2024 Spring National Meeting
Phoenix, Arizona

FINANCIAL CONDITION (E) COMMITTEE
Monday, March 18, 2024
8:00 – 9:00 a.m.
Phoenix Convention Center—301 B-D West—Level 3

ROLL CALL

Nathan Houdek, Chair—Wisconsin
Michael Wise, Co-Vice Chair—South Carolina
Cassie Brown, Co-Vice Chair—Texas
Michael Conway—Colorado
Amy L. Beard—Indiana
Doug Ommen—Iowa
Vicki Schmidt—Kansas
Gary D. Anderson—Massachusetts

Mike Chaney—Mississippi
Chlora Lindley-Myers—Missouri
Justin Zimmerman—New Jersey
Adrienne A. Harris—New York
Judith L. French—Ohio
Elizabeth Kelleher Dwyer—Rhode Island
Scott A. White—Virginia

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

AGENDA

1. Consider Adoption of its 2023 Fall National Meeting Minutes—Commissioner Nathan Houdek (WI)

2. Consider Adoption of its Task Force and Working Group Reports—Commissioner Nathan Houdek (WI)
   A. Accounting Practices and Procedures (E) Task Force
   B. Capital Adequacy (E) Task Force
   C. Financial Stability (E) Task Force
   D. Receivership and Insolvency (E) Task Force
   E. Reinsurance (E) Task Force
   F. Valuation of Securities (E) Task Force
   G. Group Capital Calculation (E) Working Group
   H. National Treatment and Coordination (E) Working Group


4. Receive a Status Report from the Valuation of Securities (E) Task Force—Carrie Mears (IA)
   —Dale Bruggeman (OH)

6. Receive a Status Report on the Request to the Executive (EX) Committee
   —Commissioner Nathan Houdek (WI)

7. Receive Oral Comments on the Framework for Regulation of Insurer Investments and Related Documents
   —Commissioner Nathan Houdek (WI)
   A. Carrie Haughawout (American Council of Life Insurers—ACLI)
   B. Mike Consedine (Athene)
   C. Christopher Anderson (Anderson Insights)
   D. Edward Toy (Risk & Regulatory Consulting—RRC)

8. Discuss Any Other Matters Brought Before the Committee
   —Commissioner Nathan Houdek (WI)

9. Adjournment
The Financial Condition (E) Committee met in Orlando, FL, Dec. 3, 2023. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Nathan Houdek, Vice Chair, and Amy Malm (WI); Mark Fowler (AL); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen (IA); Amy L. Beard (IN); Timothy N. Schott and Vanessa Sullivan (ME); 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); Michael Wise (SC); Cassie Brown and Jamie Walker (TX); and Scott A. White and Doug Stolte (VA).

1. **Adopted its Oct. 25 and Summer National Meeting Minutes**

The Committee met Oct. 25 and took the following action: 1) adopted its 2024 proposed charges; and 2) adopted the **Property and Casualty Insurance Guaranty Association Model Act (#540)**.

Commissioner Schott made a motion, seconded by Kaumann, to adopt the Committee’s Oct. 25 (Attachment One) and Aug. 15 minutes (see NAIC Proceedings – Summer 2023, Financial Condition (E) Committee). The motion passed unanimously.

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

Superintendent Dwyer 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). She 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 Summer National Meeting as part of the Financial Condition (E) Committee 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, Superintendent Dwyer asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the Members for consideration as part of the technical changes; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or workings groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Superintendent Dwyer noted that the Financial Analysis (E) Working Group met Nov. 30, Nov. 8, and Oct. 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 letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met Nov. 30 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. Finally, the Group Solvency Issues (E) Working Group met in regulator-to-regulator session Oct. 8, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.
Commissioner Houdek made a motion, seconded by Commissioner Schott, 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; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Two); National Treatment and Coordination (E) Working Group (Attachment Three); and Risk-Focused Surveillance (E) Working Group (Attachment Four). The motion passed unanimously.

