VOS/TF is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency, through the making of policy concerning insurer investment risk and the identification and sharing of pertinent information with other relevant regulators and regulatory groups responsible for the NAIC's regulatory framework.

NAIC Policy on the use of Credit Ratings of NRSROS

Procedure to Become an NAIC Credit Rating Provider

An NRSRO that wishes to provide Credit Rating Services to the NAIC may indicate its interest by sending a letter to the Chair of the VOS/TF with a copy to the Director of the SVO, in which it:

- Indicates an interest in providing Credit Rating Services to the NAIC.
- Confirms that it is currently an NRSRO subject to regulation by the SEC.
- Provides a chart relating its credit rating symbols to NAIC Designations.
- Indicates that the NRSRO agrees to enter into a legally binding agreement under which the NRSRO will:
    - Provide Credit Rating Services to the NAIC at no cost;
    - Reimburse the NAIC for all costs associated with: integration of its data feed into NAIC systems, subsequent changes to NAIC systems to accommodate changes in the NRSRO's systems and changes to NAIC systems as a result of the termination of Credit Rating Services by the NRSRO;
    - Give written notice 6 months prior to terminating Credit Rating Services; and
    - Agree not to claim in marketing literature that the provision of Credit Rating Services indicates NAIC approval or endorsement of the NRSRO, its products or services.

When directed to do so by the VOS/TF, the SVO shall add the name of the NRSRO (thereafter described as a Credit Rating Provider (CRP)) to the NAIC Credit Rating Provider List in the publication of the P&P Manual that follows the execution of an agreement between the NAIC and the NRSRO.

Regulatory Significance – Filing Exempt Rule

Adding the name of an NRSRO to the Credit Rating Provider List indicates that insurance companies must use the credit ratings assigned by that NRSRO, if any, when determining the NAIC Designation equivalent for a security to be reported under the filing exempt rule. Only those NAIC CRP ratings that meet the definition below may be translated into NAIC Designations under the filing exempt rule. Securities assigned ratings by NAIC CRPs that do not meet the definition below, shall be filed with the SVO. The translation of a NAIC CRP rating into an NAIC Designation is conducted in accordance with the procedures described in the P&P Manual.

Definition – Credit Ratings Eligible for Translation to NAIC Designations

As disclosed below, the NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, as specified in the P&P Manual.

The credit rating of the CRP to which this section and the NAIC Credit Rating Provider List refers to is the (a) credit rating assigned by the NAIC CRP; (b) by application of a CRP's proprietary long-term obligation ratings scale and methodology; to (c) securities.

Credit ratings of a NAIC CRP that meet this definition are entitled to a presumption of convertibility to the equivalent NAIC Designation published in the NAIC Credit Rating Provider List except that the presumption of convertibility is subject to the following limitations:

- Those rating activities or markets in which the entity has NAIC CRP status.
- Securities with monitored NAIC CRP ratings that:
    - Are monitored at least annually by the CRP that issued the rating;
    - Are assigned to a specific issue that must be specifically identified;
    - Apply to securities where the issuer promises to repay principal and interest or dividends;
    - Convey an opinion as to the likelihood of payment of both principal and interest/dividends due from the issuer to the holders of the security; or
    - Are structured to pay only principal or only interest/dividends, if the monitored NAIC CRP rating addresses the likelihood of payment of either the principal, in the case of a security structured to pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an "Eligible NAIC CRP Rating").

Special Rating Systems

Unless otherwise specifically approved by the VOS/TF special rating systems of any CRP, rating agency or rating organization shall not be entitled to a presumption of convertibility. Nevertheless, an SVO analyst assessing a security that has been assigned such a rating by any rating organization, including a CRP, may consider the information imparted by that rating or a related research report as one factor in determining an NAIC Designation

List OF NAIC Credit Rating Provider

The CRPs that provide Credit Rating Services to the NAIC are (listed alphabetically):

- A.M. Best Rating Services, Inc. (A.M. Best) – For credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- DBRS, Inc. (DBRS Morningstar) – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan-Jones Ratings Co. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- Fitch Ratings, Inc. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- HR Ratings de Mexico, S.A. de C.V. – For credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of government securities, municipal securities, or securities issued by a foreign government.

- Kroll Bond Rating Agency, LLC. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Moody's Investors Service, Inc. for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- S&P Global Ratings, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

The Credit Rating Providers identified above include those of its affiliates that the credit rating provider identified to the U.S. Securities and Exchange Commission (SEC) as part of its Form NRSRO Application as a separate legal entity or a separately identifiable department or division of the credit rating provider that determines credit ratings that are credit ratings of the credit rating provider and which the SEC treats as a credit rating issued by the credit rating provider for purposes of Section 15E of the Exchange Act and the SEC's rules thereunder. The full list of CRP ratings eligible for translation to an NAIC Designation can be found on the SVO's webpage: NAIC – Credit Ratings Eligible for Translation to NAIC Designations.

CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories (agencies listed in order as they appear in the P&P Manual)

			Credit Rating Providers (*) (Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities")							
NAIC Designation	**NAIC Designation Modifier**	**NAIC Designation Category**	**Moody's Investors Service, Inc.**	**S&P Global Ratings**	**Fitch Ratings, Inc.**	**DBRS, Inc. (DBRS Morningstar)**	**A.M. Best Rating Services, Inc.**	**Kroll Bond Rating Agency, LLC**	**Egan-Jones Ratings Co.**	**HR Ratings de Mexico, S.A. de C.V.**
1	**A**	**1.A**	Aaa	AAA	AAApre, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	HR AAA (G)
1	**B**	**1.B**	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	HR AA+ (G)
1	**C**	**1.C**	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	HR AA (G)
1	**D**	**1.D**	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	HR AA- (G)
1	**E**	**1.E**	A1	A+	A+	A (high)	a+	A+	A+	HR A+ (G)
1	**F**	**1.F**	A2	A	A	A	a	A	A	HR A (G)
1	**G**	**1.G**	A3	A-	A-	A (low)	a-	A-	A-	HR A- (G)
2	**A**	**2.A**	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	HR BBB+ (G)
2	**B**	**2.B**	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	HR BBB (G)
2	**C**	**2.C**	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	HR BBB- (G)
3	**A**	**3.A**	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	HR BB+ (G)
3	**B**	**3.B**	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	HR BB (G)
3	**C**	**3.C**	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	HR BB- (G)
4	**A**	**4.A**	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	HR B+ (G)
4	**B**	**4.B**	B2	B	B	B, Pfd-4	b	B	B	HR B (G)
4	**C**	**4.C**	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	HR B- (G)
5	**A**	**5.A**	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	HR C+ (G)
5	**B**	**5.B**	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	HR C (G)
5	**C**	**5.C**	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	HR C- (G)
6		**6**	Ca	CC	CC	CC (high)	cc	CC	CC	HR D (G)
6		**6**	C	C	C	CC	c	C	C	
6		**6**		D	DDD	CC (low)	d	D	D	
6		**6**			DD	C (high)				
6		**6**			D	C				
6		**6**				C (low)				
6		**6**				D				

Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (https://www.naic.org/svo.htm) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.

Credit Rating Provider Due Diligence Objectives

Vision and Objectives

Specific to the project that will result from this Request for Proposal (RFP), the NAIC is looking for detailed quantitative and qualitative technical recommendations that would address its objectives around CRP Due Diligence:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.
- At the completion of work for this project there should be a quantitative and qualitative due diligence framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).
- Retain ability within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, under well-documented and governed parameters. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

Quantitative and qualitative analysis, both initial and ongoing, should be applied to all CRPs and CRP applicants consistently and equally. State regulators and the NAIC are agnostic to the credit rating providers used in the NAIC Designation process, subject to the due diligence framework as established.

The request also includes some aspects of other components of our framework, when impactful to the objectives above. This includes recommendations of how to best utilize and enhance the structured asset modeling capabilities of the SVO and for recommended governance and oversight of the SVO's operations (i.e. the production and oversight of NAIC designations.)

This project should be delivered in two phases. Phase 1 deliverables include recommendations and considerations on how to accomplish the objectives, with consideration to the questions below, and Phase 2 Deliverables will include development of the recommendations into an actionable framework for the NAIC to implement and maintain.

Quantitative Analysis

Currently, NRSROs applying to be a CRP provide their own mapping of NRSRO ratings to corresponding NAIC Designations. The NAIC would like to be able to utilize data in order to validate this mapping and/or establish its own mapping. A key objective is that ratings performance is shown to be representative of those used specifically for NAIC Designations (rather than all ratings issued by an NRSRO, if not otherwise representative of those used for NAIC Designations). For that purpose:

- What analytical approach should be used to compare each rating agency's rating methodology for a given security type, or sector/industry, or more broadly, to use those ratings to assign NAIC Designations.

- How should jointly-rated securities (rated by more than one rating agency) and single-rated securities be analyzed? Should they be analyzed differently?
- Should public credit ratings and a private credit ratings be distinguished for quantitative analysis purposes.
- What is the scope of the assessment, i.e. at a rating agency level, or at an asset-class, sector or other specified basis?
- How should the analysis consider economic or financial market conditions over the periods covered, particularly periods of extreme distress for credit such as the Global Financial Crisis, dotcom bubble, junk bond crash, S&L crisis, OPEC oil embargo, or any other major bond market distress event?
- To what extent can the NAIC rely on market usage of ratings to act as a validating tool, and how does that apply to private ratings that are not issued publicly?
- How would the analysis demonstrate that the credit ratings can be used as a proxy for an NAIC Designations?
- How should new investment types, emerging asset classes without quantifiable history, newly established NRSROs, etc. be considered when applying the ultimate framework?

Sources of Data

- What specific fields and definitions would you need from the CRP applicant, the frequency of the observations and the elapsed time period in years or date ranges
- Are NRSRO filings with the U.S. Securities and Exchange Commission sufficient for this analysis and how?
- Could this analysis be best performed utilizing the NAIC's own data and if so, how that should be accomplished most effectively?
- The NAIC's Structured Securities Group ("SSG") has modeling capabilities, both current and planned, meant to assess the growing structured securities market. How should those capabilities be used to monitor the rating agency ratings on structured securities? What enhancements that can be made to those capabilities to further utilize them effectively?
- What other sources of data would be most beneficial to this process? Preference should be given to data that is most easily obtained.

Other Considerations for CRP Qualifications

- What procedures and policies should be implemented to facilitate periodic,and transparent discussions between the NAIC, regulators and CRPs regarding NAIC's use of ratings, as a consumer, in its regulatory framework, including emerging investments & methodologies, questions NAIC may have on existing investments, discussions the CRPs wish to have with the NAIC, etc? Additionally, what safeguards should be put in place to ensure that the NAIC does not violate the Credit Rating Agency Reform Act?
- What is the overarching process for how the NAIC should implement a review process? Initial application, renewal application (what time frame), upon certain triggers such as SEC Violations or other legal actions?
- What are the qualifications that a rating agency should possess to be an input into the NAIC designation process, and how the NAIC should assess those qualifications?

- What should disqualify a rating agency from being a CRP to the NAIC?
- What are any actual, potential or potentially perceived conflicts of interest that should disqualify a rating agency from being a CRP to the NAIC, including measurable items such as material relationships with insurers or their ownership entity. How should conflicts of interest be defined for this purpose and how should they be disclosed to the NAIC?
- SEC Violations or other legal actions and how to assess.
  - If a CRP was to be disqualified based on criteria established, what steps should it take to remediate this at a firm, asset-class, sector or other level.

Ongoing review

- Define an examination process state regulators can utilize to provide oversight of the SVO in its implementation of this framework, its own production of designations and its usage of individualized challenges to CRP ratings in the designation process.
- Define an examination process state regulators can utilize to provide oversight of the SSG in its implementation of this framework, its own production of modeling-based designations (both internally and outsourced), including model governance and validation.

Required Sections and Information

Respondents to this RFP are asked to include the following sections and information in their submitted proposals:

• | Respondent Company Overview

- Concise description and overview of the company and its history.
- Outline of services the company offers, as it relates to requirements outlined in this RFP.
- A brief history and description of any work carried out for NAIC or any NRSRO in the last ten (10) years.
- A brief history and description of delivery of projects of this or similar type.
- A description of the company's familiarity with the state-based insurance regulatory framework and the role of the NAIC, including the Securities Valuation Office.
- A description of the company's familiarity with NAIC designations and how they are utilized in the regulatory framework, including for purposes of applying risk-based capital charges to insures to identify weakly capitalized companies.
- A description of the company's knowledge of credit ratings and credit rating agencies, including measurements of performance and default studies, or a description of the company's access to such information.
- A detailed description of the capabilities and experience of the company to perform the requirements of the project contemplated by this RFP, including experience evaluating data in a complex environment
- Details of the point of contact who will facilitate this project, their biography, experience, and contact information.
- Biographies of key personnel to be assigned to this project, including their role and specific experience and expertise.
- Detailed description of three to five similar engagements completed, noting projection duration and total cost, and a client reference for each.
- Disclose in detail any actual, potential or potentially perceived conflicts of interest of your firm or anyone working on this initiative may have analyzing rating agencies, issuers of securities with ratings (public or private) or investors in securities with ratings (public or private). Note it is recognized that these types of relationships will normally occur in concert with the familiarity and expertise this initiative requires, and that any actual, potential, or potentially perceived conflicts of interest will not automatically disqualify your firm or anyone working on this initiative.
- Any other information that the respondent feels relevant / useful as it pertains to the requirements outlined in this RFP.

• | Detailed RFP Response / Proposal

Respondents should prepare a detailed RFP response / proposal that addresses the objectives of the preceding section, including:

- A detailed narrative on how you anticipate approaching this project*
- What methodology(ies) you will utilize
- What data sources you will utilize
- What resources you will require from the NAIC, SVO and regulators
- Any initial conclusions or recommendations regarding the outcome of this project

*The first item above (approach to project) is considered the most important aspect of the respondent's proposal. Please consider this in your proposal as well as how the approach incorporates the methodology and data sources.

Project Plans

Project plans for completion of the analysis outlined in this RFP, that include, to a reasonable amount of detail:

- Key tasks, activities, milestones, and deliverables.
- Relevant timelines, schedules, and input / decision points.
- Any critical assumptions and / or dependencies.

Acceptable formats for the project plans include MS Project and MS Excel.

Analysis Approach

Additional detail and relevant supporting information on the proposed software or analytical tools and processes to be used within the development of the CRP Due Diligence framework and how they relate to and impact the proposed Project Plan, Resource Plan, and Budget and Contingency Plans.

Resources Plan

Detailed resource plans to deliver the CRP Due Diligence framework, as outlined in this RFP, that include, to a reasonable amount of detail:

- Resources (both vendor and NAIC) required.
- Hours per week, by resource (both vendor and NAIC).
- Location (on-shore, off-shore) of vendor resources.
- Rates (costs per hour) of vendor resources.

