Wisconsin Office of the
COMMISSIONER
OF INSURANCE

Framework for Insurers Investments

Commissioner Nathan Houdek, Chair
NAIC Financial Condition (E) Committee

Originally presented by Director Elizabeth Dwyer on November 16, 2023

Updated April 9, 2024

Purpose of the Investment Framework

- State Insurance Regulators are charged with proper analysis of 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
- Determine the most effective use of regulatory resources in the modern environment of insurance regulation for investments
- Focused on enhancing the ability of regulators to protect policyholders

Background

- Framework initially exposed at the 2023 Summer National Meeting
- 17 comments received during first exposure
- Oral comments presented to E Committee at 2023 Fall National Meeting
- A drafting group (comprised of regulators with subject matter expertise) drafted a response memo to interested parties and revised the Framework based on stakeholder feedback

Current Status

- 3 documents exposed for a public comment period in early 2024 (ended April 8)
  - Proposed workplan
  - Revised Framework
  - Memo to interested parties with responses to comments received on Framework
- Interested parties were invited to provide oral comments at 2024 Spring National Meeting
- Committee and drafting group members will review comment letters and determine next steps; more announcements to come soon

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.

Core Principles

(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.

Core Principles

(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.

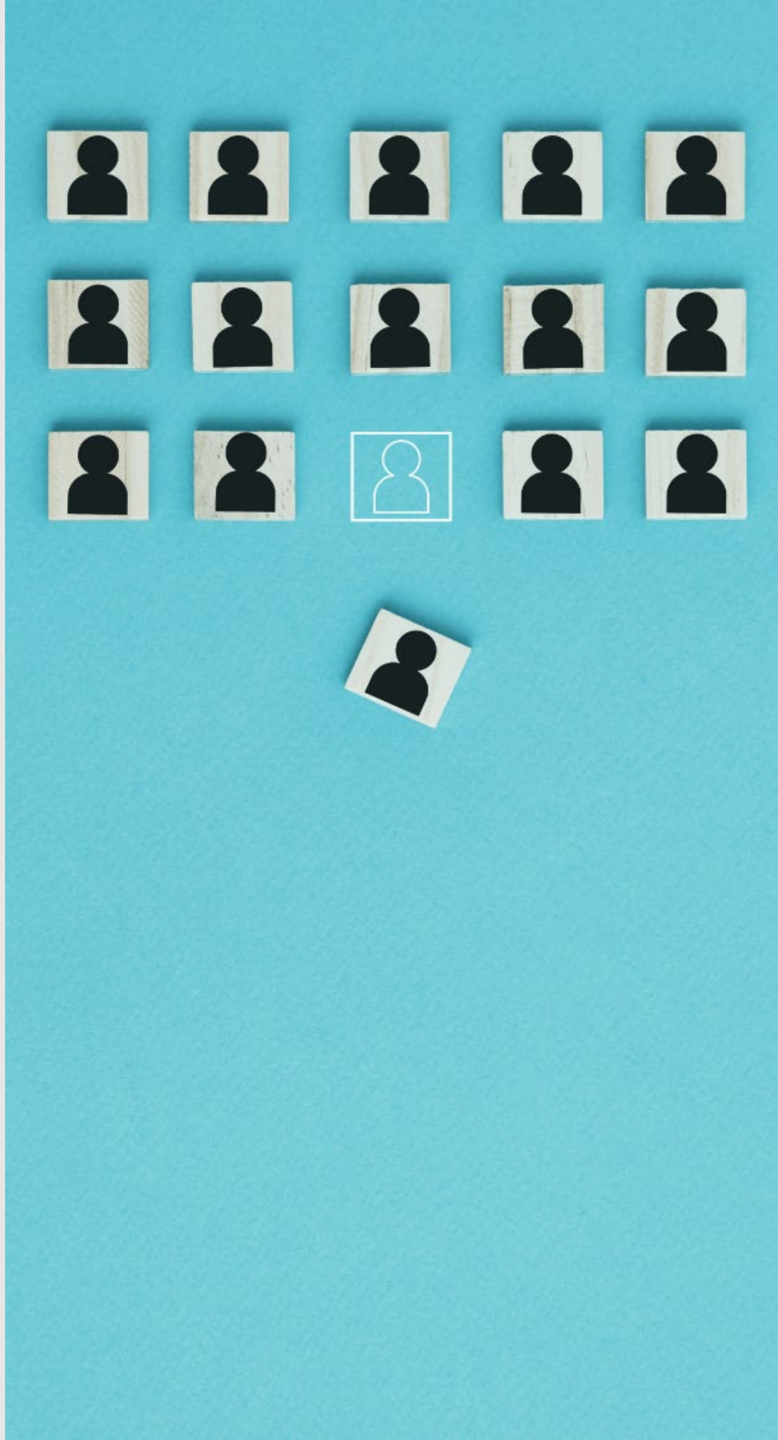
A Closer Look at the Proposals Included in the Framework