3. **Adopted the Listing of Qualified Jurisdictions and Reciprocal Jurisdictions**

Superintendent Dwyer stated that in 2019, the Committee adopted an updated process for evaluating qualified and reciprocal jurisdictions and specifically moved from doing a full re-review of the jurisdictions every five years to now performing a due diligence review every year. The Mutual Recognition of Jurisdictions (E) Working Group recently approved the status of the seven existing qualified jurisdictions—Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK)—and the three reciprocal jurisdictions that are not subject to an in-force “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement)—Bermuda, Japan, and Switzerland.

Commissioner Beard made a motion, seconded by Commissioner Schott, to adopt the listing of qualified jurisdictions and reciprocal jurisdictions (Attachment Five). The motion passed unanimously.

4. **Received Oral General Comments on Previously Exposed Framework for Regulation of Insurer Investments**

Superintendent Dwyer reminded Committee members that at the Summer National Meeting, the Committee exposed a draft Framework for Regulation of Insurer Investments, and during the Committee’s Oct. 25 meeting, the Committee decided that it would allow each party that made written comments to make up to two minutes of oral comments at this meeting as it pertains to general comments. Superintendent Dwyer stated that during the same meeting, the Committee would begin to review written comments on specific recommendations included in the Framework in 2024. The following entities provided oral comments:

A. **Equitable**

Aaron Sarfatti (Equitable) summarized Equitable’s comments by stating there were four main points in its letter: 1) that capital charges for asset-backed securities (ABS) should be higher; 2) the Committee should prioritize the use of modeling of collateralized loan obligations (CLOs); 3) factors should be used to determine the C1 charges within the life risk-based capital (RBC) formula where modeling is not pragmatic; and 4) the Committee should develop a concentration risk framework.

Sarfatti noted Equitable had three other related comments. First, Equitable requests that the Committee clarify and coordinate the work on the modeling between the Risk-Based Capital Investment Risk and Evaluation (E) Working Group as proposed by the American Academy of Actuaries (Academy) and the work of the Valuation of Securities (E) Task Force on the same topic. Second, the viewpoint that the concentration risk framework that Equitable has advocated for is really a middle-ground solution and what is necessary to protect against deep insolvency by an insurer that has allocated 60% of its portfolio to lower-rated securities compared to an insurer that has allocated 2% of its portfolio to lower-rated securities. Sarfatti noted the latter would often be viewed as responsible participation in lower-rated securities. Third, when statistical safety requirements are considered, and the issue of lower-rated securities and ABS, it should be thought of in the context of the life insurance system as a whole as opposed to the safety requirements for any individual insurer.
B. **ACLI**

Carrie Haughawout (American Council of Life Insurers—ACLI) stated that the ACLI recognizes that the nature of insurer investments continues to evolve and become more complex, and as a result, the ACLI supports the use of comprehensive and holistic regulatory framework. The ACLI believes that appropriate resource allocation will be an important part of making the new holistic approach successful. The ACLI thinks that stakeholders and state insurance regulators alike can work together to build a shared approach that can then be used to execute that approach. Haughawout noted that as the work continues at the Committee level, its task forces and working groups have already shown changes in the process. Haughawout stated her appreciation for the work of the Committee and its members’ staff, and the ACLI stands ready to assist in any way possible.

C. **Anderson Insights**

Christopher Anderson (Anderson Insights LLC) noted that as a chartered financial analyst, there are four ways to look at insurer investments. The first is pricing to establish uniform valuations, which is what the Securities Valuation Office (SVO) did for many years but discontinued long ago. The second is individual credit risk as performed by the SVO. The third is portfolio analysis, as discussed in the draft Framework. This function is performed today by departments of insurance (DOIs), often with additional contracted resources. This requires skills that are quite different from analyzing individual securities. A number of years ago, despite its lack of experience, the NAIC attempted to provide portfolio analyses for insurance departments, but that enterprise was not successful. The fourth way to look at insurer investments is by the assessment of assets and liabilities and their interactions. This work is also conducted by DOIs, as is portfolio analysis. It, too, is distinct from individual security analysis and requires specialized skill sets tailored to each insurer. A key question is whether the NAIC itself should develop these services nationally when they are already being delivered by insurance departments. Individual security analysis has been performed by the SVO in much the same way as it was when RBC was adopted in the early 1990s. Anderson noted that given the changing technology in so many respects, he believes it is time to take a completely fresh look at how the NAIC can support state insurance regulators in assessing creditworthiness. A new model might emerge that may look very different from what is being done today, or it could affirm present procedures, but the goal should be to design the optimal way of meeting the needs of state insurance regulators in assessing asset quality. In any event, before exploring new ventures, Anderson said he believes that the priority should be to study how developing technology can improve the existing service of quantifying the risks of individual security.