The resources plans should align to the project plans (in terms of key activities, milestones, and deliverables) and the fee schedule / pricing information.

Fee Schedule and Pricing Information

Detailed fee schedules, total projected budgets, and other pricing information for phase, including assumptions on:

- Additional Expenses (e.g., travel, lodging, meals, etc.)
- Technology costs (e.g., hardware, software licensing, etc.) to set up and maintain the CRP Due Diligence framework .
- Key Milestones and Deliverables (and how they relate to payment phasing).
- Recommended financial contingency provisions.

The NAIC will consider both fixed-fee and "time and materials" bids for development of the CRP Due Diligence framework.

Project Management

A detailed explanation of the project management tools, processes, and approaches to be used on the project, including:

- How vendor resources will integrate with NAIC resources.
- A communication plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how key stakeholders will be engaged and kept updated on progress to date, hours / budget vs. plan, issues, and input and decisions needed, etc.
- A change management plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how effective change will be delivered across all stakeholders to ensure the long-term success of the modernized CRP Due Diligence framework.
- Project governance considerations.
- A project risk assessment and risk management plan.

• | Additional Required Documentation

Respondents must provide the following information as part of their proposal:

- W-9 Form.
- Certificate of Insurance for Worker's Compensation.
- Certificate of Insurance for Professional Liability.
- Certificate of Insurance for Cybersecurity.
- Signed NAIC Conflict of Interest Form (see Appendix 1).
- Vendor Standard Terms and Conditions (if you do not agree to, or if they vary from the NAIC Standard Terms and Conditions, see Appendix 2).

• | Additional Instructions

- Please reference RFP-XXXX on all parts of the proposal.
- Please ensure you have provided the following Point of Contact Information:

  – NAME

  – COMPANY

  – EMAIL

  – PHONE

Proposal Submission

Proposals must be received by 5pm Central time on May 15, 2024, via email to Jim Woody at Proposals@naic.org.

RFP Provisional Timeline

	ACTIVITY	DATE
1	NAIC Issuance of RFP	
2	NAIC public posting of RFP on website + press release	
3	NAIC hosted project clarification & Q&A Session register here	
4	Vendor intent to Bid due to Proposals@naic.org [7]	
5	Vendor RFP questions due to Proposals@naic.org [8]	
6	NAIC responses to vendor questions [9]	
7	Vendor proposal submissions due to Proposals@naic.org	
8	NAIC notice of selection for vendor interview [10]	
9	Vendor Interviews	
10	NAIC issuance of award to the selected vendor - projected	
	Projected Project Start Date	

The NAIC reserves the right to change or alter timing and activities as appropriate.

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

Point of Contact

Any questions regarding the requirements outlined in the RFP should be directed to Proposals@naic.org by Month, Day, Year.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

[7] Potential respondents are asked to submit an email indicating their intent to bid by Month, Day, Year mail to Jim Woody at Proposals@naic.org.

[8] Each respondent is asked to send a single set of questions (vs. multiple sets of questions) related to RFP and response requirements.

[9] Submitted questions will be anonymized and responses to all questions will be posted to the NAIC website.

[10] The NAIC reserves the right to interview a limited number of bidders based on its evaluation of the submitted proposals. Submission of a proposal does not guarantee an interview.

Selection Process

A committee including NAIC senior leadership has been designated to review the proposals, interview selected bidders, and, if appropriate, select a vendor to complete the scope of work outlined in this RFP.

This committee will also conduct regular progress meetings with the selected firm during the development and demonstration of the Proof of Concept, and during the Mobilization Planning phase.

Assessment Criteria

The following factors will be considered in making the vendor selection:

- Knowledge and understanding of NAIC systems, processes, and organization.
- Knowledge of the specific requirements and ability to understand the project.
- Experience with similar projects.
- Qualifications of staff dedicated to project.
- Professional reputation of the firm.
- Proposed project costs and timelines.
- Quality of project plans.
- Completeness of proposal.
- Proven ability to provide the identified deliverables on time and within budget.

Presentations

Based on responses, NAIC reserves the right to request a presentation of the RFP response and demonstration of capabilities included in the RFP response document.

Presentations are currently scheduled to take place from Month, Day through Month, Day, Year.

Conflicts of Interest

The NAIC recognizes that, given the broad scope of this project, any vendor with the experience reasonably necessary to produce the work may have certain conflicts of interest based upon past associations with regulators or industry participants.

These conflicts of interest will not automatically disqualify the vendor, but the vendor must have verifiable policies and procedures in place designed in compliance with established industry standards to address conflict-of-interest issues that may arise.

All relevant items must be approved prior to contract execution by NAIC's Acting Chief Executive Officer/COO/CLO.

NAIC Reserved Rights

The submission of a proposal does not guarantee an interview with the selection committee or a demonstration of capabilities to the committee.

The NAIC reserves the right to reject any or all proposals, request new proposals, or request additional information.

NAIC also reserves the right to further negotiate with any or all bidders.

The NAIC also reserves the right not to award a contract for this project.

Reasons for not awarding a contract could include, but are not limited to:

- Lack of acceptable proposals.
- An inability to come to terms with a vendor.
- A finding that insufficient funds are available to proceed.

The NAIC also reserves the right to redirect the project as is deemed advisable.

The NAIC also reserves the right to cancel this RFP at the direction of its membership.

APPENDICES

Appendix 1	NAIC Conflict of Interest Form
Appendix 2	NAIC Standard Terms and Conditions

Appendix 1 | NAIC Conflict of Interest Form

Any Entity that desires to contract with the NAIC must complete this form, including suppliers, consultants and purchasers of goods or services. All potential conflicts must be disclosed and approved before contract execution.

CERTIFICATION

- ____________(*"Entity"*) did not provide gifts, favors, membership points or any other benefits to any employee or representative of the NAIC to affect the bidding and selection process for this contract.
- *Entity* did not and will not receive gifts, favors, membership points or any other benefits from any employee or representative of the NAIC in connection with the negotiation or implementation of this contract.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not former NAIC employees unless disclosed below.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not immediate family members of NAIC employees unless disclosed below.

The signatory below is a duly authorized representative of Entity and hereby certifies to the authenticity and veracity of this disclosure.

______________________________ ____________
Authorized Entity Signature *Date*

____
Print Name & Company Name

DISCLOSURE

DISCLOSURE OF POTENTIAL CONFLICT

....
....
....

______________________________ ____________
NAIC CEO or COO *Date*

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Appendix 2 | NAIC Standard Terms and Conditions

STANDARD TERMS AND CONDITIONS
for
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS PURCHASE ORDERS FOR SERVICES

As used herein, "Seller" means the person, firm, or corporation to whom this Purchase Order is issued; "Buyer" means the National Association of Insurance Commissioners, a nonprofit Delaware corporation.

1. **Acceptance of Terms and Conditions.** Seller agrees to perform the services ("Services") described in any purchase order ("Purchase Order") in accordance with these Terms and Conditions. Upon acceptance of a Purchase Order or upon commencement of Services, Seller shall be bound by these Terms and Conditions and all provisions set forth on the face of any applicable Purchase Order, whether Seller signs or otherwise acknowledges these Terms & Conditions or the Purchase Order, unless Seller objects to such Terms and Conditions in writing prior to commencing Services.

2. **Revocable.** This writing does not constitute a firm offer and may be revoked at any time prior to acceptance.

3. **No modification.** No agreement or other understanding in any way altering the terms, prices or conditions of the applicable Purchase Order or these Terms and Conditions shall be binding upon Buyer unless made in writing and signed by Buyer's duly authorized representative.

4. **Termination.** Buyer may immediately terminate the Purchase Order upon written notice to Seller if Seller fails to perform or otherwise breaches these Terms and Conditions, files a petition in bankruptcy, becomes insolvent, or dissolves. Buyer may terminate the Purchase Order for any other reason upon thirty (30) days' written notice to Seller. Upon receipt of notice of termination, Seller shall cease to provide Goods and/or perform Services pursuant to the Purchase Order. In the event of termination, Buyer shall be liable to Seller only for those Services satisfactorily performed before the date of termination, less appropriate offsets. Buyer shall not be subject to any charges or other fees as a result of such cancellation. Seller may terminate this Agreement upon written notice to Buyer if Buyer fails to pay Seller within sixty (60) days after Seller notified Buyer in writing that payment is past due and that it intends to terminate the Purchase Order.

5. **Warranty of Services.** Seller represents and warrants that all Services shall be completed in a professional, workmanlike manner, with the degree of skill and care that is required by current, good, and sound professional procedures. Further, Seller warrants that the Services shall be completed in accordance with applicable specifications. Seller represents and warrants that the performance of Services hereunder will not conflict with or be prohibited in any way by any other agreement or statutory restriction to which Seller isbound.

6. **Seller's Indemnification.** Seller shall indemnify, hold harmless, and at Buyer's request, defend Buyer, its officers, directors, agents and employees, against all claims, liabilities, damages, losses and expenses, including attorneys' fees and costs of suit arising out of or in any way connected with any claim by a third party against Buyer alleging that the Services infringe a patent, copyright, trademark, trade secret or other proprietary right of third party. Seller shall not settle any such suit or claim without Buyer's prior written consent. Seller shall also indemnify and hold harmless Buyer from any injury to person or property arising out of or caused by Seller's performance of the Purchase Order. Seller agrees to pay or reimburse all costs that may be incurred by Buyer in enforcing this indemnity provision, including attorneys' fees.

7. **Compliance with Laws.** Seller shall comply with all laws and regulations of federal, state and local governments, including without limitation, laws and regulations dealing with fair labor standards, civil rights, and public contracts. Seller further warrants that all Services performed pursuant to the Purchase Order have been produced or performed in compliance with such laws and regulations and Seller agrees to indemnify Buyer for any liability resulting from such noncompliance by theSeller.

8. **Price.** The price to be paid by the Buyer shall be the price contained in Seller's bid and/or the price stated on the face of the Purchase Order whichever is less. Seller represents the price contained in Seller's bid is no higher than Seller's current prices on orders by others for similar products or services under similar or like conditions and methods of purchase.

9. **Invoices.** Seller shall submit invoices on each Purchase Order after each delivery. Buyer shall not be charged sales tax and shall furnish a tax exemption certificate upon request. Discounts will be taken from the date of acceptance of services or date the invoice is received by Buyer whichever is later. Buyer shall retain the right of offset.

10. **Force Majeure.** Buyer shall not be liable for any failure to perform including failure to: (1) accept performance of Services, or, (2) take delivery of the Goods as provided if caused by circumstances beyond Buyer's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

    Seller shall not be liable for any failure to perform including failure to: (1) provide Services, or (2) deliver Goods as provided if caused by circumstances beyond Seller's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

11. **Insurance.** Seller shall be solely responsible for maintaining adequate auto, workers' compensation, unemployment compensation, disability, liability and other applicable insurance, as is required by law or as is the common practice in Seller's trade or business, whichever affords greater coverage. Seller shall carry Comprehensive General Liability coverage and Umbrella or Excess Liability coverage with minimum limits of $1,000,000 per occurrence and $2,000,000 in the aggregate for property damage and bodily injury. Upon request, Seller shall provide Buyer with certificates of insurance evidencing adequate coverage naming the Buyer as additional insured.

12. **Limitation of Liability.** IN NO EVENT SHALL BUYER BE LIABLE TO SELLER OR SELLER'S AGENTS, OR ANY THIRD PARTY FOR ANY INCIDENTAL, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES ARISING OUT OF, OR IN CONNECTION WITH, THIS AGREEMENT, WHETHER OR NOT BUYER WAS ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

13. **Confidentiality.** In the event Seller gains written or oral confidential information of or from the Buyer, Seller agrees not to reveal to anyone or make use of such knowledge and information at any time for any purposes except as necessary in the course and scope of provision of Goods or performance of Services specified hereunder. Upon termination of the Purchase Order, Seller agrees to deliver to Buyer all such confidential information or work product belonging to Buyer.

14. **Assignability.** Seller shall not assign or subcontract this Purchase Order or any of its rights or obligations hereunder without the prior written consent of Buyer. Any assignment or transfer without such written consent shall be null and void.

15. **Publicity.** Seller shall not use Buyer's name in any form or attribution in connection with any solicitation, publicity, advertising, endorsement, or other promotion.

16. **Survivability.** Any obligations and duties, which by their nature extend beyond the expiration or termination of this Purchase Order shall survive the expiration or termination hereof.

17. **Choice of Law.** This Purchase Order shall be construed in accordance with, and disputes shall be governed by, the laws of the State of Missouri.

18. **Severability.** If any provision of this Purchase Order shall be deemed to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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Do you agree to the NAIC Terms & Conditions? Please sign one.

YES	______________________Signature	__________________Date
NO	______________________Signature	__________________Date
If NO,	Please provide your Terms and Conditions of Services if you do not agree to the NAIC Terms & Conditions attached.	

DRAFT

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Interested Parties of the Financial Condition (E) Committee

From: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

DATE: August 2, 2024

RE: Response to Written Comments on Holistic Framework on Insurers Investments & Workplan

On February 15, 2024, the Financial Condition (E) Committee exposed a revised draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review,* along with a proposed Workplan and regulators responses to the previous comments submitted by interested parties. The following sets forth regulators responses to comments received on the February 15 exposure which were submitted April 8.

