

RHODE ISLAND DEPARTMENT OF BUSINESS REGULATION

Framework for Insurer Investments

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Purpose of Proposal

- State Insurance Regulators are charged with proper analysis of the investments as a component of financial solvency of insurers
- Material, observable shift in insurer investment strategies – toward more private assets, more structured assets and more complex assets
- Question - what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?
- Only objective is enhancing regulator's ability to protect policyholders

A wooden gavel with a gold band is positioned diagonally across the top half of the image. Below it, a red book with gold lettering on the spine and cover is visible. The book's title, 'CONSUMER PROTECTION', is printed in large, bold, gold capital letters on the front cover. The background is a soft-focus image of a wooden surface.

CONSUMER
PROTECTION

Proposal 1

- Reduce/eliminate “blind” reliance on Credit Rating Providers (CRP) but retain overall utilization of CRPs with the implementation of a strong due diligence framework.
- Process must be vigorous and consequential (e.g., clear quantitative and qualitative parameters)
- Parameters for CRPs utilized to provide ratings for use as NAIC designations
- “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.”



Proposal 2



- Retain ability within the Securities Valuation Office (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.”

Governed Parameters

Proposal 3

- Enhance SVO risk analysis capabilities
- Company specific and industry wide risk analytics for use in macroprudential efforts
- Possible increases in SVO staff including analysts with investment actuarial and risk management backgrounds

Risk Management



Proposal 4

- Enhance structured asset modeling capabilities focusing less on individual designation production and more on CRP due diligence and validation; company and industry stress testing; and emerging risk identification
- Provide additional resources to build out the capacity
- Focus on model governance and validation of key parameters



Deep Dive



Proposal 5

- Build out broad policy advisory function at the SVO that can consider and recommend future policy changes to regulators
- Potentially hire key external consultant to provide guidance, assess market impact and provide recommendations
- Similar to use of Academy of Actuaries for risk-based capital and reserving initiatives

Build Out



Proposal 6

- Investment working group under E committee to more engage regulators in an advisory capacity to various investment processes on confidential basis (similar to FAWG/VAWG), including
 - review of bond reporting analysis under the principles-based bond definition,
 - review challenges to individual designations provided by CRPs,
 - 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)



Proposal 7

Reorganize

- Rename the SVO and Valuation of Securities Task Force (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
- Reduce the size of VOSTF membership or its successor to encourage active regulator engagement on core issues.

Conclusion



These proposals are designed to provide regulators with the tools we need to properly value investments



Goal is “Equal Capital for Equal Risk”



As financial regulators we are attempting to assess appropriate capital and avoid regulatory arbitrage



No attempt to compete with CRPs – we are the recipients of the ratings and just evaluating them for ourselves



QUESTIONS

A group of ten hands, each holding up a large, three-dimensional blue letter to form the word 'QUESTIONS'. The hands are of various skin tones and are wearing different styles of business attire, including suits and dress shirts. The background is plain white.