D. **AIC**

Daren Moreira (Sutherlands), on behalf of the American Investment Council (AIC), described how the AIC is an advocacy communications and research organization whose members include the world’s leading private equity and private credit firms. Moreira stated he would let the AIC comment letter speak for itself but wanted to make one key point: The NAIC proceeding at the current pace is inconsistent with the principles and observations set out in the framework document, in particular, the plans for the beginning of financial modeling of (CLOs). Moreira also cited the proposed changes to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and the plans to implement a 45% RBC charge for residual tranche investments for year-end 2024. Moreira suggested additional time and consideration are warranted for these changes.

E. **ACC**

Joe Engelhard (Alternative Credit Council—ACC) stated that the ACC was a similar trade association as the AIC, but its aim is more global, as it represents private equity and private credit firms in the US, Europe, and Asia. Engelhard noted that during a lot of the meetings earlier, he thought there was better coordination among various NAIC groups, with more than just updates. Engelhard stated that with the Academy presentation at the Risk-Based
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Capital Investment Risk and Evaluation (E) Working Group at the Fall National Meeting, principles were agreed to that would make sure that any modeling done by NAIC staff would follow such direction. Engelhard stated he believed this positive action was a result of the impact of the holistic framework. Engelhard also noted that as work begins, the usual fact-based, data-driven analysis of ABS to determine an approach to RBC charge would be important. With respect to the use of resources and the earlier discussion about correlation and the broader point of diversification, long-term, risk-free government securities in the US have lost 45% of their value, and investment-grade corporate bonds have lost a significant amount of their value. These facts and the shift toward private credit and private equity are reasonable and a good match between long-term investment liabilities and investment maturities.

F. Apollo and Athene

John Golden (Apollo and Athene) indicated he represented Apollo and Athene and wanted to first address the behavior of parties that continue to work against the constructive process, including the latest personal attacks. Golden noted that such attacks were shameful and wholly inappropriate. He stated that such comments do not reflect the value of Apollo and Athene, which remains committed to a constructive dialogue and will continue to seek a regulatory system with principles of consistency and integrity. Golden implored other participants to do the same. Golden noted his organization’s support for the holistic framework, which strikes a critical balance between the evolving life insurance industry and the availability of products that meet consumer needs. The US insurance system is one of the few sectors globally that offers the broad availability of long-term, guaranteed products to a reasonable solvency treatment to diverse credit assets supporting both consumer benefits and financing to the real economy, while other countries struggle to support retirees through their life insurance sectors. The framework will empower companies to meet consumer needs through its core principles of equal capital for equal risk, strong rating oversight, new tools such as challenge rights, and greater analytical abilities. These are principles that Apollo and Athene support without reservation. Golden said Apollo and Athene have never advocated more or less capital across the system and only desire a solvency regime that recognizes the benefits the credit markets offer and consistent treatment across capital and asset classes, especially at the investment-grade level. Golden suggested that CLO modeling currently intended for designations may be better used as a method to monitor industry portfolios and inform other tools rather than supplanting the current designations.

G. Bridgeway Analytics

Amnon Levy (Bridgeway Analytics) noted that Bridgeway Analytics produces reports with information on investments, risk, and oversight and provides great use to various parties. Levy discussed the detailed frameworks Bridgeway Analytics included in its comments submitted to the Committee that set forth common pillars observed across effective investment, risk, and oversight frameworks for which it has been involved. Levy noted that Bridgeway Analytics has had the honor of supporting the design of regulatory frameworks across multiple jurisdictions, including RBC and fossil fuel information, and that it encourages state insurance regulators to adopt principles for investment risk that include clarity. This helps to ensure each component of the framework has well-articulated objectives and definitions and that consistency across different types of investments is handled objectively, although governance across the framework is also important. Defined standards allow for the leveraging of resources effectively, including prudent use of rating agency ratings, which, when coupled with information on business use, helps to demonstrate credibility in a way that benefits both policyholders and insurers. Bridgeway Analytics was founded with a mission to support insurers and state insurance regulators in navigating capital markets and the regulatory landscape through data-driven analysis that could be easily understood.