General Comments-Comments Not in Response to a Specific Recommendation in the Framework

Commentor	Comments
The Lease-Backed Securities WG	The Lease-Backed Securities Working Group, is fully in support of the NAIC engaging an outside consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs) in accordance with the principals laid out in the E Committee Framework -- a Holistic Approach. Over the past few years, we have followed the many discussions regarding the NAIC's desire to improve their oversight and monitoring of CRP ratings, with a particular focus on the ratings of private placement securities. Much of the discussion has been based on repeated suggestions from the SVO that there is a quality difference between the ratings of public and private placement securities (or between the larger agencies that typically rate the large public transaction and the smaller ratings providers who frequently rate private placements) and that because "private" securities do not have the same "market validation and transparency" of publicly-rated securities, there are potential hidden risks in the "private" market.
Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance.	
ACLI	The American Council of Life Insurers (ACLI) appreciates the exposure of holistic investment framework documents and we applaud the work that you and your fellow members and staff have put into this project to date. In particular, the Memo to Interested Parties (Memo) was especially useful in understanding the thought process that went into making the workplan and framework updates, and as one of our members noted, the

	transparency included in that document is exemplary. Overall, ACLI supports the concept of a holistic approach to regulating insurer investments and we continue to do so. As the committee works on items related to action items four and five, we appreciate the regulators already transparent process, and look forward to participating in the process further regarding the conceptual centralized investment support and an investment focused work group. When reviewing the changes to the framework document, our members generally thought the updates were thoughtful and appropriate. We appreciated the clarification that the purpose of the framework is for regulators to best achieve their duties to oversee the insurance industry they regulate. Additionally, we agree and understand that the broad goal of regulators is to ensure company solvency as a part of consumer protection. We also understand that other impacts of the regulatory requirements, such as impacts to the market, are secondary to consumer protection. To be clear, we positively viewed the framework as an indication that there are other impacts to consider if regulatory requirements change and the NAIC was to take a broader view than just solvency. We further appreciate the call out to coordination and believe that coordination and transparency will be key.
Regulators Response: Comments in support	
American Investment Council	As noted in our October 9, 2023 comment letter, AIC members believe the Investment Framework and E Committee's receptiveness to meeting with stakeholders on the Investment Framework represents a positive development in the NAIC's ongoing efforts to modernize the regulation and supervision of insurer investments. There is a clear need for a holistic, top-down approach to evaluating regulators' concerns with the existing regulatory framework and coordinating any resulting workstreams. Given the precedential value and knock-on effects, it is critical that any potential changes to the US regulatory framework for insurer investments be carefully considered and implemented through an open and deliberative process. Such initiatives should include processes to identify state insurance regulators' specific concerns and assess whether those concerns are valid. In this regard, we were happy to hear the NAIC's recent announcement that it will delay implementation of its collateralized loan obligation ("CLO") modeling initiative until year-end 2025 to allow time for the American Academy of Actuaries ("Academy") to complete its foundational work on a new RBC framework for all asset-backed securities (including the Academy's assessment of whether individual CLO modeling is necessary or appropriate). We are similarly hopeful that E Committee's work to develop a due diligence framework for credit rating providers ("CRP") and address the NAIC's concerns with respect to "blind reliance" on CRPs will include methodical discussions related to the specific concerns that state insurance regulators have with respect to the current regime and an evaluation of all potential paths forward.
Regulators Response: Comments in support	
Met Life	First, and as expressed in our oral remarks during the March 18 meeting, MetLife wishes to express our gratitude to the Committee for conducting this process with exemplary transparency. We are confident that such an approach can only lead to more robust outcomes for our industry. We also want to reiterate our full support for the Committee's resolve to continue with all its current initiatives without pause or delay. Risks continue to

	build in industry investment portfolios, and stakeholders in the media and fellow regulatory bodies have taken note. We are confident that your continued resolute action in this area will exemplify the NAIC's active leadership in insurance standard setting and address any stakeholder concerns.
Athene	We continue to strongly support the Framework's aims of modernizing investment risk oversight and creating a consistent approach in calculating C1 capital across a diverse set of asset classes and structures. Insurer solvency is paramount, and we believe that a principles-based, RBC framework that is built on consistency and data-driven analysis will promote insurer solvency, while also providing stability to insurers' investment activities and fostering a vibrant life insurance market that meets the needs of US consumers.
Regulators Response: Comments in support	

Section I-Proposed Framework to Modernize the SVO

#1-Reduce/Eliminate "Blind" Reliance on CRPs but Retain Overall Utilization of CRPs with Due Diligence Framework (utilize an external consultant/resource to design and implement)

Commentor	Comments
Anderson Insights	**Assessing CRPs** A question posed by the Committee is what "analytical or performance criteria" can be used to produce "meaningful and consistent" measures of the nine CRPs for the many sectors and types of assets for which they produce credit ratings. A secondary question is how ratings of various asset types map across the different CRPs. Given the hundreds of thousands of debt instruments that insurers invest in it would take a very large number of analyses of individual securities to come up with reliable and demonstrable patterns of acceptable -- or unacceptable -- performance of each CRP for every asset type. Case-by-case determinations could be attempted. CRPs could be evaluated by comparing the ratings of one CRP against those of another. This is difficult given the fact that ratings are costly so many issues do not carry multiple ratings. Even so there is then the task of determining which opinions of the future will turn out to be "right". Another way would be for the NAIC itself to derive its own opinion of the likelihood of the realization of promised payments in the future and compare that to the opinion of the CRP. This is certainly being considered by the Valuation of Securities Task Force for specific instances. Given the hundreds of thousands of individual securities owned by insurers it would be quite difficult to analyze enough securities in order to develop patterns and actionable conclusions. Even then, these would simply be "opinions that are inherently subjective." **The Analytical Way to Evaluate Performance** The examination of the actual track records of the CRPs is probably the best way to measure the accuracy of their ratings. It is much easier to develop robust evaluations by comparing past projections to actual experience than to compare one projection against another. It would be logical and most productive for the RFP being develop by the Committee, then, to focus on the ability of consultants to use performance data to determine which opinions for which CRPs for which sectors have been more or less reliable. **The SEC mandates the annual publication of detailed performance data for all of the rating agencies it regulates. This, and perhaps the NAIC's own extensive historic data, could be helpful. For even more revealing results, however, the consultant would need to have access and the technical ability to combine and mine multiple databases. This could even include data as detailed as the characteristics of many individual**

	securities. Such analyses would not only provide hard data concerning historic performance of each CRP by asset sector but it would also facilitate the mapping of ratings. If ratings can be categorized by security type then the performance of like security types can be compared from one CRP to others which would provide a reasonable basis for comparing ratings. Initially such a system could assess and map CRP ratings, but ideally the consultant would build a system that the NAIC itself could use to provide regular updates even though this may pose certain challenges. Other Tools for Evaluating CRPs -- And the SVO Itself Quantitative analyses may be the best and most efficient way to identify potential issues with CRPs but the NAIC and its consultants should also be aware of and utilize many of the other elements that the SEC has required for many years to allow the public to make its own determinations of the amount of reliance they decide to place on the rating agencies. These include: • Public disclosure of rating methodologies and procedures used to determine credit ratings • Preparation of rating rationales explaining how the methodologies were applied for each rating (with no distinction between public and private offerings) • Policies to prevent misuse of material non-public information • Code of ethics • Disclosure of and policies to address and manage conflicts of interest • Qualifications of credit analysts and credit analyst supervisors • Information regarding designated compliance officer • Limits on the authority of rating agencies to act in the capacity of NRSROs only for assets in the five asset classes for which they were specifically registered with the SEC • Published Administrative Proceeding Orders which provide details concerning specific compliance issues for the individual rating agencies and • The annual report of the SEC's Office of Credit Ratings which "…summarizes the findings from our annual examinations and also provides information about NRSROs, their credit ratings businesses, and the industry more broadly." These are based on examinations to determine whether NRSROs were complying with their published procedures. Even as the NAIC uses these tools and others "to eliminate blind reliance on CRPs" it can use similar tools to evaluate the most important credit rating provider of all -- the Securities Valuation Office. An essential function of regulators is to conduct independent examinations of insurers. Departments of insurance themselves are examined every five years by the NAIC so all accredited members can have confidence that others are meeting the high standards of the NAIC. Of course the SEC conducts its own detailed annual examinations of all NRSROs and the financial statements of all public companies are audited. In this context it would be extraordinary for the NAIC not to commission periodic independent examinations of the SVO to provide the substantiation for its reliance on this key resource. Disclosures that are similar to some of those provided by all of the CRPs recognized by the NAIC could be required by the SVO itself. The SVO presently prepares none of the disclosures listed above. The most revealing would be "performance measurement statistics consisting of transition and default rates for each class"1 prepared by all of the NRSROs. Instead the SVO releases a two or three page "Annual Report from the SVO on Year-End Carry-Over Filings." This may be useful to EX-1 for budgeting and planning purposes but it provides no indication or insights into the actual quality of the work done by the office; just its volume. **An independent review of carefully sampled credit files would also provide a basis for justifying the substantial reliance the NAIC and**

	departments of insurance place on the SVO. In addition to conducting an independent review of the SVO there is a need on an ongoing bases for greater clarity concerning how regulators themselves can assess the quality of the analytical work of the SVO. As a part of the current review consideration should be given to explicitly charging an entity composed of regulators with oversight responsibilities. Of course the SVO staff has its own technical abilities and is a trusted advisor to regulators serving within the NAIC but it should be clear that in all instances it is the regulators themselves, considering this advice, who have the ultimate decision-making authority in all instances. In other words there should be no ambiguity as to whether staff is required to follow the directions of regulators. **To put this into effect the group responsible for SVO performance would need to have procedures in place to fulfil its responsibilities, perhaps relying to some degree on the types of reports recommended above. An outside consultant could assist in developing appropriate continuing procedures.** The group would also need to have clear authority over SVO management in analytic, but not necessarily administrative, matters. This would mean that a presumably small group of regulators would have visibility and input into the formal performance assessments of at least the top two levels of SVO management. Presently the VOS/TF sets forth requirements of the SVO in the Purposes and Procedures Manual but it has no explicit power to motivate or assess actual performance of the leadership of the SVO. This could be addressed effectively as a part of the current review process and would enhance effectiveness. **“Different Standards for Public Versus Private Ratings”** It seems to be widely assumed within the NAIC that private placements deserve special attention. It is said that they lack “the market validation and transparency of public ratings” and that insurers may “rating shop.” In the interest of “making the most effective use of regulatory resources,” both of these assumptions deserve examination either prior to or during a consulting engagement. Any consultant or advisor to the NAIC on this matter should have real world experience and actual market knowledge. The assumption that publics have greater “market validation” and “transparency” is suspect. The fact is that public bond offerings may have advance “road shows” to acquaint investors with an issuer in general terms and there are some “investor days” and earnings calls. Even so, the information available to the general market pales in comparison to what is available to the offerees of private placements. For publics it is not unusual to have extremely limited time to review actual offering documents before being expected to enter orders. Investors entering large orders quickly after announcements are favored in their allocations so often they must act very rapidly in order to receive preferential allocations of the bonds they seek. The contrast with privates is stark. Investors have access to a depth of information inaccessible in public transactions. They, their attorneys and credit experts review offering terms and documents in detail. They can and do demand access, detail and concessions to meet their needs. All of this is overseen by senior management and credit committees. Of course it is true that “the market” sees publics, but that is superficial compared to what is the actual practice for privates and there is no “take it or leave it” for privates either. **As to the contention that insurers “ratings shop” for privates it is important to note that the decision to retain one rating agency or another is a matter for the issuer**, working with the dealer for privates exactly as it is for publics. The SEC has identical requirements for the two types of issues and in any event the selection of a rating agency by the issuer

	is done for many reasons. Obviously the rating agency must have appropriate methodologies and a staff trained in the asset type. A rating agency may be sidelined because it has a backlog that would delay the rating or its prices may be uncompetitive for various reasons. An often-overlooked fact is that rating agencies add another set of eyes in the investment process. Their observations during the rating process can be invaluable even for insurers that have their own large and experienced investment staffs. The market perception that one rating offers more expertise and valuable insights is another reason a rating agency might be preferred. In short, the idea that there is "rating shopping" rather than "shopping for rating agencies" is no different for publics and privates. It is important to remember that the central objective of this draft framework is to determine what ratings can and cannot be relied upon. Ratings that are not up to standard or are unreliable should be weeded out for publics and privates alike as the work of the Committee reaches fruition. There is also substantial evidence that there are significant performance differences between publics and privates. It has been well established that privates actually perform better, not worse, than publics and have for a very long time. This is substantiated by work of the Society of Actuaries and academic researchers. These facts, too, should be considered when allocating scarce resources so as not to allocate a disproportionate amount of effort where it is not warranted. Another concern may be that within assets structured as bonds there could be provisions that regulators believe may not actually require issuers to make payments ("risk of non-payment for reasons other than credit"). Addressing this concern was the specific objective of SAPWG's bond project. On 1/1/2025 insurers themselves will be explicitly responsible for properly classifying assets that do not conform to the SSAPs. Consider how much easier this will be for insurers to make these important decisions when they have had in-depth access to the exact terms and provisions of a private placement. They will be much better informed and positioned to fulfill their obligations. Private placements are already being subjected to special scrutiny. Each year insurers are required to submit detailed and lengthy rating agency "rating rationales" for many thousands of privates for review by the SVO. Given that the SVO only provides Designations for less than 4,000 new filings a year3 it is reasonable to ask if adding many thousands more is an effective use of resources. Justification for all of this might become clear if the SVO can demonstrate that its analysis of all of this material has produced actionable results. If not, then sampling or elimination of this requirement should be considered. This is especially true in light of the fact that NRSROs are accountable for producing all of their rationales to exactly the same standards for both publics and privates. In summary, the reasons given that privates may deserve special attention may not survive scrutiny by those familiar with actual market practices. Careful consideration should be given to what degree of resources should be devoted to private placements.
Regulators Response: First major comment; the RFP will consider utilizing processes and data as already exist (e.g. the SEC) as well as how to better utilize data held by the NAIC itself via normal course filings. The potential to use data mining procedures should be a consideration as well and will be incorporated into the RFP. Second major comment; the NAIC Financial Condition (E) Committee will discuss and determine whether it wants to recommend to the Executive (EX) Committee that the NAIC commit to an annual examination, and possible public publication, from an independent party on SVO experience on its own designations. The RFP will	

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<tr><td colspan="2">incorporate this component as well, seeking recommendations on how to best implement this oversight process of the SVO.

Third major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process.

Fourth major comment; regulators agree regarding the qualifications of the desired consultant</td></tr>
<tr><td>Lease-Backed Securities WG</td><td>The Committee suggests that “the process may want to consider different standards for public versus private ratings, given the market validation and transparency of public ratings…..”

However, some of the most thorough studies on the credit performance of private-placement securities in insurance company portfolios are those conducted over a 29-year period by the American Society of Actuaries [see Appendix I]. These studies show that insurance company private placement securities have consistently had better credit performance than the broad public markets by a significant margin -- both in terms of rates of default (or the broader category used in the study of “Credit Risk Event”-- see Appendix) and loss-given-default.

Lastly, in response to the comment in the memorandum regarding “ratings-shopping” by investors (e.g. obtaining the highest public or private rating by selecting the weakest methodology), it is worth pointing out to regulators that it is the issuer of the bond, not the investor, who selects the rating agency or agencies for the issue. Many factors may influence that decision by the issuer: pricing is certainly one factor, but so is timing, relative expertise with the product type, appropriate methodology, etc., etc. But perhaps the most important factor, for both public and private issues, is the credibility or ‘market acceptance’ of the ratings provider. This credibility is essential to ensure that the issuer can successfully place the bonds. And as we indicated above, it is really y in the public markets, not the private markets, that investors are forced to “buy” a rating.

Finally, it goes without saying that the firm engaged through the RFP process should be somebody not only familiar with the NAIC organizational structure and current principles and practices, but also with a broad exposure to, and knowledge of, capital markets: Assessing the impact of any changes made to current practices on insurers’ ability to successfully access capital markets - - both in terms of availability and pricing of investments -- will be a key part of any recommendations coming out of this study.</td></tr>
<tr><td colspan="2">Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance.

