

Private Credit Investments by Insurance Companies—an Overview of the Regulatory Landscape

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Introduction and Executive Summary

For nearly two decades, asset management firms and life insurance companies have been on a path of convergence, consolidation and collaboration. Insurance companies have sought to improve the yield in their investment portfolios, sell more competitive products, honor their promises to policyholders and maintain strong risk-based capital levels. At the same time, asset managers have invested capital in insurance businesses and sought to improve insurers' portfolio yield and diversify their investment exposures through greater allocations to private credit and structured assets designed to match insurance liabilities.¹

The insurance regulatory community has played a central role in the stability and success of this important trend in the insurance sector. Insurance regulators acting individually and through the National Association of Insurance Commissioners (the "NAIC") have reviewed complex M&A transactions, evaluated changing business plans, scrutinized investment management agreements and considered new and complex asset classes, all with a view to protecting the safety and soundness of insurance balance sheets.

The extent of private credit investments on insurance company balance sheets and the use of off-shore reinsurance structures are major areas of focus for state insurance regulators and the NAIC.² Insurance regulators have undertaken a broad, multipronged

¹ One note on insurance accounting: Insurance company statutory accounting requires that long-dated credit assets be held on the balance sheet at amortized cost. These assets are not marked to market value, except in a handful of circumstances. This is intended to be a conservative approach, designed to prevent insurance companies from becoming active bond traders. In fact, when bonds are sold at a gain, the insurance company establishes an off-setting liability in, basically, the amount of the gain in order even further to discourage a trading mentality.

² *Issue Brief: How State Insurance Regulators are Responding to Growth in CLOs and Private Credit* (April 2026), National Association of Insurance Commissioners (<https://content.naic.org/sites/default/files/government-affairs-oversight-of-complex-investments.pdf>).

effort to enhance regulatory oversight of how insurers invest in, value and report private credit and other complex assets. This memo is intended to provide a comprehensive overview, in one place, of the key NAIC initiatives in this area. We consider these initiatives to fall into six categories:

- amendments to the Statements of Statutory Accounting Principles (“SSAP”) to adopt a principles-based bond definition;
- changes to risk-based capital (“RBC”) charges for residual tranches of structured securities and continuing evaluation of RBC charges for structured securities;
- enhanced financial reporting and transparency;
- oversight of affiliated investment arrangements;
- expanded designation authority for the NAIC’s Securities Valuation Office (the “SVO”); and
- broader macroprudential monitoring.

Specific Areas of Regulatory Oversight

Principles-Based Bond Definition

One of the NAIC’s most significant recent undertakings has been the adoption of changes to certain SSAPs to provide for a principles-based bond definition, which fundamentally redefines how fixed-income instruments are classified for reporting under statutory accounting principles (SAP).

- **Background.** The distinction between bond-like instruments (reported on annual statement Schedule D) and other invested assets (reported on Schedule BA) had been governed by formulaic rules that were considered insufficiently reflective of economic reality. Investments could be structured in ways that permitted favorable Schedule D classification—and thus more favorable capital treatment—even where the economic risk profile of the asset was more equity-like in nature.
- **The New Framework.** The new framework, which became effective on January 1, 2025, seeks to establish a substantive, principles-based test for whether a financial instrument qualifies as a “bond” reportable on Schedule D-1 as opposed to Schedule BA. Under this framework, an instrument must meet defined criteria—such as the existence of a creditor relationship in substance either as an issuer credit obligation

or asset-backed security, a fixed schedule for payment of principal and interest payments that does not vary based on the performance of underlying collateral or non-debt variables, a creditor's substantive legal right to enforce repayment and the absence of features that render the instrument equity-like in substance—in order to receive bond classification. Instruments that fail to meet the bond definition are reclassified to Schedule BA, with a corresponding change in (less favorable) RBC treatment.

- **Impact on Private Credit.** This regulatory framework has direct implications for a wide range of private credit assets, including asset-backed securities with residual features where the source of cash flows for repayment is derived from underlying equity interests, such as fund-linked notes, collateralized fund obligations and certain structured notes.

Risk-Based Capital Reforms for Structured Securities

The NAIC has been actively revising RBC treatment for structured securities, with a focus on ensuring that capital charges accurately reflect the risk embedded in complex asset classes.