H. Lease-Backed Securities Working Group
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John Garrison (Lease-Backed Securities Working Group) stated support for the process to undertake this holistic review and, at the highest level, agreed on a more intensive level of coordination between the three legs of the stool of accounting, risk assessment, and credit risk included in capital adequacy. Garrison encouraged the Committee to follow up on the ideas set forth in the framework document, including retaining a third-party consultant to take a fresh look at the current practices and to recommend and implement improvements to the current system. As noted at the Valuation of Securities (E) Task Force meeting, the current process has evolved over time, and even the name of the NAIC office focused on this work may no longer fit the current service to state insurance regulators. This holistic review should ideally include a renewed study of the most effective way for that task force to interact with and monitor staff, as well as the creation of a new broad investment working group under the Committee to act in an advisory capacity and to facilitate coordination.

I. MetLife

Francisco Paez (MetLife) stated that MetLife agrees that investment portfolios for the industry have rapidly transformed in recent years, with large increases and allocations to complex securities. This requires updating the regulatory approach to ensure the proper alignment of risk and capital. Paez highlighted a small number of comments from MetLife’s comment letter. He said that MetLife agrees with the Academy’s view that compared with corporate bonds, risks on structured securities increase much more quickly as ratings decrease. Consequently, applying the current corporate RBC factors to structured securities based on ratings vastly underestimates the risk of loss and tail scenarios for subordinated structure bonds at a time when allocations to this type of risk have been growing at a double-digit annual range for several years. MetLife also agrees with Academy that a simpler solution should be favored and that if existing RBC factors can be used, they should be, but that there is a twofold practical way of bridging the gap between these two seemingly contradictory points. First, when practical, by mapping structured securities to the appropriate existing factor through risk modeling rather than referring to a credit rating. Second, when impractical to model, develop a simple multiplier approach of the existing factors for subordinated non-modeled structured securities.

In conclusion, MetLife recommends that the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group consolidate their initiatives around RBC for a single mapping approach to risk modeling. This would leverage the respective strengths of the NAIC Structured Securities Group (SSG) and the Academy to arrive at a better alignment of risk and capital at this time of rapid buildup of subordinated structured securities across portfolios in the industry.

J. Minnesota Department of Commerce

Fred Andersen (Minnesota Department of Commerce) was not present, but Superintendent Dwyer noted the commentor’s previous written comments that were part of the public record from the Committee’s Oct. 25 meeting.

K. Moody’s

Richard Cantor (Moody’s Investor Service—Moody’s) presented some highlights from Moody’s comment letter: 1) insurers are increasing their investments in complex assets with private letter ratings; and 2) material differences are more likely across different rating providers and with credit analysis, and private ratings have been particularly vulnerable to rating shopping and rating inflation because they lack market oversight. Cantor stated when ratings are public, investors and issues can regularly be challenged, which helps drive comparability. This reliance on private ratings contrasts with European regulators, which only recognize public ratings. To that end, Moody’s agrees with a framework that supports discretion in its use of ratings. However, that framework should be narrowly focused on differences in ratings because a review of business processes, internal controls, and resources would be redundant to existing U.S. Securities and Exchange Commission (SEC) oversight. The
frameworks incorporate a comparison of providers' ratings and their performance on jointly rated securities; however, this data will be limited to many asset classes of interest. Therefore, additional approaches may be needed to drive consistency in the use of ratings for designations. One pathway is to consider leveraging existing supervisory oversight of insurers, underwriting, and risk management practices. Such oversight could incorporate a review of internal controls around the selection and use of rating providers and their ratings and may be helpful to review for insurers whether they apply their own credit analysis and their use of credit rating providers in the filing exempt process. Another pathway is to leverage existing supervisory oversight of insurers, investment, and reliance on private ratings. Schedule D reporting could be expanded to include information that would assist market participants in understanding insurers’ exposure to specific asset classes, structural protections, and any potential risks of regulatory arbitrage or ratings inflation.