Second major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process. Third comment; regulators agree regarding the qualifications of the desired consultant.</td></tr>
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<tr><td>Bridgeway Analytics</td><td>Addressing regulators' concerns over the “blind” reliance on agency ratings
Between the ongoing Valuation of Securities (E) Task Force workstream to design a process that would extend NAIC staff discretion over agency ranting-based Designations and the posted petition for the development of a request for proposal (RFP) to engage a consultant who would help the NAIC develop a due diligence program over the ongoing use of agency ratings (Attachment Eleven), regulators have made clear their determination to address concerns with “blind” reliance on agency ratings.

Related to both initiatives, we encourage regulators to consider cost-effective and transparent mechanisms that are attainable relatively easily and quickly, recognizing that, while helpful, they are not a substitute for more comprehensive mechanisms that might involve longer-term efforts. Our reports, Overseeing Designations and the Prudent Use of Agency Ratings and Investment Risk Oversight, articulate a spectrum of mechanisms with varying costs and timelines. Independence, which the Framework references, and precision must be balanced. On one end of the spectrum, systems and models can be developed at the standards set by rating agencies, which is not in the spirit of the Framework’s intent, given the costs. On the other end, regulators can place the onus on insurers to defend their use of agency ratings in business applications beyond regulatory compliance, demonstrating their genuine belief that the risk assessment is prudent and accurate, and avoiding flagrant misuse of ratings. This mechanism very much aligns with Principle (6) of the Workplan:

<blockquote>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.</blockquote>
By requiring insurers to use agency ratings in business applications beyond regulatory compliance and otherwise disclose differences between credit risk measures used in their internal processes and Designations used for regulatory purposes, regulators will be provided transparency on the degree to which Designations are credible.1 Confidentiality considerations might require the data to be reported publicly on an aggregated basis but available to regulators individually. As stated above, while not a substitute for more comprehensive governance mechanisms, disclosure requirements can be implemented relatively quickly since they do not rely on the NAIC to develop new methodologies or onboard new tools or personnel.</td></tr>
<tr><td colspan="2">Regulators Response: Constructive comments are always encouraged and helpful; these suggestions will be considered in the framing of the RFP and future actions taken by the regulators.</td></tr>
<tr><td>Structured Finance Association</td><td>The SFA’s membership represents most, if not all, sectors of the securitization industry that will be impacted by the final RFP. Importantly, any advocacy efforts undertaken by SFA must be based on the consensus of its broad membership. As such, any feedback provided by SFA regarding the RFP will represent a thoughtful compromise position of our industry membership. SFA believes that early engagement in the RFP drafting process between the NAIC and industry would be helpful. The opportunity to receive feedback from our CRP members, which each have unique approaches to the ratings process and bespoke methodologies, would seem especially useful. A collaborative approach should result in a more comprehensive RFP that ultimately generates a more meaningful analysis.</td></tr>
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	A. By design, CRPs are large organizations with diverse operations and extensive global relationships. If a consulting firm carries ratings from certain CRPs, or is a subsidiary of a firm that is rated by one or more CRPs, how will the SVO view this in terms of independence. B. Many consulting firms have a global presence, with their mandates cutting across industries. Will consulting firms be required to disclose all direct or indirect mandates at CRPs? If CRP mandates do exist, will information walls within a consulting firm be considered a mitigating factor? C. Will the criteria for determining independence also consider whether a consultant is on a rotational basis for certain mandates at a CRP, such as financial auditing? D. Will individuals at the independent consultant or the NAIC with prior CRP experience be viewed as potentially conflicted or will that be looked upon favorably? E. Which working group or task force within the NAIC will ensure the true independence of the consultant? Will the independent consultant have to attest to their independence prior to receiving a mandate? If the due diligence process will be continuous, will the independent consultant also periodically be evaluated for independence? F. Regardless of the criteria chosen to determine independence, will they be shared with the industry for comment before being made final? Equally as important as establishing independence will be confirming that a consultant has the technical prowess and relevant experience to prepare a due diligence framework for evaluating CRPs. For both criteria, members have questioned which specific benchmarks the SVO will reference to determine whether a consultant is qualified. Given the evolving nature of the structured finance market, our members have inquired if the RFP will require the due diligence framework to have an "initial" phase as well as an "ongoing" phase, the latter being used for a) newly emerging asset classes and b) ongoing reviews of CRP performance. Members have also inquired if the RFP/due diligence framework will make available an appeal process for CRPs that are not deemed to be acceptable for either phase. In designing the due diligence framework, given the acknowledgement by the NAIC that there are potential differences in transparency between public and private ratings, does the NAIC anticipate SFA Response to "Response to Written Comments on Holistic Framework on Insurers Investments" April 5, 2024 Page 4 creating separate processes and standards for evaluating CRPs as it relates to private versus public ratings? Members have also inquired about how the results of the due diligence process will be applied. Does the SVO anticipate mandating the independent consultant to perform a firmwide assessment of each CRP where, after assessment, the ratings from that CRP will or will not be eligible regardless of sector? Or will the due diligence process be performed on an asset-class, sector, or other specified basis, where certain ratings from a specific CRP may be eligible while other ratings from the same CRP may not? If some or all of a CRP's ratings are deemed ineligible, how often will that decision be reevaluated? Members have inquired as to the amount of time the independent consultant will have to respond to the RFP and, once returned, how the work product will be validated and which working group or task force of the NAIC will conduct the review. The current language references the "[Drafting] Committee to consider". Given the decision will impact regulators in all states, will the Drafting Committee elicit input from state regulators as well as other resources (internal or external)? Members have asked for clarification as to

	the expected frequency of CRP reviews to be conducted by the independent consultant. Some questions include: a. Will the due diligence be conducted periodically to capture changes in CRP performance? b. Would the independent consultant develop a framework for periodic monitoring and the objective measures on which it will be based? c. Will such a framework consider new asset classes or material changes in methodologies that may render past performance moot? Regardless, will such work be conducted by independent consultants once the recommendation is implemented, or would that fall on NAIC staff? iv. The third bullet point of Action Item #2 states: "The Committee would expose this communication for industry comment, including encouraging CRPs to comment."

Regulators Response: First major comment supportive of developing an RFP publicly with opportunity to comment, which is what was communicated up to and at the 2024 Spring National Meeting. With respect to each of the comments the following is noted:

A. To be clear, the intent of the RFP is to select a consultant that will assist the NAIC in designing a due diligence framework. The NAIC will develop the RFP through a public process, therefore requesting input from credit rating agencies, members of the industry and other impacted parties. While it's possible the consultant could be a public firm that is rated by one of the agencies, , selection of the consultant will consider this and any mitigating circumstances in the selection process.
B. Consultants will be asked to disclose conflicts of interest and selection of the consultant will consider this and any mitigating circumstances in the selection process. The existence of mandates/relationships will not automatically preclude a consultant from being selected.
C. It's not clear to us how a consultant that is asked to develop a framework that performs financial auditing will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
D. Its not clear to us how an independent consultant that is asked to develop a framework with prior CRP experience will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
E. Selection of an NAIC consultant will be made by the Executive Committee after receiving a recommendation from NAIC corporate, which includes NAIC employees and a limited number of state insurance regulators from Committee leadership. The recommendation will be made based upon perceived independence given the work of developing a framework and how that may conflict with the duties assigned to the consultant.
F. Criteria will not be shared with the industry unless it's part of the RFP finalized publicly.

Second major comment; note that with respect to initial and ongoing work, the NAIC only anticipates this consultant being utilized to draft an initial Due Diligence process; the regulators themselves will implement the process designed by the consultant.

Third major comment; to reiterate, the RFP will be developed publicly. In addition, at this point the regulators have not determined if the Due Diligence process should be different for public vs private ratings, and while it's possible that it could be different for different asset classes, that is not anticipated at this time. No decisions have been made regarding if some or all of the CRPs ratings are deemed ineligible, however a result such as that would be expected to occur as a result of decisions by the Valuation of Securities Task Force and E Committee based on the implementation of the process, and not the development of the Due Diligence process.

Fourth major comment; as previously noted by the Committee, the RFP will initially be drafted by regulators and the proposal will then proceed through a public process with an opportunity to comment and potential modifications made to the proposed RFP. To clarify, this is to develop a Due Diligence process, which will not involve implementation of the process. **Other comments** a. This has yet to be determined and is dependent upon the Due Diligence process drafted. b. This has yet to be determined and is dependent upon the Due Diligence process drafted. c. This has yet to be determined and is dependent upon the Due Diligence process drafted.

#2-Retain Ability within the SVO to Perform Individualized Credit Assessments and Regulatory Discretion When Needed under Well Documented Parameters (ideally rarely used)

Commentor	Comments
No comments received	

#3-Enhance SVOs Portfolio Risk Analytics Capabilities through tools and personnel which would be company specific and industry wide. Increase staffing to include analysts with investment actuarial and risk management backgrounds.

Commentor	Comments
Bridgeway Analytics	**The buildout of a CIE function** As explained by regulators, the recommendation would invest in risk analytics tools and corresponding personnel, which could perform company-specific, industry-wide, and macroprudential analysis and build a broader and holistic policy advisory function. We view the capabilities of forming independent opinions on risk and policy as critical to the holistic goals of the Framework. The function should consider resources that have a deep understanding of the interconnected elements of statutory accounting and RBC that are often challenged by the nature of needed subject expertise, which is often siloed. Action Item #4 under the Workplan, which addresses this recommendation, lists examples of initial related discussion points. We are encouraged by the initiative and suggest this Action Item also consider lessons learned from how other rulemaking bodies structured their supervisory and policy/regulatory processes, including expensive regulatory initiatives, such as CCAR and Solvency II, that can provide important guidance on governance and the effectiveness of various mechanisms.
Regulators Response: These comments are in support, and include constructive feedback regulators can consider.	
RRC	We believe that while credit risk that is represented in Bond portfolios is material, the regulatory needs there are incremental. Our greater concern lies in credit risk that exists in other parts of the insurance industry's invested assets, and in other aspects of investment risk. We have, at different times, highlighted two specific examples where we see exposure to credit risk outside of Bond holdings. The insurance industry's exposure to Mortgage Loans that are reported on Schedule B has grown significantly in recent years. Most of that growth has been within Life insurance companies, but there has also been material increases in exposure among other insurer types. The type and tenor of Mortgage Loans have also changed. At many

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<tr><td></td><td>insurance companies this has expanded to increasing amounts of direct exposure to Residential Mortgage Loans and to Construction Loans. Growth in Commercial Mortgage Loans, which consists primarily of non-amortizing bullet loans, is creating Memo 2 additional risk due to changes in markets in recent years in the Office and Retail sectors. Investments in Collateral Loans that are reported on Schedule BA have increased materially in the industry and represent a significant percentage of assets at some insurance companies. Collateral Loans are treated as fixed income instruments with a fixed income-like Risk-Based Capital factor. But the underlying assets supporting those Collateral Loans and the strategies behind them are varied. Beyond the issue of exposure to credit risk, we are concerned about significant increases in exposure to market volatility and liquidity risk. What tools and support are available to regulators to understand and assess these risks within insurance companies? Whether it is in Bonds reported on Schedule D or in other parts of the investment portfolio, the investment portfolios are more vulnerable to changes in markets and are less liquid than they were a few years ago. The significant increase in interest rates in 2022 that continues today had a substantial negative impact on the fair value of the portfolios. With the relative calm in the markets from 2008 to 2020 that prevailed along with low interest rates, it is possible that insurance company risk management systems are not sufficient to cover this increased level of market volatility. Liquidity policies and liquidity stress testing regimes may not fully take into account fair values that in many cases are significantly below carrying value. Market volatility and liquidity risk are potentially impacted by asset concentrations in illiquid, more complex and less transparent asset classes.

The Investment Framework Workplan includes six Action Items as next steps. Based on our comments in this letter, there are two Action Items that we strongly endorse and encourage expedited consideration. Action Item #5 proposes the formation of a new regulatory working group that would also support the Financial Analysis Working Group, the Valuation Analysis Working Group and other working groups. Incorporating the views of regulators that have a firsthand view into actual changes in insurance company portfolios and investment practices, and concerns on how this could impact the ability of those companies to meet policyholder claims would be extremely valuable in the discussion and in the development of regulatory priorities. We encourage the E Committee to move on this Action Item quickly. Action Item #4 proposes the formation of centralized investment expertise with a focus on expertise that may not currently be sufficient within the NAIC. Risk-Focused Analysis and Risk-Focused Examinations encourage regulators to recognize where the risk is and where it is going, not just where it has been. It is important to not just review where past problems or issues were, but to look at prospective risks, i.e., where the next problem or issue may be. We understand that this requires discussion and the engagement of specialized resources that may not currently be available and therefore will take time to develop. We recommend that this effort begin quickly. This should include an agreed upon timeline so that regulators and other stakeholders have a clear view of the goals and progress toward those goals.</td></tr>
<tr><td colspan="2">Regulators Response: Members agree that the risk analysis capabilities contemplated in the Framework should be broader than just bonds and credit risk. With respect to the Workplan, Members agree that action item #5 is important, but does not plan on forming such a group until the members have greater availability to take on this work (e.g. after this workplan is finalized). Members also agree with respect to action item #4 and the need for that to be forward looking, however, the NAIC will need to hire additional staff to take this on which could take</td></tr>
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some time to put into place considering the NAIC budgeting process and hiring process. The suggestion of a timeline and roadmap is a helpful suggestion in moving forward.

#4-Enhance Structured Asset Modeling Capabilities in line with #3 and in support of CRP due diligence function (inclusive of model governance and validation of key parameters).

Commentor	Comments
Athene	The Framework envisions continued utilization of CRPs, together with the development of a strong SVO due diligence function. A strong SVO due diligence function will complement the role of CRPs, by focusing on broader risk analysis and not replicating their capabilities. We believe the SVO's CLO modeling tool is best suited for due diligence, benchmarking, and advisory functions. This avoids inefficiency, leverages market mechanisms, and allows assessing the tool's effectiveness before potentially impacting capital parity by replacing CRPs for CLO designation purposes. We understand the question of the appropriate uses for the SVO's CLO modeling methodology will be addressed at the technical work stream level as the methodology is further developed, and we will continue to provide our input into those discussions.
Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Technical comments regarding the CLO modeling project should be referred to the VOSTF. We appreciate your willingness to do so as noted in your letter.	

#5-Build Out a Broad Policy Advisory Function that can recommend future policy changes. If needed, hire key external consultants to be on retainer. This would be akin to the use of the AAA of similar for RBC and reserving.

Commentor	Comments
No comments received	

#6-Establish a Broad Investment Working Group under E Committee that acts in an advisory capacity to various investment items (similar to FAWG/VAWG) including 1) review of bond reporting under new principles-based bond definition 2) challenges to individual designations provided by CRPs; 3) review of work provided by external consultants.

Commentor	Comments
No comments received	

#7-Rename the SVO and VOSTF to better reflect the groups beyond securities valuation (Establish a Broad Investment Working Group under E Committee. Empower SVO to utilize tools and analysis to raise issues to other groups. Reduce the size of VOSTF.