- **Residual Tranches and Equity-Like Interests.** The NAIC has focused particular attention on the treatment of residual tranches of CLOs and other securitization vehicles. Residual tranches absorb first losses and exhibit equity-like risk characteristics. Effective January 1, 2024, the NAIC adopted an increase to RBC charges for residual tranches of structured securities, with such charges for life insurers increasing from 30% to 45%, while corresponding RBC charges for P&C and health insurers increased from 15% to 20%, and moved reporting for these securities to a separate reporting section on Schedule BA.
- **Modeling and Designation.** The NAIC has expanded the use of financial modeling by its SVO and the Structured Securities Group (“SSG”) to assign designations to complex structured securities. Rather than relying solely on credit rating agency ratings, the NAIC has developed and continues to refine internal modeling capabilities to independently assess the risk of CLOs, RMBS, CMBS and other structured instruments held by insurers. This effort reflects a broader regulatory skepticism that external ratings adequately capture the risk of illiquid instruments common in private credit portfolios.
- **Recalibration of RBC Factors.** More broadly, the NAIC has undertaken efforts to recalibrate RBC factors across asset classes to ensure that the capital framework keeps pace with the evolving composition of investment portfolios. This includes

ongoing review of the C-1 factors (asset risk charges) applicable to below-investment-grade bonds, structured securities and alternative assets.

Enhanced Financial Reporting and Transparency

The NAIC has introduced a series of reporting enhancements designed to provide regulators with greater visibility into insurers' private credit exposures.

- **Schedule D and Schedule BA Revisions.** The NAIC has adopted revisions to the annual and quarterly statutory financial statement blanks, including enhanced disclosure requirements for Schedule D (bonds) and Schedule BA (other long-term invested assets). These revisions require more granular reporting on the characteristics of individual holdings, including underlying collateral type, credit enhancement structures, affiliated party involvement and valuation methodology.
- **Private Credit Supplemental Reporting.** The NAIC has explored—and in certain cases adopted—supplemental reporting templates specifically targeted at private credit and complex asset holdings. These supplements are designed to capture data points not traditionally included in statutory filings, such as the identity and affiliation of the investment manager, the nature of any side letter or fee arrangement and the liquidity profile of individual holdings.
- **Look-Through Reporting.** Regulators have increasingly emphasized “look-through” reporting for fund investments and structured vehicles, requiring insurers to report the underlying asset composition of pooled investment vehicles rather than simply reporting the fund-level investment as a single line item. This initiative is directly relevant to insurance company investments in private credit funds, CLO warehouses and separately managed accounts holding diversified pools of private credit assets.

Oversight of Affiliated Investment Arrangements

The NAIC has devoted substantial attention to affiliated investment management arrangements in response to the growth of sponsor-affiliated insurance platforms.

- **Affiliate Transaction Standards.** The NAIC's work in this area builds upon the existing holding company act framework, which requires that all affiliate transactions be fair and reasonable and subject to regulatory approval above specified thresholds. Regulators have expressed concern about the transparency of fees being charged under affiliated investment management arrangements as well as governance around any potential conflicts of interest.
- **Investment Management Agreement Scrutiny.** Points of focus for investment management agreements between insurers and affiliated managers include the

reasonableness of fees relative to market benchmarks, the scope of investment discretion granted to the affiliated manager and the independence of the insurer's board and investment committee in overseeing the arrangement.

- **PE-Owned Insurer Working Group Activities.** The NAIC has maintained working groups and task forces specifically focused on privately owned and PE-affiliated insurers. These groups have examined topics including asset quality, liquidity risk, reinsurance to affiliated offshore entities and the overall governance of insurance companies operating within larger alternative asset management platforms. Regulatory recommendations emanating from these groups have informed both NAIC model law development and individual state examinations.

SVO and Designation Authority

The NAIC's SVO mandate has expanded significantly in connection with private credit oversight.

