

March 9, 2022

The Honorable Sherrod Brown
Chairman
U.S. Senate Committee on Banking, Housing,
and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Pat Toomey
Ranking Member
U.S. Senate Committee on Banking, Housing,
and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Toomey:

On behalf of the members of the National Association of Insurance Commissioners (NAIC)¹ – the chief insurance regulators in the 50 states, the District of Columbia, and the U.S. Territories – we would like to share our perspective on S&P Global’s (S&P) proposal to revise its methodology for assessing insurers’ financial strength, Insurer Risk-Based Capital Adequacy – Methodology and Assumptions. Given the interdependence between Nationally Recognized Statistical Ratings Organizations (NRSRO) and the capital markets, we know Congress has an important oversight responsibility in this area.

Although we typically refrain from commenting on the methodologies of the various NRSROs, we are compelled to offer a few high-level points here given recent Congressional interest, and to address our concerns with a core element of S&P’s proposal and correct any misperception of our viewpoint.

For background, insurers are significant investors in the U.S. and global economy and those investments can typically fall into one of two categories: those investments assigned a rating by an NRSRO recognized by the NAIC, and those investments that are not rated by an NRSRO and for which the NAIC’s Securities Valuation Office (SVO) then performs a credit risk assessment on behalf of state insurance regulators. The majority of U.S. insurers’ investments fall into the first category and are rated by at least one of the NRSROs. Those investments are then assigned an NAIC designation for the purposes of identifying capital requirements associated with the risk. NAIC designations derived from NRSRO ratings are mapped directly to those NRSRO ratings with no additional analysis conducted by SVO staff. Further, because we do not conduct additional analysis, all NRSRO ratings effectively are treated equally by our system. While this reliance on NRSROs may

¹ As part of our state-based system of insurance regulation in the United States, the NAIC provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. The U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. For more information, visit www.naic.org.

have benefits in terms of regulatory efficiency given the extensive nature of the sector's holdings, it has been an area of concern for the NAIC, and this concern has grown as discrepancies between various NRSRO ratings for the same security have increased in recent years, introducing greater potential for "rating shopping" by our sector. Indeed, the NAIC's Valuation of Securities Task Force, comprised of regulators from around the country, has put this concern on its agenda for 2022.

However, it has been suggested by some that NAIC's concern and workplan in this area is either an implicit or explicit endorsement of S&P's proposal which, in essence, treats the work of its competitors as less rigorous than its own. This is an egregious misrepresentation of our views. While we might share some of the same skepticism that S&P has about NRSRO ratings in general, we have never suggested that S&P's proposed new approach is the answer to the problem of ratings discrepancy, nor have we endorsed it.

In fact, NAIC has some concerns with a key aspect of S&P's proposal. Specifically, for those investments not otherwise assigned a rating by the NRSRO's (e.g., private placements, certain asset backed securities, etc.), the NAIC SVO staff do conduct a detailed analysis to evaluate the risk and develop an appropriate NAIC designation for use by state insurance regulators. This, coupled with investment oversight laws, give state regulators comfort to allow or disallow such investments and ensure they are backed by sufficient capital for claims paying purposes. This is a critical regulatory function that allows the insurance sector to invest its substantial resources in a diverse cross section of the U.S. economy while prioritizing the strength of insurers to pay claims. We are troubled that S&P's proposal lumps NAIC designations assigned by the SVO staff, designed by and for regulators, in with NAIC designations derived from ratings provided by S&P and its for-profit competitors, with no input from SVO staff. Doing so could disrupt a critical source of diversification and investment for the U.S. insurance sector. We urge S&P to reevaluate that approach.

Separate attention has been given to an aspect of S&P's proposal known as notching, whereby an insurer's investments rated by an NRSRO other than S&P or Moody's is automatically assigned a lower rating. Although this practice is not new to rating agencies, given S&P's market share, its competitors have asked whether this practice is anti-competitive. NAIC has not opined on this aspect and defers to the Securities and Exchange Commission (SEC) and Congress to consider this dynamic.

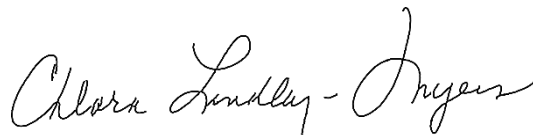
Finally, some in our sector have asked about the interaction between S&P's approach and our Group Capital Calculation (GCC). The short answer is, there should be none. The GCC is a regulatory tool for assessing risks across the group and is not intended for use by NRSROs or investors. The considerations of an investor when evaluating an insurer's financial strength are fundamentally different than capital tools necessary for effective solvency regulation.

Thank you for this opportunity to offer our perspective.

Sincerely,



Dean L. Cameron
NAIC President
Director
Idaho Department of Insurance



Chlora Lindley-Myers
NAIC President-Elect
Director
Missouri Department of Commerce
and Insurance



Andrew N. Mais (He/Him/His)
NAIC Vice President
Commissioner
Connecticut Insurance Department



Jon Godfread
NAIC Secretary-Treasurer
Commissioner
North Dakota Insurance Department



Michael F. Consedine
Chief Executive Officer
National Association of Insurance Commissioners