Commentor	Comments
No comments received	

<u>Section II-Risk-Based Capital for Investments</u>

1-Changes in RBC factors should consider market impacts and consistency across asset classes. Should be a goal of "Equal Capital for Equal Risk." Care should be taken to consider the impacts of developing RBC factors for CLOs for an asset class while similar asset classes remain the same. Factors to consider may include impacts on asset allocation and financial markets, in balance with the level of urgency of regulatory action.

<table>
<tr><th>Commentor</th><th>Comments</th></tr>
<tr><td>American Investment Council</td><td>Notwithstanding these encouraging developments, we are concerned by – and opposed to – the introduction of the concept of "equal capital for equal tail risk" that was included in the latest iteration of the Investment Framework. While the specific intent of this change is not clear, the potential narrowing of the concept of capital parity is not appropriate. Instead, the language should be revised to reflect that the Investment Framework recognizes that tail risk is an important element of the broader, more appropriate, concept of "equal capital for equal risk," for example that the concept "includes, but is not limited to, tail risk."</td></tr>
<tr><td colspan="2">Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as equal capital for equal risk which includes consideration of tail risk.</td></tr>
<tr><td>ACLI</td><td>Clarifying the intent for including "tail" risk under the principle of "equal capital for equal risk". ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework, measured in risk-based capital (RBC). However, the conversation around the holistic framework would suggest E Committee's approach is broader than just a focus on RBC. As a result, clarity on the inclusion of the "tail" concept in the framework would better inform industry understanding and further comments on this point.

Is the goal of this framework to be focused only on capital charges for asset-risk (C-1) or is it meant to be true holistic view including both capital and reserves together when using "equal capital for equal risk" in the framework? For example, ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework measured in risk-based capital. However, it was not clear to us whether the committee was looking at this framework as only addressing capital, or if it was looking at overall solvency that would also include reserves. The change to include "tail" might suggest the former, but clarity on this point will provide a better understanding of the goal of this approach.</td></tr>
<tr><td colspan="2">Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as equal capital for equal risk which includes consideration of tail risk.

With respect to equal capital for equal risk, since this refers to capital, we believed it was self-evident that this does not refer to reserving, for which actuaries use various methods of reserving to assure adequacy of reserves. This is not to suggest that other initiatives of the NAIC to address investment related matters are not appropriate, rather that they are not intended to specifically address the Framework, which is guiding in terms of future potential changes, but is not based upon principles that might be more guiding in terms of future aims for investments by insurers and that may impact reserving.</td></tr>
</table>

Met Life	Finally, we want to express our support for the Framework's focus on tail risk as the key equalizer of capital. As the American Academy of Actuaries has noted, the loss behavior of subordinated structured securities in tail scenarios is significantly more adverse than the behavior of corporate credit of the same rating in those scenarios. Subordinated structured securities are behind much of the increase in industry portfolio risks seen in the last few years. Determining the appropriate capital that insurers should hold against these investments by focusing on their tail risks through modeling, when practical, will greatly enhance the current RBC approach and will help the NAIC achieve its stated goal of reducing blind reliance on ratings.
Regulators Response: Comments are in support.	
Athene	As stated in our October 9 letter on the draft Framework, Athene supports the concept of capital parity, or 'Equal Capital for Equal Risk', and the Framework's goal of achieving such capital parity. The revised Framework now refers to 'Equal Capital for Equal Tail Risk' throughout the document, but the E Committee Memo to Interested Parties explains that the "Drafting Group Members are supportive of the view of equal capital for equal risk which includes consideration of tail risk." We agree that tail risk is a critical consideration for RBC but believe the E Committee Framework's original language provided a more appropriate characterization than the draft revised Framework, which could inadvertently narrow the meaning of Equal Capital for Equal Risk. Additionally, at this point there are varying views on the precise definition and scope of 'tail risk' as an NAIC approved terminology within the RBC environment. We believe that the Equal Capital for Equal Risk concept should be explored both in the context of asset capital charges, as well as in broader tail risks captured by RBC, such as reserving for difficult-to-value liabilities (e.g., long-term care) and soft capital benefits achieved through covariance from riskier blocks of business. In our view, it is premature to limit regulatory assessment to only those risks that might be considered 'tail risk', which has not been fully defined. By way of example, RBC C1 bond factors are calibrated to a 96th percentile risk of loss over 10 years using default rate data from 1983-2020 and recovery data from 1987−2019; however, this is not the case for all asset classes. For example, the common stock C1 factor is measured as the 94th percentile worst 2-year loss on the S&P 500 using data between 1960 and 1991, and the commercial mortgage factor is the tail expected loss at the 92nd percentile of modeled loss projected using 10-year periods that begin in each calendar quarter from 1980–2000, and with default algorithms that are based on commercial mortgage loan experience tracked from the 1970s through 2010. One would presume that all of these models are assessing 'tail risk', though we are unaware of an NAIC workstream that has attempted to delineate how each of these meets a common definition of tail risk across asset classes. As noted in the E Committee Memo, "Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets", and that "comments on tail risk should be directed to the appropriate technical work streams" (emphasis added). Given the foregoing, we recommend the Framework be revised to clarify that the goal remains "Equal Capital for Equal Risk," and that this concept "includes consideration of tail risk" when the term is first referenced. This will allow the NAIC processes to advance to a place where RBC risk tolerances can be better analyzed, including for consistency, and the definition and scope of tail risk can be better defined.
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

Regulators have not suggested the current RBC framework is inadequate when it comes to matching the principle and does not believe the same methodology is required to be used for the development of all factors, as the degree of data and other circumstances and materiality of the asset class may dictate other methods are satisfactory.	
Structured Finance Association	II. Revision of "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk" With the release of the Memo, the NAIC noted the change in the language regarding future revisions to RBC Risk Factors from "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk". While the NAIC has stated that this change was not meant to be material, and the two terms are used interchangeably within the NAIC, differing opinions exist within our membership as to which term is more appropriate. Some members believe that "Equal Capital for Equal Tail Risk" is consistent with the RBC framework where capital factors should be calculated by evaluating the tail risks specific to the assets in question. Other members have proposed restoring "Equal Capital for Equal Risk" as the operative term, but for its first instance adding an appended clause as follows: "Equal Capital for Equal Risk, noting that the full distribution of risk that includes tail risk should be considered." SFA requests that the definition and its intended use be clarified
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

2-The RBC-IRE WG should consider and address areas where inconsistencies in treatment across asset classes incentivize a particular legal form. A key example is private credit funds, where underlying assets are fixed income, but regulatory barriers assign an equity factor.

American Investment Council	We will be submitting a separate comment letter to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE") regarding the Oliver Wyman study exposure on the performance of asset backed security residual tranche investments and the associated potential increase in capital charge on such assets from 30% to 45%. Having carefully reviewed the Oliver Wyman study, we feel strongly that the study does not support a 45% capital charge on such residual tranches and remain committed to supporting a data driven capital charge that appropriately reflects the risk of these assets. We are also concerned with public statements by state insurance regulators indicating that the imposition of a 45% capital charge on residual tranches is viewed as a template by regulators to justify punitive capital charges for other high-performing assets that are well understood by the capital markets but relatively newer to insurance company balance sheets. This concept is referenced in the Investment Framework Recommendation 9, but we are concerned with the precedential impact of these statements as they seem to suggest that any future interim charge imposed using the residual template would not be supported by data
Regulators Response: Regulators continue to support the idea for a process that would provide new asset classes a temporary factor when materiality, timing and historical data may preclude specific or immediate analysis to immediately develop a capital charge that is more long-term. The process would initially assign different factors for different broad categories of risk. This is in contrast to the current process where the form of the investment directs the reporting which drives the RBC factor. Regulators would also like to clarify that RBC charges are not punitive.	

WORKPLAN

Action Item 1-

ACLI	The workplan document opens with a set of core principles. These principles help us fully understand the E Committee's direction and seem thoughtful and appropriate. We agree that prudent investments need to be managed by the insurers. However, a crucial aspect of this function is understanding the perspective of regulators, which helps shape the insurer's management of its assets. For this reason, transparency with the industry and regulators across all levels will be critical to success. Further, we believe it is necessary to consider not only the 3 agendas of existing workstreams but also any new work that may emerge during the development of the holistic approach. Accordingly, we agree and support Action Item One – updating the framework as needed.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 2-

ACLI	As noted in our previous comments, we continue to support hiring a consultant to provide recommendations for a due diligence framework for credit rating providers (CRPs) -- Action Item Two. We applaud the committee for its work and receiving approval for hiring a consultant and for its focus on transparency during the RFP process. ACLI looks forward to engaging with the committee and the Valuations of Securities Task Force on this work.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 3-

ACLI	Action Item Three of the workplan notes again that there will be no pause in existing work and the Committee will continue to defer to the subgroups. We also will comment on Action Item Six, the development and implementation of best practices for enhanced coordination between the Committee's workstreams. We understand that the framework is meant to be a longer-term flexible document, coupled with the core principles. It makes sense to continue the current work, as discussed previously. Continuing the existing work will require clear coordination between E Committee and the workgroups. For example, the framework notes that LATF might have some work that would be considered a part of the framework. To our knowledge, there has been no further mention of the framework in the Task Force's existing work or any potential new work being considered. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 4-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the

	committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 5-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 6-

ACLI	Coordination with investment-related initiatives of the Life Actuarial Task Force (LATF) and other related work. The framework includes references to work being done at LATF as an example, but we are not aware of any additional conversations about what work LATF is doing that would be overseen by this holistic process. Additionally, it is possible – if not likely— there would be new work that is not yet contemplated or not yet begun, that should be included in the holistic approach as well. Clarity on how LATF and other related work will be included in the framework would be helpful. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires. Development of a new document to help identify and strengthen coordination of work being included under the framework. Similar to the 13 macroprudential considerations, such a document would complement the framework and the workplan and help track all the work that is being overseen by the framework. We believe new work should also be included so that all the work, both current and new, being overseen would be tracked and updated. We also suggest that a more defined process for continued coordination and transparency is necessary to foster all parties being on the same page. We are cognizant of not wanting to add layers of bureaucracy or delay to an already public process. As noted above, our recommendation is to create a document to track current work and new work that is included in the scope of the holistic framework. We would suggest the document include 1) the name of the group, 2) the overarching goal of the work, and 3) whether the work would impact any other solvency related item. To be clear, we are not recommending a change to the framework or the workplan but rather the addition of a new document that would continue to be tracked and updated as work proceeds. Such a document seems like a good best practice that could be utilized to support better coordination and will give more visibility into the collective impact of all the work being done in this space. ACLI was present for the recent E Committee meeting in Phoenix and heard comments from the workgroups and task forces chairs. We think that was a good step forward in hearing from those groups. We are wondering if interested parties can comment during that process or if there is a way to introduce some interested party comments into this process? If there is an alternative option for incorporating interested party feedback into this process, we would be happy to engage in further conversation.

Regulators Response: The Drafting Group will develop a matrix of work originated by the Committee directly related to the implementation of the Investment Framework, or originated by subordinate groups of the Committee that help to implement the Investment Framework. Such a matrix will NOT include individual technical matters at Task Force's and Working Groups (e.g. unrelated changes to the SVO Manual, Blanks and Instructions, RBC changes, etc) not directly related to the Framework. Such a list would also include initiatives at the Life Actuarial Task Force directly related to the implementation of the Investment Framework. As such, this matrix will NOT list whether the work would impact any other solvency related item, but rather only other matters included in the matrix directly related to the Framework, otherwise the Matrix would include all activities within the Committee, which would be far too cumbersome for its requested objective. With respect to coordination, and the reporting by chairs to the Committee at the Spring National Meeting, this is specifically designed to provide the Committee with an update on work related to the Investment Framework, and like other reports, the Committee chair asks for comments from members and interested regulators and interested parties and would suggest comments be made after such reports to the extent they are specific to the role of the committee in coordination, but if they are related to the technical matters being consider by those groups, those comments should be directed to those groups.	

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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,~~ In early 2024, 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

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The Committee received ~~will request~~ approval from the NAIC Executive (EX) Committee at the 2024 Spring National Meeting 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~~ T~~t~~he NAIC Securities Valuation Office (SVO) is currently working to create a robust RFP proposal with consultant independence as a priority. Once developed, the drafting group will review the proposed RFP, make modifications deemed appropriate, and invite further changes by the Committee. Once completed, the Committee will expose this communication for industry comment, including encouraging CRPs to comment. 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.~~ The work plan will continue to review appropriate incorporation of risk-based capital (RBC) recommendations into the final Framework, However, at this time the work plan does not include related action items and will continue to review inclusion in a future iteration.

Framework for Regulation of Insurer Investments – A Holistic Review

Executive Summary

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.
- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.
- At the most basic level, the question has arisen – **what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?**
- The historical focus of the SVO has been on risk assessment of individual securities, with filing exempt securities blindly reliant on credit rating providers (CRPs) for designations.
- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics.
- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.
- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.
- This memo provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.
- It also provides high-level guidelines for considering consistency of capital across assets as the investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

Background

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators of the 50 states, the District of Columbia and the five U.S. territories. NAIC Designations are produced solely for the benefit of NAIC members in their capacity as state insurance regulators as a tool to help assess insurer's solvency.

There are several workstreams underway related to investments, which are meant to address a material, observable shift in insurer investment strategies – primarily but not limited to life insurance/reinsurance – toward more private assets, more structured assets and more complex assets. The workstreams are not meant to be punitive for the sake of being punitive, or to discourage innovation in insurers' investment strategies, but they recognize existing frameworks did not contemplate these investment strategies and will need to be enhanced to appropriately incorporate their characteristics into the regulatory framework.

While this goal is largely accepted by all interested parties as being necessary, the details of various proposals and the processes by which they have been undertaken have received an immense amount of attention from industry, other supervisory stakeholders and special interest groups, with stark divides in approval or disapproval of various initiatives. The collective commentary has included a significant amount of constructive feedback and valid critique, but has also been marked by misconceptions and competitive dynamics.