L. **NAMIC**

Colleen Scheele (National Association of Mutual Insurance Companies—NAMIC) stated NAMIC’s appreciation for the goal of the proposed framework, modernizing the role of the SVO and creating a more holistic approach to investments. Given the complex nature of investments, the proposed development process should be open and transparent and address both regulatory and stakeholder needs as proposals filter through the Committee in pursuit of the framework’s goals. A consistent and open approach to feedback will facilitate more meaningful dialogue and better outcomes for all. The framework should support the retention of industries and state insurance regulators’ ability to utilize credit rating providers as they serve an important role in the market, and NAMIC supports the framework goal of creating consistency across the formula treatment of asset classes.

M. **Nebraska DOI**

Lindsay Crawford (Nebraska DOI) stated that as the Chief Financial Regulator with the Nebraska DOI, she supports the holistic framework, particularly in relation to the need for modernization and the investment regulatory framework and the increased need for collaboration among the different working groups and task forces charged with addressing the complex and technical topic of insurers evolving investment strategies and structures. Nebraska sees great benefit in the formation of a high-level investment working group to promote collaboration in the process to ensure regulatory guardrails are appropriate and can be efficiently implemented in a coordinated fashion across financial statement reporting, risk assessment, and related presentation of RBC charges. Nebraska is also in agreement that the resources available to state insurance regulators need to be reevaluated to ensure they have the tools and resources needed to continue effectively regulating and understanding investment risks. Nebraska encourages the continuation of current initiatives without delay of the current task force and working groups.

N. **Pac Life**

Jennifer Webb (Pacific Life Insurance Company—PacLife) stated in agreement with Golden that Pac Life is dismayed by the recent press tactics and in no way endorses them. Pac Life supports a transparent and collaborative approach and appreciates the efforts in this space. As a DC resident and insurance commissioner, Webb personally thanked Philip Barlow (DC) for his services. Pac Life supports the Committee’s decision not to pause ongoing investment-related workstreams, including the CLO modeling. Webb stated the need to emphasize five points: 1) the NAIC should take a road approach when studying emerging risks and where there may need to be enhanced oversight; 2) there should be consistent treatment across asset classes to encourage economic decision-making and limit the potential for capital arbitrage; 3) the NAIC should embrace the use of modeling to supplement the limits of historical data for structured securities; 4) the analytical capabilities should be proportional to the complexity of the investments to ensure investment strategies for the purpose of identifying
industry-wide risk analytics and macroprudential tends; and 5) the NAIC should continue to modernize state insurance regulator tools to address potential liquidity risks.

O. RRC

Edward Toy (Risk & Regulatory Consulting LLC—RRC) stated that RRC’s comments are driven by two things. The first thing is the role that RRC plays serving state insurance departments in their review of investment portfolios and investment strategies of insurance companies. The first also include Toy’s personal history in the industry twenty years ago that worked with the task force in terms of the development of the filing exempt process. Toy stated that he was comfortable saying that at that time, industry understood that state insurance regulators would always retain not just the authority but also the responsibility to continue to ensure that ratings met regulatory needs. The hope was that that would not translate into a focus on a bond-by-bond basis, but instead on the basic processes of rating agencies and being comfortable that what they did met regulatory needs. If they did not meet those needs, to make the appropriate adjustments in terms of how regulators use rating agency ratings, with the qualification that anything should be based on thorough analyst, be well documented and transparent to everyone, both regulators and industry. The second thing RRC’s comments are driven by regards to the more important aspect of the framework, which is the ongoing need for state insurance regulators to get as much support as possible from the investment portfolios and investment practices of insurance companies. Toy said this is on the basis that we know they have evolved, and things have accelerated dramatically in the last few years. Toy noted RRC’s concerns were not just on bonds, although by no means was it suggesting that the credit ratings of bonds be ignored. Still, there are many other things going on with insurers’ portfolios, whether you are looking at mortgage loans or collateral loans, asset concentrations, or risk factors today that substantially impact the market volatility of portfolios, including the last year-and-a-half on rising interest rates, as well as substantial changes in liquidity and liquidity needs, the portfolios have changed dramatically. Toy stated that RRC would be happy to support state insurance regulators in any way they deem appropriate.