- **Expanded Filing Requirements.** The SVO has broadened the categories of securities for which insurers must file for an NAIC designation, particularly with respect to private placements and structured instruments that lack publicly available credit ratings. The NAIC now requires insurers to file private rating letters and corresponding private rating letter rationale reports for privately rated securities with the SVO to qualify as filing exempt ("FE") under the NAIC's Purposes and Procedures Manual (the "P&P Manual"). This expansion ensures that a greater share of private credit instruments on insurance company balance sheets are subject to independent SVO review.
- **Challenge to Rating Agency Reliance.** The NAIC has engaged in ongoing debate regarding the degree to which insurers and regulators should rely on credit rating agency ("CRA") ratings for designation purposes. In January 2026, the NAIC established the Credit Rating Provider Working Group to implement a due diligence framework for the use of CRA ratings in regulatory processes. The purpose of the Credit Rating Provider Working Group is to develop a formal approach to validate the reasonableness and consistency of CRA ratings. Concerns about the accuracy and timeliness of CRA ratings for private and bespoke instruments have led the NAIC to bolster the SVO's independent analytical capabilities and, on May 4, 2026, the CRP Working Group exposed a proposed CRP Due Diligence Framework to establish a structured oversight process for the NAIC's reliance on CRA opinions in assigning NAIC designations through the FE and private letter processes.
- **Filing Exempt Process Reform.** Effective January 1, 2026, the NAIC adopted changes to the FE process under the NAIC's P&P Manual that governs the

assignment of NAIC designations from which bond RBC charges are derived under which certain securities with CRA ratings are exempt from individual SVO filing. The amended procedures authorize the SVO to review an FE security and remove a CRA rating if the SVO determines the rating does not provide a “reasonable assessment of investment risk for regulatory purposes.” If the SVO removes a security’s FE CRA rating, then, in the absence of an alternate eligible CRA rating, the SVO will assign its own NAIC designation (and resulting RBC charge) to the security.

Macroprudential Monitoring and Systemic Risk Considerations

Beyond asset-level oversight, the NAIC has taken a broader macroprudential view of the concentration of private credit assets on insurance company balance sheets.

- **Liquidity Risk, Valuations and Stress Testing.** The NAIC has encouraged (and in some cases mandated) enhanced liquidity stress testing for insurers with significant private credit allocations. A related focus has been on valuation opacity for illiquid asset classes. The concern is that less liquid private credit assets may create asset-liability mismatches if the insurer faces unexpected policyholder withdrawals or claims activity. Regulators have examined whether existing liquidity frameworks adequately capture the risk that an insurer may be unable to liquidate private credit holdings in a timely fashion during periods of market stress.
- **Concentration Risk.** The NAIC has monitored the aggregate concentration of private credit and alternative assets across the insurance industry, with particular attention to whether the rapid growth of these allocations introduces systemic risks. Regulators have flagged the possibility that simultaneous liquidation of similar private credit positions by multiple insurers could amplify market dislocations by reason of correlated exposures and procyclical behavior during periods of stress.
- **Cross-Border and Offshore Reinsurance.** The NAIC continues to monitor the use of affiliated offshore reinsurance vehicles as a mechanism for transferring liabilities (and in some cases, assets) out of the U.S. regulatory perimeter. Regulatory concerns in this area include the adequacy of reserves held by offshore affiliates, the credit quality of assets backing those reserves and the transparency of the overall arrangement to U.S. regulators.

Looking Ahead: Key Trends to Monitor

The NAIC’s oversight of private credit in the insurance sector remains dynamic and evolving. Clients should be attentive to the following topics:

- **Continued refinement of the principles-based bond definition** under SAP, and its application to new and existing asset structures, which may require portfolio-level remediation and influence the structure of new investments.
- **Potential tightening of RBC factors** for below-investment-grade and unrated private credit instruments, which could alter the economic calculus of certain investment strategies.
- **Expansion of SVO authority** and analytical capacity, potentially reducing the reliance on credit ratings for determining RBC charges and the scope of the filing exempt process.
- **Increased state-level examination activity** targeting affiliated investment management arrangements, informed by NAIC guidance and peer examination coordination.
- **Possible model law or regulation amendments** codifying enhanced standards for the governance and oversight of PE-affiliated and asset manager-affiliated insurers.
- **Data collection and analytical initiatives** aimed at building a more comprehensive, industry-wide picture of private credit exposures across the insurance sector.

Conclusion

The NAIC has undertaken a rigorous and multifaceted approach to monitoring private credit investments by insurance companies.

For insurers and asset managers, staying abreast of these developments, some of which are arcane, is a strategic imperative to avoid being caught off guard by shifting capital requirements, reclassification of existing holdings or heightened regulatory scrutiny of affiliated arrangements.

We will continue to monitor these developments and will provide updates as material changes occur. In the meantime, we encourage our clients and friends to reach out to your Debevoise contacts with any questions about the potential impact of these regulatory initiatives on their insurance-focused strategies.

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Please do not hesitate to contact us with any questions.



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