Recent comments have referred to these projects as "piecemeal" and "disjointed" and recommended a pause to all such workstreams. Others have suggested that these efforts are motivated by objectives other than enhancing regulators' ability to protect policyholders. In reality, what is being observed is the natural strain that results from solving complex problems through open and democratic processes. ~~A number of compounding factors contribute towards making these projects particularly challenging endeavors:~~

~~**Highly technical nature** – the ability to assess risk and design a regulatory framework for structured assets is highly dependent on the ability to model collateral performance through the capital structure of an extremely wide variety of securitization types. This requires highly specialized expertise. With experts from a divided group of stakeholders providing differing assessments of the modeled data, it is difficult for policy-making regulators to parse without conducting an impartial analytical study.~~
~~**Separate working groups** – the state-based framework has long utilized a "three-legged stool" approach to addressing accounting, risk assessment, and capital, which are governed by separate working groups. While all three legs of the stool have always needed to contemplate what the other legs were doing in order to have a cohesive regulatory framework, a project of this magnitude that spans all three legs requires a much more intensive level of coordination, which is further challenged by its exploratory nature.~~
~~**Exploratory nature** – assessing risk and capital is a balance between being too broad, and failing to appropriately capture material risks, and being too detailed, such that the framework is impractical to apply and too complex to be understood. Finding this balance is an iterative process of developing proposals, soliciting feedback, and adjusting or replacing proposals in response. This process inherently takes time and involves uncertainty around final outcome, but it also is not well understood by all stakeholders. This can result in disproportionately adverse reactions rather than the productive feedback that is necessary to reach what are often the common goals of all stakeholders. It also makes the coordination of working groups challenging, as the end state of each working group's initiatives is unknown while in process.~~
~~**Capital parity** – as a number of stakeholders have pointed out, the capital framework should have a goal of assigning "equal capital for equal risk". While this goal is likely non-controversial in the abstract, it doesn't address the practical limitations of achieving this goal in absolute terms. First are the balancing considerations noted elsewhere here. But it also implies that all risks must be holistically evaluated at the same time, in order to prevent a change for one asset class from disadvantaging another by comparison. There is no question that these impacts are very important to consider as updates are made, and mitigating unequal treatment to the extent possible should be a goal. However, practical constraints may prevent this aspiration from being realized to the satisfaction of all parties.~~
~~**Limited resources** – just as the regulatory framework is a balance between being too broad and too detailed, so too is the use of regulatory resources a balance between impartiality and practicality. State regulators have at their disposal a valuable resource in the NAIC, and SVO specifically. However, these resources are not unlimited. There should be a deliberate evaluation of the best use~~

~~of these limited resources. State regulators should not develop frameworks that prioritize using such resources in reperforming functions that can otherwise be satisfied using available market mechanisms, leaving no capacity for more impactful and macro-level risk assessment and analysis.~~

Purpose

While much of the characterization of these ongoing projects in the broader commentary is misplaced, it is prudent to reflect periodically on a holistic basis over the course of a complex project to evaluate potential areas for process improvement to the overall regulatory framework. **The intent of this memo is to highlight areas that regulators have identified where the insurance regulatory framework for investments could be enhanced based on reflections on the past several years of work on these issues, as well as comments on individual current initiatives and how they could be improved upon by addressing certain of the challenges described above.** This memo is not directly responsive to any particular feedback from stakeholders, but draws upon the experience of regulators involved in these workstreams, as well as comment letters written on current proposals, stakeholder communications not directly related to working group exposures, and ongoing conversations among regulators and stakeholders.

Proposed Regulatory Enhancements

The goal of the Framework and its proposed enhancements 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. A workplan will be utilized to further consider such proposed enhancements in more detail and where appropriate, changes will be made to this to reflect the final enhancement. The Framework does not have an objective of reaching technical conclusions on ongoing initiatives. Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and are producing iterative feedback that will inform future progress towards their objectives. As is always the case, workstreams and the Framework itself are subject to future refinement based on this iterative process of incorporating new information.

This Framework will be updated and retained in the future, but the following principles are expected to remain in place after the implementation of the work.

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.

A. Investment risk assessment / role of a centralized investment expertise function (e.g. SVO: IAO/SSG)

Currently, risk-based capital charges ~~The current framework~~ rel~~ies~~y upon NAIC Designations for assets reported as bonds, with limited risk assessment for non-bond holdings. NAIC Designations ~~currently~~ are either provided directly by the SVO for filed securities or by a direct translation of a credit rating from a Credit Rating Provider ("CRP") for those securities that are exempt from filing ("FE"). There is currently a "blind" reliance on the CRP rating, with no mechanism for overall due diligence around CRP usage, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Both of these issues are potentially addressed through current initiatives of the Valuation of Securities Task Force ("VOSTF"), with multiple challenges and concerns (both warranted and unwarranted) of how they may be implemented.

Proposed Framework to modernize the SVO:

(1) Reduce/eliminate "blind" reliance on CRPs but retain overall utilization of CRPs ***with the implementation of a strong due diligence framework***. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance. This initiative should be a ***primary*** focus of the NAIC and ***utilize an external consultant/resource to design & implement***. It is both inefficient and impractical for the SVO to effectively replicate the capabilities of CRPs on a large scale, and would not provide incremental benefit if the output is substantially similar. Rather, the SVO should focus primarily on holistic due diligence around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use as NAIC designations).

(2) ***Retain ability*** within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, ***under well-documented and governed parameters***. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

(3) ***Enhance SVO's portfolio risk analysis capabilities*** with investment in a risk analytics tool and corresponding personnel, which could perform both company-specific risk analytics at the request of regulators, and industry-wide risk analytics for use in macroprudential efforts. ***Review/ increase staffing*** to include analysts with investment actuarial and risk management backgrounds that can provide dedicated investment-related support to risk-based capital and reserving teams, understanding the key functions of asset-liability management and resulting portfolio impacts. Changes to this centralized investment expertise at the NAIC will be determined based upon the needs of regulators.

(4) ***Enhance structured asset modeling capabilities*** in line with #3 with less focus on individual designation production, but in support of the CRP due diligence function (can provide tools for validation of CRP designations), company and industry stress testing, and emerging risk identification. Provide additional resources to SSG to continue to build this capability, inclusive of ***model governance*** and validation of key parameters.

(5) ***Build out a broad policy advisory function*** at the SVO that can consider and recommend future policy changes to regulators under a holistic lens, considering input from all impacted processes. If needed, ***hire key external consultants*** to be on retainer to provide key guidance on policy related issues, assess market impact and provide recommendations. This would be akin to the use of the Academy of Actuaries or similar for risk-based capital and reserving initiatives.

(6) Consider establishing a ***broad investment working group*** under E committee that acts in an advisory capacity to various investment processes that would ultimately need more intensive regulator engagement and analysis on confidential basis (similar to FAWG/VAWG), including (1) review of bond reporting analysis under the principles-based bond definition, (2) challenges to individual designations provided by CRPs, (3) review of work provided by external consultants for investment-related projects for broad impacts to the framework (beyond the group that would have commissioned the review)

(7) If the multitude of the above recommendations are implemented, rename the SVO and VOSTF to better reflect the responsibilities of the groups beyond securities valuation. ***Empower SVO*** to utilize the tools and analysis available to raise key issues to other applicable working groups, such as SAPWG or LATF (or RBC-IRE, but also noting key support for that group via an investment-focused actuarial team). ***Reduce the size*** of VOSTF membership or its successor to encourage active regulator engagement on core issues.

Impacts of Proposed Framework on Current Initiatives:

VOSTF:

(1) CRP Due Diligence: Re-prioritize this initiative (currently in place with limited resources) and retain an external consultant to build out the framework. Allow for engagement with CRPs in its creation.

(2) Regulatory Discretion over CRP designations: Continue deliberative process on this existing proposal to incorporate interested parties' constructive feedback on framework.

(3) CLO/RMBS/CMBS Modeling: Review output in conjunction with the Academy of Actuaries and RBC-IRE to determine if (1) NAIC designations, (2) dynamic ad hoc modeling/stress capabilities or (3) a combination of both, are the most valuable use of SSG resources, noting the request above to provide additional resources to this group.

LATF:

(1) SVO Staff enhanced as suggested above could be an additional resource in AG 53 type reviews, and may be able to provide validating analysis via its analytical tools.

(2) Investment actuarial staff can provide key recommendations to enhancements to asset adequacy testing based on investment characteristics identified.

SAPWG:

(1) No direct impact to implementation of the bond project outside of establishment of a working group that can assess specific assets for reporting purposes.

RBC-IRE:

(1) Increased investment actuarial and risk management could provide key support to establishment of structured asset RBC factors given the cross-functional understanding of investments and RBC parameters.

B. Risk-Based Capital for Investments

The project to review RBC factors for investments remains ongoing ~~in its infancy,~~ but has made considerable strides with the formation for the RBC-IRE Working Group in 2022 and the engagement of the American Academy of Actuaries to begin developing factors for CLOs. As this project moves forward, the following guidelines should be considered:

(1) **Secondarily to the emphasis on ensuring insurer solvency, changes in RBC factors should consider market impacts ~~secondarily to solvency impact~~ and consistency across asset classes in** ~~Changes in RBC factors~~ ~~***should consider market impacts and consistency across asset classes***~~ in determining when and how to implement such changes. While perfection under a principle of "Equal Capital for Equal Risk which includes consideration of tail risk" is likely unachievable, it should nevertheless be a goal to create consistent standards to the highest degree practicable. For example, the current work at RBC-IRE is appropriately beginning with studying CLOs for developing RBC factors for structured securities. It is possible that new factors for CLOs would be available before a determination has been made for how to extrapolate a framework to other types of structured securities. As the phases of this project progress, care should be taken to consider the impacts of changing factors for an asset class while similar asset classes may remain unchanged. Factors to consider may include impacts to asset allocation and financial markets, in balance with the level of urgency of regulatory action.

(2) The RBC-IRE Working Group should consider and address areas where inconsistencies in treatment across asset classes ***incentivize a particular legal form***. The RBC-IRE Working Group should coordinate with the SAPWG where needed on this item. A key example of this is private credit funds, where the underlying assets are fixed income, but regulatory barriers frequently prevent them from receiving a fixed income capital charge, instead assigning an equity factor. This requires insurers to structure such investments into bond-form through securitization in order to receive a fixed income charge, which may ***"overcorrect"*** and lead to ***capital arbitrage***. Developing an avenue for such assets to receive a capital charge commensurate with the underlying asset risk would significantly reduce the need to form structured securities out of many types of private fixed income assets.

NAIC WG/TF	NAIC Identifier	Topic	Subtopic	Purpose of Purposed Work	Committee Consideration	Exposure Date	Targeted Effective Date	Most Recent Update
RBC Investment Risk and Evaluation (E) Working Group	IR4	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2		Review inconsistencies across asset classes based on legal form	Added to working agenda on 11/16/18 call			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR5	RBC for ABS including CLOs, CFOs or other similar		Long-Term Different RBC Requirement	Committee made request 1/12/22			American Academy Update Expected Quarterly
RBC Investment Risk and Evaluation (E) Working Group	IR7	Evaluate and develop an approach to map other ABS to current bond factors. Project will likely require outside consultant.		Long-Term Different RBC Requirement	Committee made request 1/12/22			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR8	Address the tail risk concerns not captured by reserves for privately structured securities		Long-Term Different RBC Requirement	Added to working agenda on 8/11/22 call (Referral from Macroprudential)			Pending completion of other work
Valuation of Securities (E) Task Force	VOSTF 2023-005	Authorizing the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the Filing Exemption Process		Reduce Reliance on Rating Agencies	Proposal addresses charge from the Committee from 2021	07/26/24		06/18/24
Valuation of Securities (E) Task Force	VOSTF 2024-007	Implement financial modeling of CLOs for purposes of designations		Reduce Reliance on Rating Agencies / Enhance Structured Asset Modeling Capabilities	Coordination with related workstream IR5 at RBC-IRE		1/1/2025 (but subject to finalization of methodlogy and coordination with RBC-IRE)	6/18/24 - Effective date change adopted
Financial Condition (E) Committee		Draft Request for Proposal to develop a dilligence process related to use of rating agency ratings		Address proposal from Investment Framework	Drafted by Valuation of Securities Task Force and Committee regulators			

Agenda Item #8

Hear a Presentation from BlackRock on Commercial Mortgages

Dan Harnick (BlackRock) and Alex Symes (BlackRock)

CRE Market Update

Alex Symes, US Head of Research & Strategy, BlackRock Real Estate

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Summary

01 Dislocations in the capital market

02 Stable property market trends

03 Difficult path ahead for office

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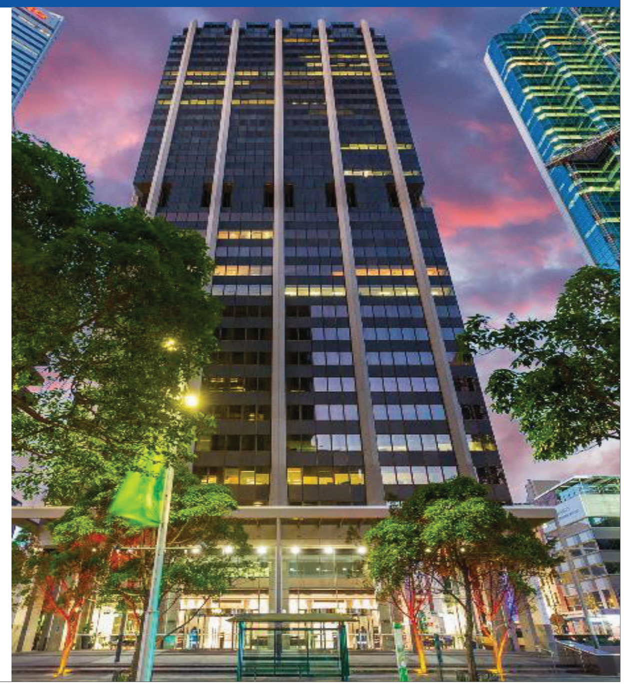

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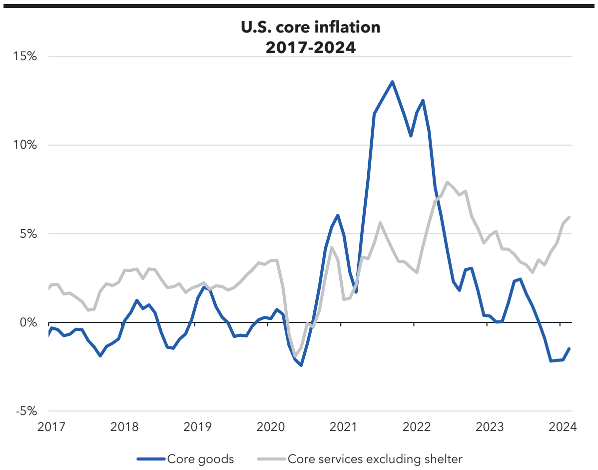
A whole new structurally different world

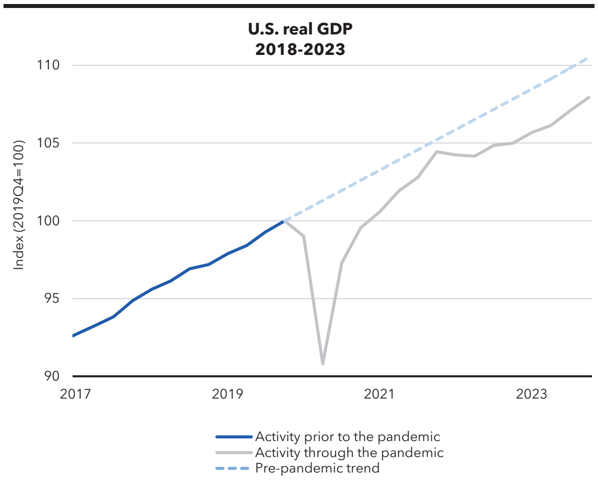
Inflation is decelerating, although not sharply

Services are holding inflation higher



Source: BlackRock Investment Institute, with data from Haver Analytics, March 2024. Notes: Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Growth has yet to return to prior trend



Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, IMF with data from Haver Analytics, March 2024. Notes: The chart shows the level of real gross domestic product (GDP) in the U.S.