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.”

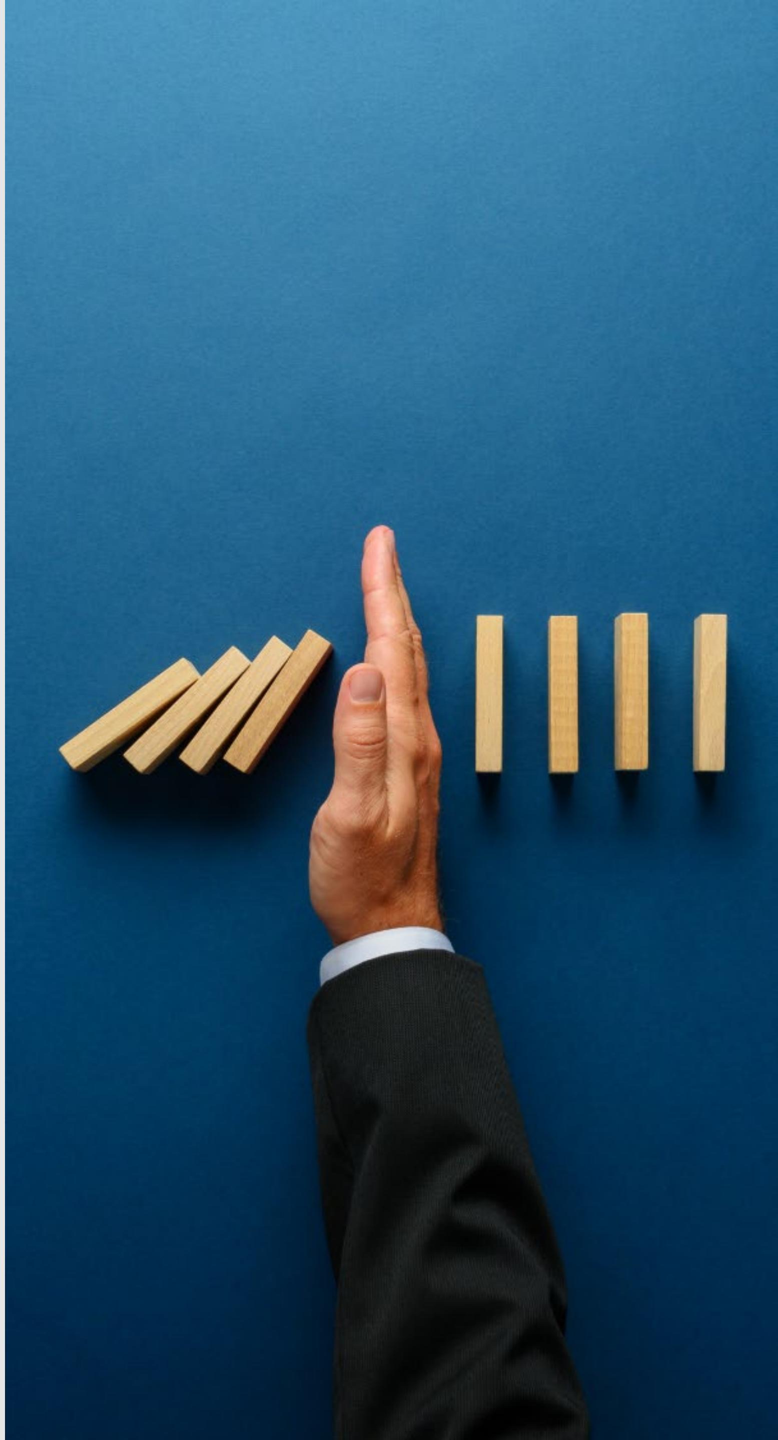
Proposal 2

- 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."



