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CLIENT ALERT

The Latest in the Evolving Landscape of Insurer Investment Regulation

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Over the last five years, insurance regulators have observed shifts in insurance company investment strategies toward "more private assets, more structured assets and more complex assets,"[1] particularly for life insurers, leading the National Association of Insurance Commissioners (the "NAIC") to review many aspects of the regulatory framework applicable to insurance company investments. In this alert, we summarize the key milestones to date and current activities in insurer investment regulation.

I. Background

The NAIC has consistently observed that the low-interest rate environment following the 2008 financial crisis "created an industry trend to search for yield in investment portfolios and a material shift in the complexity of insurers'

[1] https://content.naic.org/sites/default/files/inline-files/Framework%20for%20Investments%20Exposed%20by%20E%20Committee.pdf.

investment strategies, resulting in more market and credit risk than historically normal." During the same period, "there has been a notable increase in private capital."[2]

These themes were present in the "Regulatory Considerations Applicable (But Not Exclusive) to Private Equity Owned Insurers" (the "Considerations"), which the NAIC adopted in August 2022 in response to a trend of increased private equity ownership of insurers and a higher concentration of "nontraditional" investments for such insurers, including asset-backed securities ("ABS") and other structured securities such as collateralized loan obligations ("CLOs"). The Considerations (available here) highlighted topics including investment management agreements ("IMAs"), asset-liability matching, related party-originated investments, the role of credit rating providers ("CRPs"), and structured security investments. The NAIC took a number of actions to address the Considerations, as we described in detail here.

Then, in August 2023, the NAIC honed in on investment regulation specifically with a "Holistic Review" of the investment regulatory framework (available here), which stated that the existing framework did not contemplate new investment strategies and called for enhancements that incorporate the characteristics of new investment types.

II. Key Milestones

To date, NAIC actions arising out of the Considerations and the Holistic Review have included substantive changes to the Statutory Accounting Principles ("SAP") and risk-based capital ("RBC") rules applicable to investments, as well as new disclosure requirements for insurers and oversight tools for regulators and the NAIC Securities Valuation Office ("SVO"). These measures are summarized in the table below. We also discussed many of these developments in greater detail here and here.

[2] https://content.naic.org/sites/default/files/inline-files/2025%20Task%20Force%20Memo.pdf.

Substantive SAP and RBC Investment Requirements	Insurer Disclosure Requirements	Regulator Tools
• Adopted a principles-based bond definition ("PBBD") in Statement of Statutory Accounting Principles ("SSAP") No. 26 that considers the substance, rather than the legal form, of an instrument in determining what investments may be reported as bonds on an insurer's financial statements (effective January 1, 2025). • Adopted new C-1 (asset risk) factors in the Life RBC formula for non-residual tranches of CLOs and collateralized bond and debt obligations (effective for year-end 2026 reporting) (see RBC Proposal Form #2026-12-IRE MOD, currently available here). • Adopted a 45% RBC factor in the Life RBC formula for residual tranches of all structured security investments (effective for year-end 2024 reporting).	• Adopted a new actuarial guideline (AG 53) to require submission of information from in-scope life insurers about complex assets in order to evaluate reserve adequacy and claims-paying ability (effective for year-end 2022 reporting) (available here). • Revised SSAP Nos. 25 and 43R to enhance financial statement reporting requirements for investment transactions with "related parties" (effective for year-end 2022 reporting).	• Revised the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ("P&P Manual") to require submission to the SVO of credit rating rationale reports for filing-exempt securities (effective January 1, 2022) (see P&P Manual (December 2025 edition) at 121-27). • Implemented a review process for when the SVO believes a credit rating for a filing-exempt security is not an accurate reflection of risk (effective January 1, 2026) (see P&P Manual at 93-98). • Created a Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBC IRE") charged with performing a comprehensive review of the RBC investment framework for all business types (effective January 1, 2022 and remains active, as described in Section III below). • Adopted new NAIC Handbook guidance for regulators reviewing affiliated IMAs or conducting examinations of insurers with respect to affiliated or unaffiliated IMAs (effective January 1, 2025) (see *Financial Analysis Handbook* (2025 Annual/2026 Quarterly) at 602-04 and *Financial Condition Examiners Handbook* (2026) at 96-97). • Created a new Invested Assets (E) Task Force ("IATF") and subgroups to reflect investment oversight responsibilities beyond securities valuation and encourage commissioner-level engagement (effective January 1, 2026).

III. Current Activities

As we discussed in detail in our report of the NAIC's Summer 2026 National Meeting, available here, investment oversight continues to be a critical area of focus for regulators. We note the following areas expected to see activity through 2026 and beyond:

- **Private Credit**. A draft of the NAIC's Macroprudential Risk Dashboard Summary Report for the U.S. Insurance Industry as of December 31, 2025, which is exposed for comment here until September 14, 2026 ("MRR"), observes that "insurers have significant exposure to private credit" and notes concern that "[w]ith strong investor demand and rapid growth of private credit . . . increased competition for deals could spur managers to offer more relaxed structural terms [or] choose riskier deals." Further, beginning in late 2025, certain private credit funds of which insurers are investors experienced "significant redemption requests," causing "some concern" in the market. According to the draft report, many private credit investments are considered "level 3" assets under SAP, meaning they use unobservable inputs to measure fair value, often involving judgment and estimation, including the use of internal models and assumptions. The report concludes that "there is room for additional enhancement" to disclosure requirements "aimed at improving regulator identification and understanding of private credit exposures."