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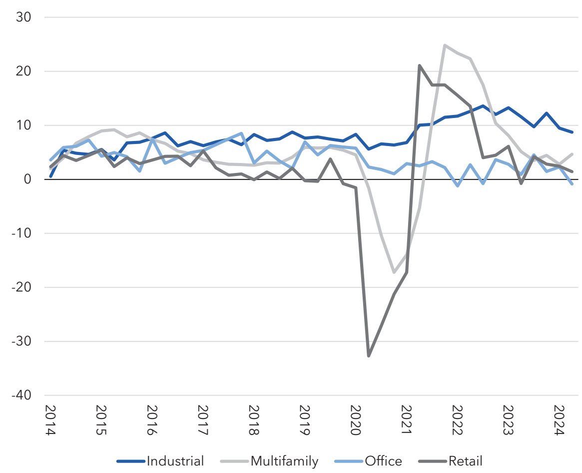
Fundamentals largely stable; expect dispersion

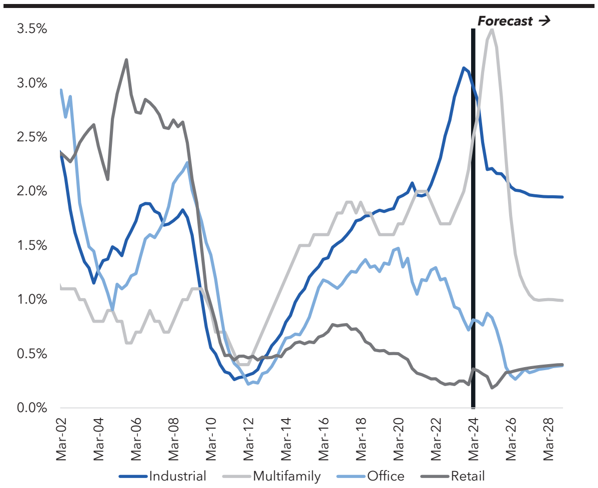
Strong structural trends support multifamily & industrial, less so for office

NCREIF NOI Growth (YoY%)



Source: NCREIF, as of 30 June 2024

Supply as % of existing stock

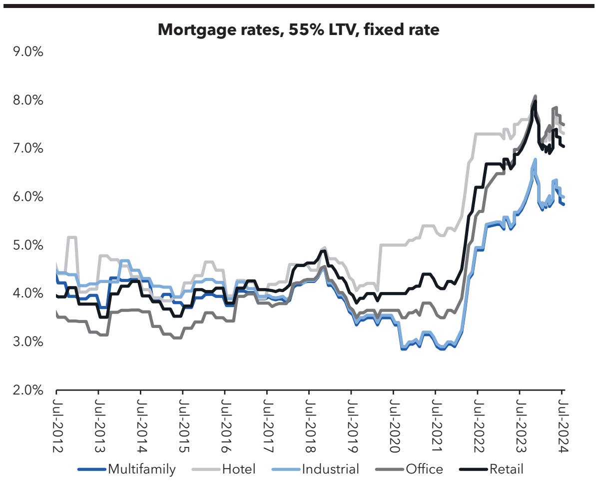


Forward looking estimates may not come to pass
Source: CBRE-EA, BlackRock; as of 31 March 2024

Higher cost of capital and constrained credit conditions

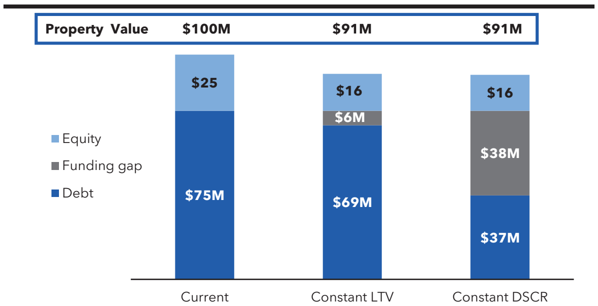
Cost of debt is higher and proceeds are lower than in 2021

Higher debt costs across the board...



Source: Chatham Financial, BlackRock, as of July 2024

...leads to potential funding gaps



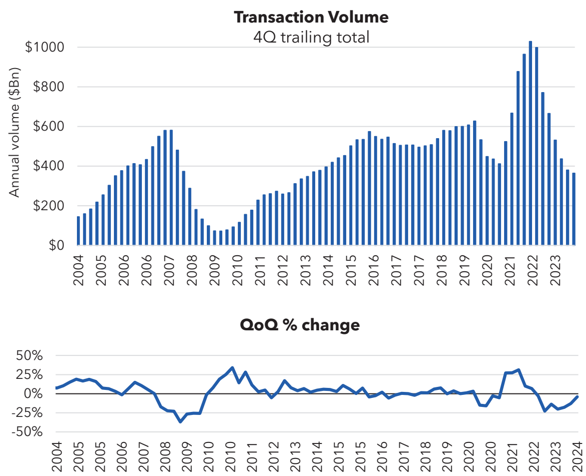
	Jan 2021	May 2024: Constant LTV	May 2024: Constant DSCR
NOI	$4.5M	$4.8M	$4.8M
Cap rate	4.50%	5.25%	5.25%
LTV	75%	75%	41%
Cost of Debt	2.8%	6.0%	6.0%
DSCR	2.1	1.2	2.1

Source: BlackRock, May 2024. All $ amounts are in USD.

Transactions and pricing are moving towards a bottom

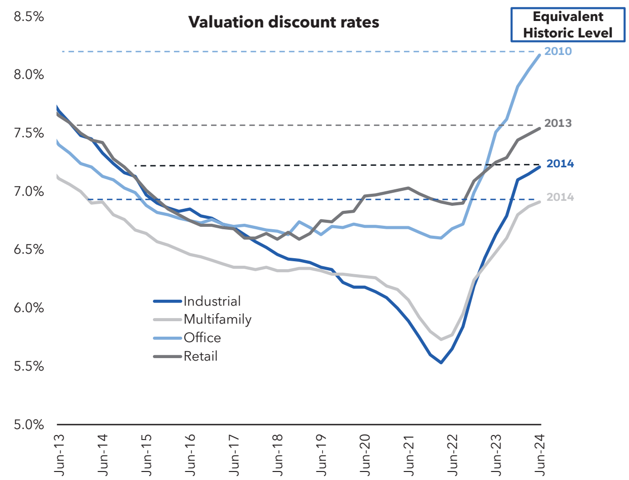
Shift varies by property type depending on investor demand

Lower volumes due to higher cost of capital



Source: Real Capital Analytics; as of 31 March 2024

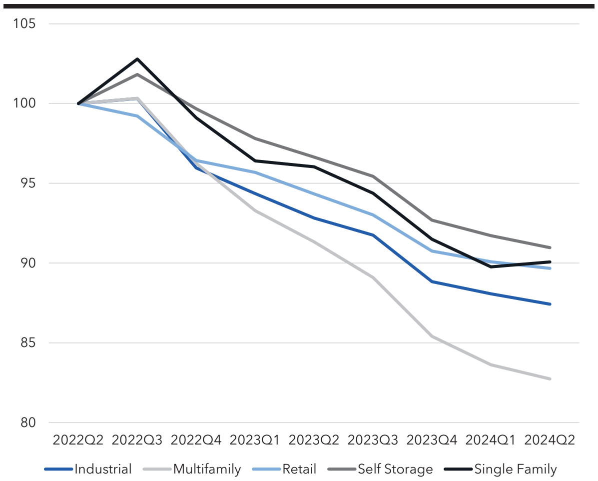
Discount rates have followed higher interest rates



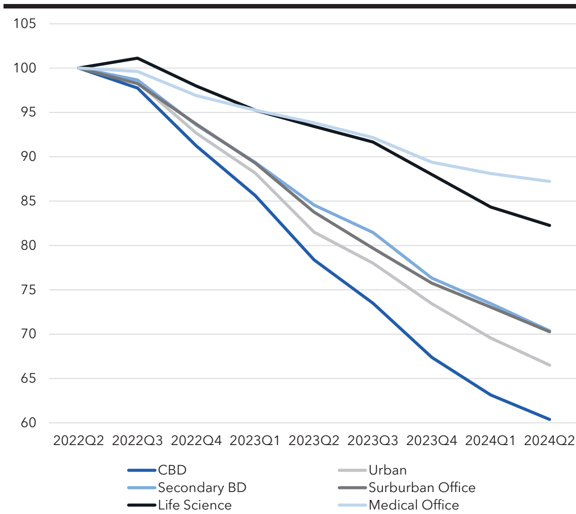
Source: Altus; as of 30 June 2024

Where are we in the cycle?

NCREIF Property Index: Non-office property types



NCREIF Property Index : Office property types

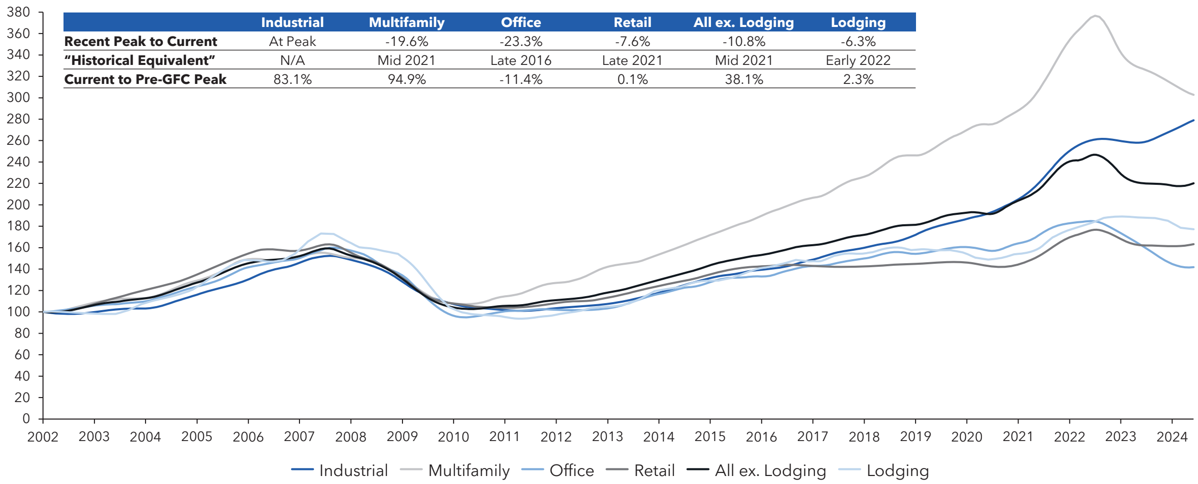


Source: NCREIF , as of June 2024

Note: NPI Appreciation Index, Values indexed to 100 as of Q2 2022

Where have we come from?

RCA Commercial Property Price Index



	Industrial	Multifamily	Office	Retail	All ex. Lodging	Lodging
Recent Peak to Current	At Peak	-19.6%	-23.3%	-7.6%	-10.8%	-6.3%
"Historical Equivalent"	N/A	Mid 2021	Late 2016	Late 2021	Mid 2021	Early 2022
Current to Pre-GFC Peak	83.1%	94.9%	-11.4%	0.1%	38.1%	2.3%

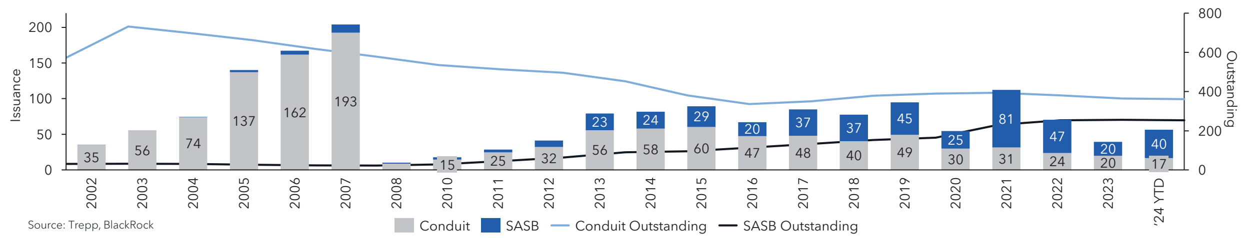
Source: MSCI RCA , as of June 2024
Note: Values indexed to 100 as of Q1 2002

CMBS Market Update

Dan Harnick, Director, BlackRock Financial Markets Advisory

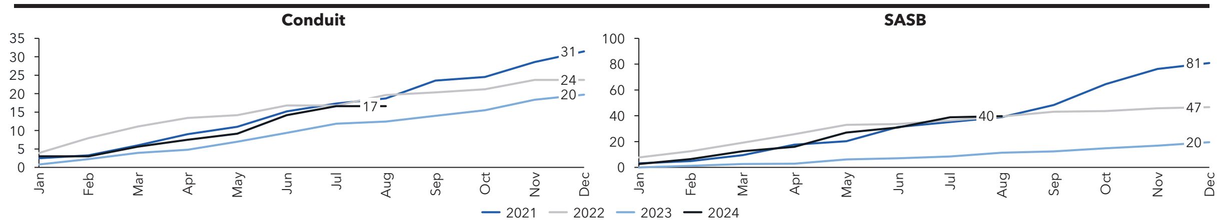
Issuance volumes are rebounding from a slow 2023; SASB continues to dominate volumes

CMBS Issuance and Outstanding ($ bn)



Source: Trepp, BlackRock

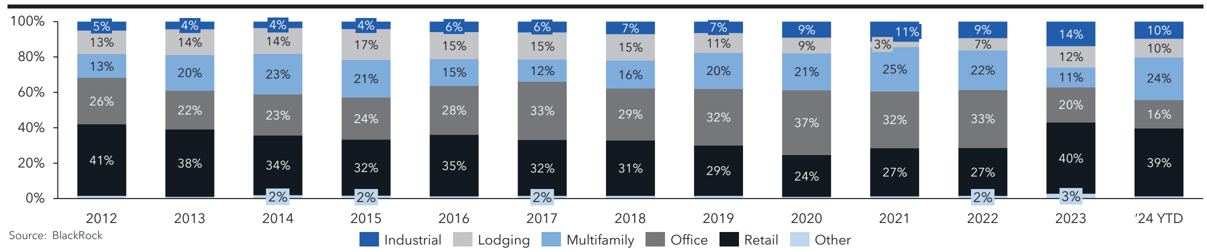
YTD Issuance ($ bn)