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



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

Proposal 5

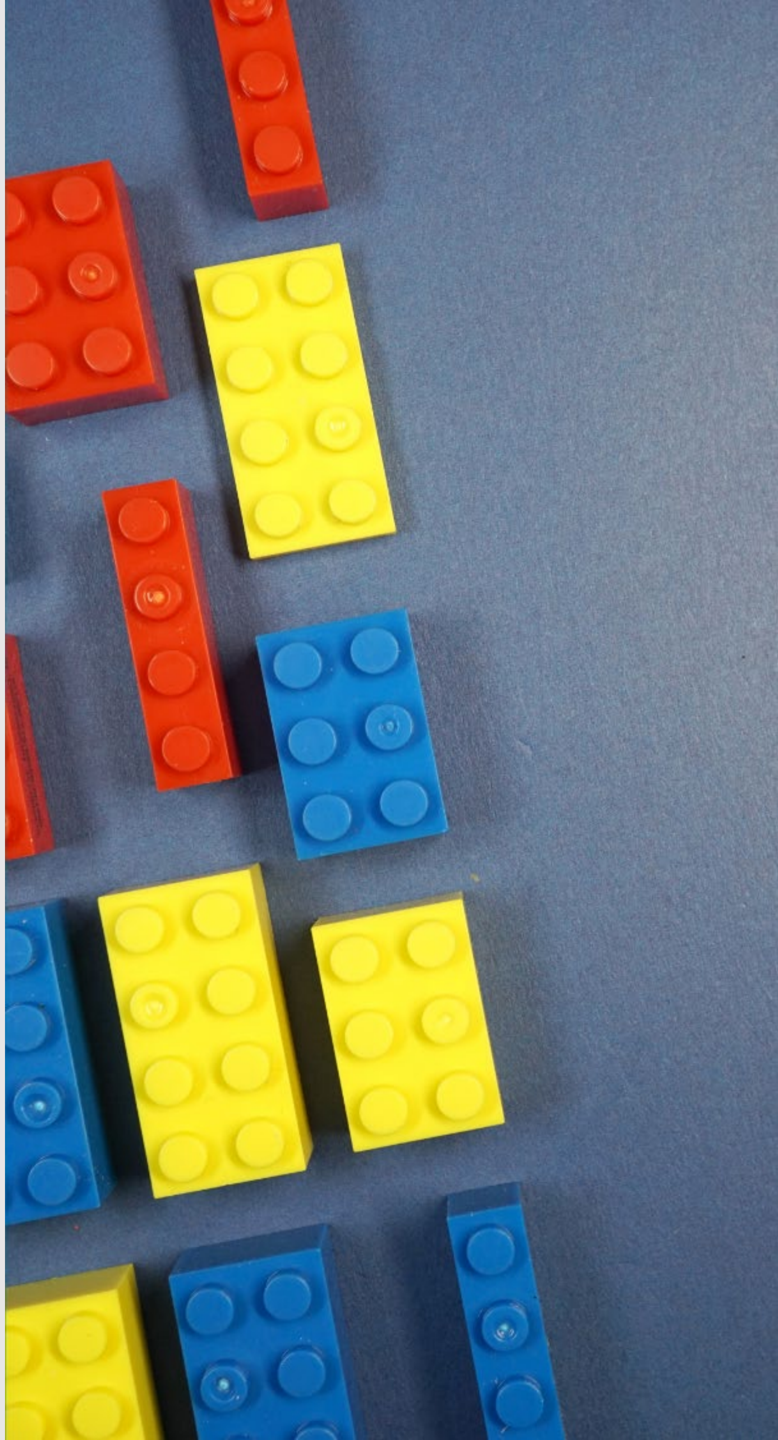
- Build out broad policy advisory function at the SVO that can consider and recommend future policy changes to regulators
- Potentially hire key external consultant to provide guidance, assess market impact and provide recommendations
- Similar to use of Academy of Actuaries for risk-based capital and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

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

- 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?