THE BUCKEYE INSTITUTE

April 5, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: **dfleming@naic.org**

Dear Mr. Barlow:

As an independent research and educational institution advancing free-market public policies in the states, **The Buckeye Institute** works to **reform regulatory codes and cut burdensome red tape.** The Buckeye Institute's recommendations have helped eliminate or relieve the burdens of more than 50 occupational licenses and have stricken hundreds of unnecessary regulatory restrictions from the Ohio Administrative Code.

With respect to the current proposal from the National Association of Insurance Commissioners (NAIC) to increase the risk charge for residuals, The Buckeye Institute recommends caution and joins the industry and other interested parties in calling for NAIC to allow more time to collect additional data. Without comprehensive data collection, new requirements of this magnitude could inflict unintended harms if implemented prematurely.

NAIC is right to protect insurance consumers from unsound corporate practices, especially as insurers acquire larger shares of opaquely structured securities. But such investments in a properly balanced portfolio also earn higher returns for insurers, which can help reduce consumer costs and premiums. Consequently, insurers and regulators must appropriately balance the risks and rewards of regulating insurer investment portfolios and strategies.

The Buckeye Institute has reviewed the report conducted by the management consulting firm Oliver Wyman (OW) and recently submitted to your office by the Alternative Credit Council. The well-designed study examined multiple risk scenarios for various asset classes and determined that residuals carried lower risk than equity in common stock. The OW study should not be dispositive, but it does challenge the prudence of rapidly increasing the current equity capital requirement from 30 percent to 45 percent. At the very least, it supports the call for more evidence that higher capital requirements will improve consumer safety. Without additional evidence, the proposed jump to 45 percent appears arbitrary and deviates from NAIC's typically data-driven approach to modifying risk charges.

Imposing higher risk charges and cash-on-hand requirements too fast and with insufficient supporting data will likely stifle innovation in the life insurance market and compel insurers to charge higher premiums to offset lower investment returns—an unintended harm to consumers. And given the credible data undermining the rationale for the proposed changes and the industry's request for further study, adopting the new requirements without reconsideration will weaken the industry's faith in the regulatory process as it questions NAIC's motives for proceeding unabated—another unintended harm.

Rather than risk these outcomes, NAIC should temporarily pause its proposal for one year to solicit further input and collect additional data on the risk-profile of residuals. That will allow NAIC to best calibrate the risk charges and achieve the right balance of risk and reward. A temporary pause will enhance rule-making transparency and reassure the regulated industry that NAIC makes important decisions prudently, methodically, and fully supported by hard evidence.

Sincerely,
Rea S. Hederman Jr.
Vice President of Policy
The Buckeye Institute