Source: Trepp, BlackRock

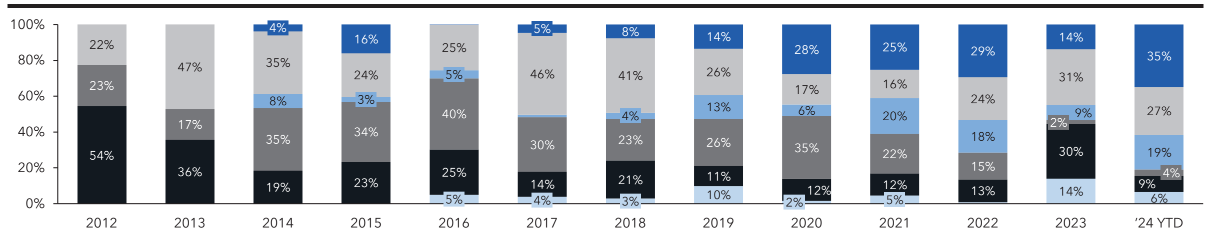
Property type concentrations continue to evolve

Conduit Property Type Concentration by Vintage



Source: BlackRock

SASB Property Type Concentration by Vintage



Source: BlackRock

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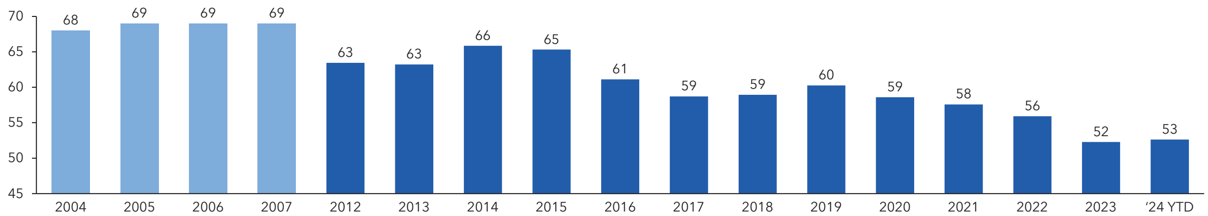
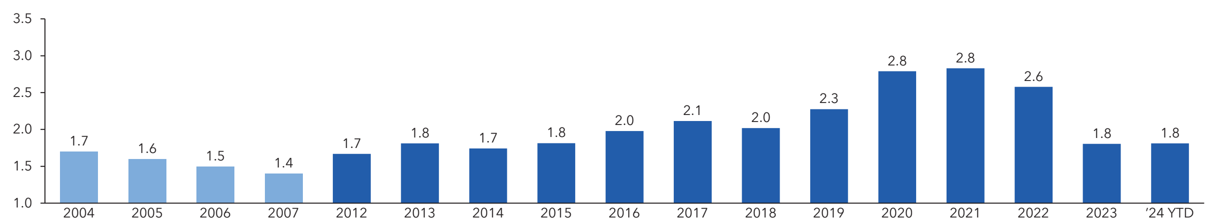
Underwritten leverage levels continue to improve relative to pre-GFC issuance, though debt service coverage ratios have recently deteriorated

Conduit Weighted Average Underwritten LTV by Vintage (%)



Source: BlackRock

Conduit Weighted Average Underwritten DSCR by Vintage



Source: BlackRock

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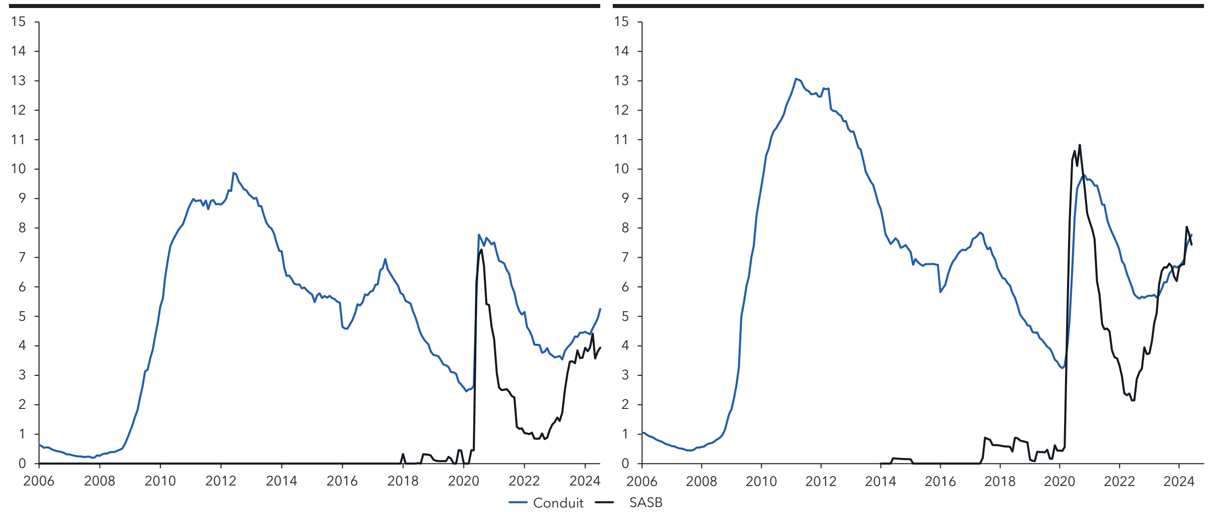
There is concern, as distress is once again rising in the CMBS universe…

60+ Delinquency by Deal Type (%)

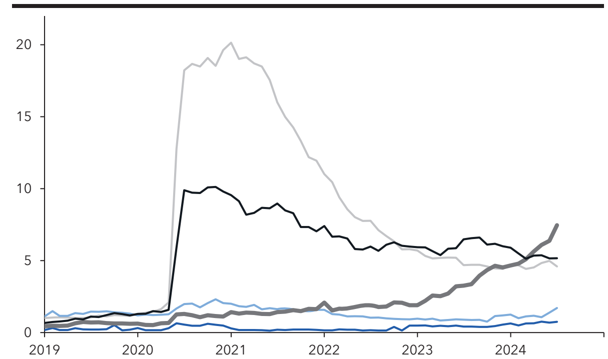
Special Servicing by Deal Type (%)



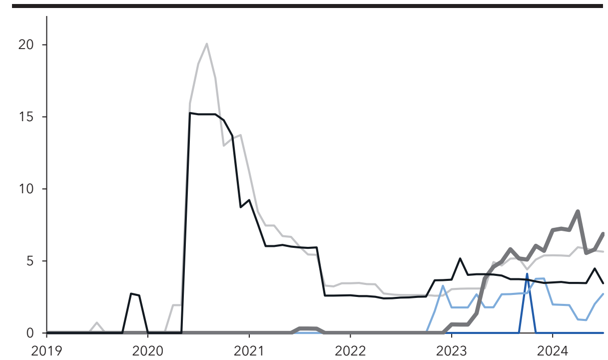
Source: Trepp, BlackRock; as of June 2024

…But not all property sectors are created equal

Post-GFC Conduit 60+DQ (%) by Property Type



Post-GFC SASB 60+DQ (%) by Property Type



Conduit - Current vs Peak 60+ DQ Rates

Sector	Peak GFC	Peak Covid	Current
Industrial	12.2%	0.6%	0.7%
Lodging	16.7%	20.1%	5.0%
Multifamily	15.5%	2.3%	1.4%
Office	10.4%	2.1%	6.4%
Retail	7.8%	10.1%	5.2%

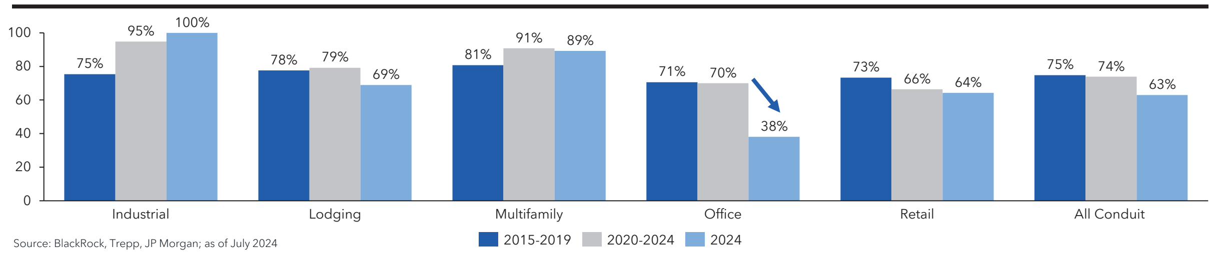
Source: Trepp, BlackRock; as of June 2024

SASB - Current vs Peak 60+ DQ Rates

Sector	Peak Covid	Current
Industrial	0.0%	0.0%
Lodging	20.1%	5.7%
Multifamily	3.3%	2.0%
Office	0.3%	5.8%
Retail	15.3%	4.5%

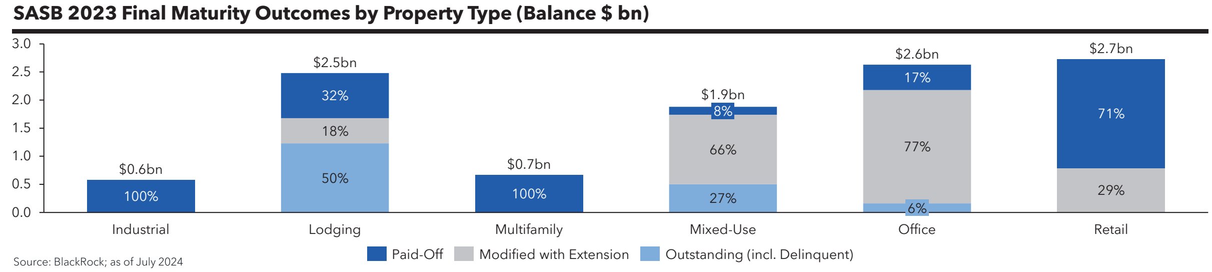
Loan payoff rates have declined, driven by the office sector, as borrowers face a challenging refinancing environment

Conduit Maturity Refinance Success Rates by Property Type and Maturity Year (Balance %)



Source: BlackRock, Trepp, JP Morgan; as of July 2024

SASB 2023 Final Maturity Outcomes by Property Type (Balance $ bn)



Source: BlackRock; as of July 2024

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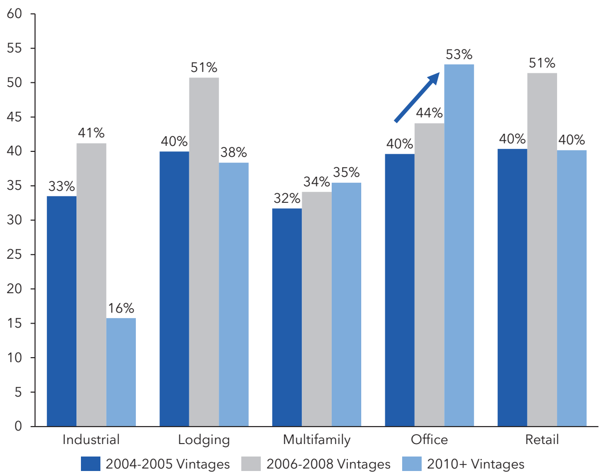
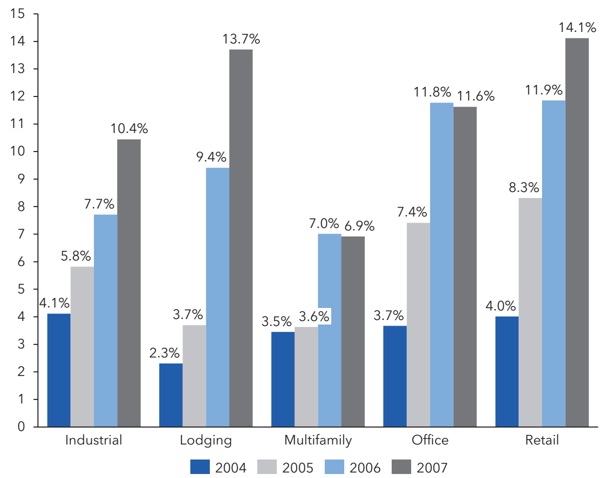
Comparing pre-GFC deal performance to recent vintages

Conduit Loss Severity by Property Type & Vintage (%)



Conduit Cumulative Loss by Property Type & Vintage (%)



Source: Trepp, BlackRock, as of July 2024

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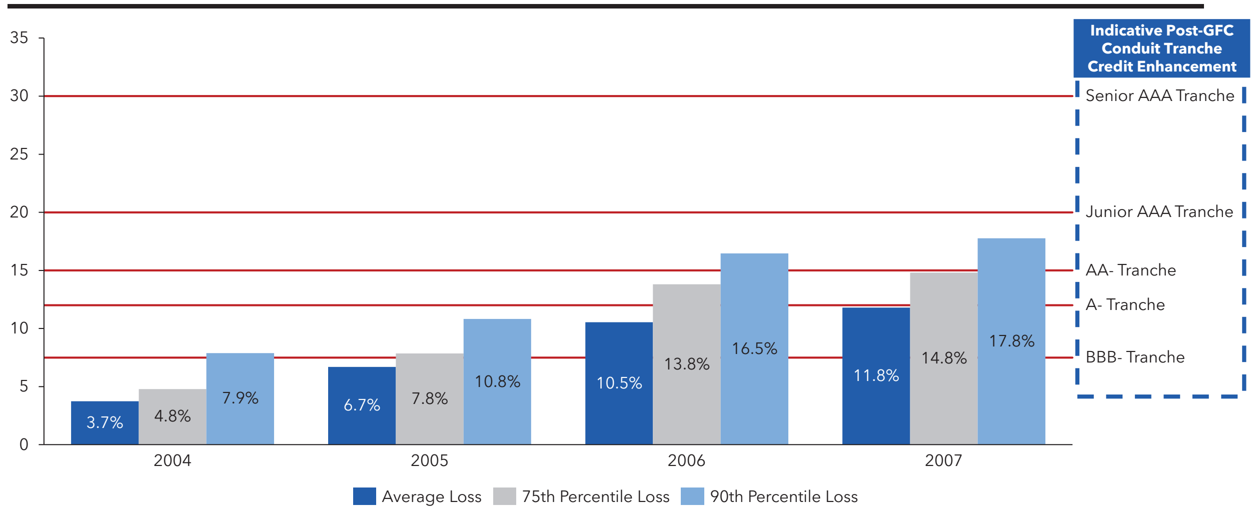
Using historical losses as a benchmark for post-GFC vintage bond performance

Conduit Historical Deal Loss Percent vs Post-GFC Bond Credit Enhancement (%)



Source: Trepp, BlackRock, as of July 2024

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