



## How Insurance Regulators Ensure Insurers Have Enough Money to Pay Claims: Leveraging Credit Ratings for Regulatory Use

March 2026

- *State insurance regulators review insurance company investments, as part of the overall regulatory framework, to ensure insurers maintain sufficient funds to pay claims and are not at risk of insolvency.*
- *Regulators utilize both manual reviews of insurance company investments by the SVO and leverage the ratings of Nationally Recognized Statistical Rating Organizations (NRSROs) to assess the risk of insurer investments. Only the ratings of those NRSROs which apply to become Credit Rating Providers (CRPs) to the NAIC are eligible for use by the NAIC. However, there are currently no criteria for being a CRP other than being an NRSRO meaning regulators are relying on them with no oversight. As a consumer of the NRSROs' products, regulators are currently developing a framework to perform due diligence on credit rating providers and have discretion to overrule a rating if it doesn't reasonably reflect investment risk for regulatory purposes.*
- *Insurers are investing in increasingly complex and less transparent instruments and regulators are responding, in part, by shifting away from blind reliance on credit ratings towards informed reliance.*

### Background

Insurer investment oversight is a core part of the state insurance solvency framework, which is designed to ensure insurers can meet their claim obligations. This oversight includes enforcing state law imposed insurer investment limits to prevent excessive exposure to specific asset types, reviewing insurer portfolios, and examining individual investments to assess risk and apply appropriate capital charges.

Unlike some other financial regulatory frameworks which are legislatively prohibited from relying on NRSRO ratings, state insurance regulators can and do continue to leverage NRSROs to examine insurance company investments. Leveraging NRSRO expertise allows regulators to optimize their resources and focus on oversight and validation rather than full-scale credit modeling. Like other consumers of ratings, regulators cannot simply take ratings at face value—they need to confirm that the ratings are suitable for regulatory purposes. To do this, state regulators, through the NAIC, are putting in place a due diligence process to assess each rating provider and determine whether its ratings appropriately reflect investment risk for regulatory needs. In addition, regulators created a discretionary review process that allows them to review an individual NRSRO rating when they believe it is an unreasonable assessment of the investment risk.

This process was developed after consultation with the insurance industry, rating agencies, and consumer advocates. It includes clear criteria for when it can be used, notice requirements, and appeal rights to ensure fairness and transparency.

### Key Points on the Discretionary Review Process

- The NAIC cannot unilaterally reject or override a rating. Their authority is *only* to flag and pause a rating for further examination by regulators, and it applies only in very limited circumstances.
- Regulators oversee the process, and insurers and issuers are given opportunities to provide missing information or resolve issues before regulators decide on how to proceed.
- The process serves as an additional safeguard against regulatory capital treatment that is misaligned to risk and the related insurer solvency implications.
- Regulators anticipate very limited use of this authority, which is reserved for idiosyncratic situations and intended for use in only the most egregious circumstances.
- Insurers seeking to use the rating in question are provided significant procedural protections throughout the process and any final determination that the rating is an unreasonable assessment of investment risk is made by regulators. The process includes clear steps for insurers to challenge or appeal a decision

## What Happens When a Rating is Challenged?

### Step 1: Identification

A regulator or NAIC Securities Valuation Office (SVO) staff member identifies a filing exempt security—filing exemption is the process by which an NAIC Designation is assigned based on a direct translation from a CRP rating without the insurer submitting the security for full review by the SVO—where the NAIC Designation produced by a CRP rating appears to be an unreasonable assessment of investment risk. The same standard is applied to all CRPs and is the only way a review can begin.

### Step 2: Initial Review

A group of subject matter experts, called the SVO Credit Committee, meets to determine whether there is agreement that the filing exempt designation appears unreasonable. If the committee disagrees, the process ends. If it agrees, the committee places the security Under Review.

### Step 3: Under Review Status and Information Request

Once a security is placed Under Review, the SVO sends an information request through a secure platform to all insurers holding the security and assigns it the administrative symbol “UR.” Insurers have 45 days to respond, and an additional 45-day extension may be granted. If no information is provided within 90 days, the SVO may move forward with removing the CRP rating from filing exemption eligibility.

### Step 4: Full SVO Analysis and Open Dialogue

After receiving the requested documents, the SVO conducts a full analysis. The SVO coordinates directly with authorized insurer staff and any other authorized parties the insurer designates, which can include the issuer or rating agency. This is designed to be an open dialogue. During this review, the SVO provides a written summary of its analysis to the insurer.

### Step 5: SVO Credit Committee Final Review and Materiality Test

The SVO Credit Committee reconvenes after the analysis and determines its own NAIC Designation for the security. The Committee then applies the materiality threshold: **the filing exempt designation must differ from the Committee’s assessment by at least three notches for the SVO to request removal of the CRP rating from filing exemption.**

### Step 6: Review by the New Investment Review Subgroup

If the three-notch materiality test is met, the SVO presents its recommendation to an investment review group composed of regulators. The group receives all relevant documentation through a confidential website, and domiciliary regulators are invited to participate.

### Step 7: Insurer and Rating Agency Participation

Authorized insurer staff and any additional participants they request, including the relevant rating agency, may present their analysis to the group. The insurer and SVO each have full opportunity to explain their position.

### Step 8: Subgroup Deliberation and Decision

The group deliberates privately and votes on whether to affirm the SVO Credit Committee recommendation. If the group authorizes removal, the CRP rating is blocked from filing exemption. If an alternate CRP rating exists, it may still be used; if not, the SVO’s designation becomes the NAIC Designation. The security is then assigned the ER administrative symbol.

### Step 9: Reporting, Transparency, and Future Reinstatement

The SVO will publish an anonymized summary within 45 days of a rating being removed from filing exemption and will identify all removed ratings through administrative symbols. At each Spring National Meeting, the SVO Director summarizes all actions taken during the prior year. In any subsequent year, an insurer may request reevaluation for reinstatement of the CRP rating.