  In response to these observations, the Statutory Accounting Principles (E) Working Group ("SAPWG") has exposed for comment until October 2, 2026 an agenda item (Ref# 2026-06) that would eliminate an exclusion from fair value disclosure requirements that currently applies to investments accounted for under the equity method, beginning with year-end 2026 reporting. According to the agenda item, this would "eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values." The exposure also seeks feedback from interested parties on fair value disclosure generally and notes that further revisions may be proposed to ensure that reporting of asset fair value is consistent across entities and is beneficial to regulators.

  In addition, as we reported in detail here, an NAIC working group has proposed enhancements to the *Financial Analysis Handbook* to assist regulators in identifying and assessing risks and concentrations in the area of private credit, including where "related party" investments include a material amount of private credit assets. The proposal is currently posted here for public comment, and a meeting is scheduled on October 6, 2026 to discuss feedback. Parallel revisions to the *Financial Condition Examiners Handbook* are exposed for comment here until October 9, 2026.

- **Credit Rating Providers**. A central goal of the Holistic Review is to reduce or eliminate "blind reliance" on CRPs in the filing-exempt process (where certain investment securities are exempt from analysis by the SVO based on a CRP rating). The NAIC has been developing a "due diligence framework" for the use of CRPs in evaluating investment risk and aims to adopt the framework in 2026. A draft has been exposed for comment (currently available here) that would subject CRPs to an assessment process and potential remedial action in the event of inconsistencies with rating methodologies or outcomes. In response to interested party feedback, the NAIC has stated that the framework "is not intended to regulate [CRPs]. Rather, it is intended to inform the NAIC's due diligence and reliance decisions regarding credit ratings used in support of NAIC Designations and other regulatory purposes."[3] The NAIC is expected to release a revised version of the framework for review at a meeting scheduled for September 23, 2026.

- **Bond Definition**. Following the adoption of the PBBD, regulators continue to assess insurer financial reporting and consider the application of the bond definition to emerging asset classes. SAPWG has exposed for comment until October 2, 2026 an agenda item (Ref# 2026-10, currently posted here) that identifies a "quickly growing" life insurer investment type known as multi-collateral structured credit investments, which generally qualify as bonds under the PBBD. However, regulators are concerned that a subset of these structures "contain[s] a significant amount of asset-liability duration mismatch within the structure, whereby the duration of the debt tranches is significantly longer than the duration of the assets supporting them." Accordingly, SAPWG is proposing to exclude from the PBBD structures containing "significant embedded [asset-liability management ("ALM")] risk." Embedded ALM risk is to be considered "significant" if "the ability to pay contractual cash flows of the debt security as scheduled could be impacted by changes in reinvestment interest rates or investment spreads."

  The agenda item notes that while this exposure is limited to addressing embedded ALM risk, "a separate project to consider reporting refinements related to several asset classes that have gained prominence since the finalization of the PBBD will likely follow. These include but are not limited to **multi-collateral credit structures, feeder funds and other forms of fund finance**."

- **RBC**. Following the adoption of new C-1 factors for CLO-type investments as described in the table above, the RBC IRE is expected to identify additional types of ABS for review and consideration of potential RBC enhancements. In addition, the NAIC is undertaking a "gap analysis" of RBC generally and expects to identify by year-end five to seven gaps in the RBC framework that merit further review. We expect those gaps to include investment risk considerations.

- **Residential Mortgage Loans**. In response to "rapid growth" in residential mortgage loan exposure for insurers, SAPWG has exposed for comment until October 2, 2026 an agenda item (Ref# 2026-11) to better define residential mortgage loans and improve reporting consistency. In addition, the NAIC's Life Risk-Based Capital (E) Working Group is expected to review RBC treatment of mortgage loan exposures, since, as noted in the SAPWG exposure, "the RBC factor for residential mortgage loans is quite low compared to other asset classes, and those charges do not vary based on the loan's risk characteristics." For example, there is currently no RBC impact for loans with subprime characteristics.

- **Interconnectedness**. The draft MRR highlights rising "interconnectedness" between U.S. insurers and other financial institutions, including private equity firms, as posing potential macroprudential risk, stating that such interconnectedness is driven by factors including "increasing complexity in investment practices" and

[3] https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_0.pdf.

"investment management of insurer[] investments by affiliated asset managers." The MRR recommends that NAIC groups continue to discuss ways to improve the identification and assessment of interconnectedness. At the recent 2026 Summer National Meeting, the IATF shared a work plan that includes potential for interconnectedness across investment structures as a topic for upcoming regulator discussions.

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Through the current initiatives described above and in future workstreams, regulators will continue to seek to understand the substance of insurer investments and ensure that statutory accounting and RBC treatment appropriately reflect investment risk. We will continue to closely monitor these developments.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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