P. Commonwealth of Virginia

Doug Stolte (VA) stated the Virginia Bureau of Insurance generally supports the concepts of the framework, but the solvency of insurers must remain the primary focus of the framework as opposed to market or other considerations, which must remain secondary to the protection of policyholders. The Virginia Bureau of Insurance also supports the Committee not pausing the existing workstreams related to insurer investments, which must continue without interference or delay. Stolte encouraged his fellow state insurance regulators to reacclimate themselves with the P&P Manual, which contains the current investment framework for the NAIC. The framework is based on the credit quality of insurer investments being a sound anchor for regulatory functions, including the Accreditation Program. It is important that the revised framework maintains a solvency focus.

Superintendent Dwyer agreed with the comment from Golden and Webb regarding Barlow and said that state insurance regulators greatly appreciate his work on solvency. Superintendent Dwyer commented that the rigorous process used for this meeting, where commenters were limited to two minutes, is designed to allow participation and input into the NAIC products. Such participation historically makes for better products.

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

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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). Such a new system would include clear quantitative and qualitative parameters for CRPs to utilize their ratings for use as NAIC designations. As you are aware, NAIC designations drive the capital requirements for insurer investments as set by the NAIC in its risk-based capital (RBC) formula.

At this time, the Financial Condition (E) Committee is requesting approval from the Executive (EX) Committee to engage in the development of a request for proposal (RFP). Once the Committee develops the RFP, it would bring such a product back to the Executive (EX) Committee to consider possible release. The development of the RFP will include assistance from NAIC staff, as well as input from relevant members of the industry, to ensure that the scope of work developed is appropriately tailored to the exact needs of the objective, thereby mitigating unnecessary or excessive costs to complete the work. Once the RFP is developed, it will follow the NAIC Procurement Policies and Procedures.

The following provides a snapshot of the initial considerations for such an RFP, which we hope is helpful in providing the Executive (EX) Committee with the necessary information to evaluate the worth of this project.

- The objective is to eliminate blind reliance on CRPs while maintaining responsible use of the invaluable service they can provide.

- Any due diligence framework would have the recognition that ratings from different CRPs may vary. They are opinions and inherently subjective.

- NAIC designations are integral to our regulatory framework. However, the NAIC currently lacks any analytical or performance criteria to map the various opinions reflected in CRP ratings to NAIC designations to produce a meaningful and consistent measure of credit risk for the NAIC’s financial solvency purposes.

- Over time, we have recognized that we can improve our usage of CRPs for NAIC designations and would like to introduce a robust due diligence process to facilitate that usage. This process would need to be consistent across rating agencies, repeatable over time, one that fosters communication and engagement with the CRPs, and both quantitative and qualitative in nature. While we would intend to welcome a
variety of CRPs to be approved for the provision of NAIC designations, our due diligence process should be designed to set minimum standards for inclusion.

- We recognize the external attention on our NAIC designation process and, therefore, believe engaging with an independent resource to design this CRP due diligence program would be most beneficial to all parties.

- The design process should also be transparent to all CRPs, with the ability for them to provide feedback throughout.

- The process should utilize existing resources to the extent possible (such as nationally recognized statistical rating organization (NRSRO) regulatory disclosures to the U.S. Securities and Exchange Commission (SEC) or to other regulators), recognizing that our requirements, as a consumer of credit ratings to produce NAIC designations for insurance regulatory purposes, goes beyond the mandate of SEC oversight.

- The recommendations should consider feedback from relevant interested parties, both existing and future.

- The process may want to consider different standards for public versus private ratings given the market validation and transparency of public ratings (e.g. require the full filing of private security documentation to provide regulators with transparency), ways to minimize or ameliorate the incentive for insurers to ratings shop (e.g. obtaining the highest public or private rating by selecting the weakest methodology) such as requiring multiple ratings, and how to best utilize the SVO to ensure the reasonability of NAIC designations.

- The process should be designed not to impede innovation and, therefore, have alternative ways to measure past or potential future performance for emerging asset types.

If there are any questions regarding the development of an RFP, please contact NAIC staff (Dan Daveline at ddaveline@naic.org) for further clarification.