



April 8, 2024

VIA ELECTRONIC SUBMISSION

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

Re: RBC Factor for Asset-Backed Security Residual Tranches – Oliver Wyman Report

Dear Mr. Barlow,

The American Investment Council (“AIC”)¹ appreciates the opportunity to comment on the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (“RBCIRE”) exposure of Oliver Wyman’s *Residual Tranche Risk Analysis* (“OW Report”) that was released for public comment on March 17, 2024. As always, we appreciate the RBCIRE’s willingness to receive input from interested parties on its important workstreams.

The OW Report is responsive to the RBCIRE’s request for interested parties to provide data regarding whether the “interim” 45% RBC charge for asset backed securities (“ABS”) residual tranches is a reasonably conservative factor.² The OW Report evaluates the potential for losses in the residual tranches of commonly-held types of structured assets and assesses how they compare with the historical losses for other asset classes. Among other things, the OW Report concludes that ABS residual tranche investments realize lower losses on a portfolio-level than common stock under corresponding stress levels. This conclusion, and others noted in the OW Report, appear to be consistent with other reputable studies that analyze similar issues.³

Taken together, these materials support a conclusion that the current 30% RBC charge is likely a more “reasonably conservative factor” for residual tranche investments than the 45% charge that is

¹ The AIC is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. The AIC’s members include the world’s leading private equity and private credit firms, many of which partner with insurers to achieve their long-term investment objectives and ensure the continued success of insurers and their policyholders. Among other things, by adopting appropriate, risk-adjusted investment strategies, our members are committed to helping secure the retirement of millions of pension holders and to policyholder protection. For further information about the AIC and its members, please visit our website at <http://www.investmentcouncil.org>.

² The “interim” 45% RBC charge for residual tranches was adopted by the RBCIRE in 2023 for the 2024 reporting year. As adopted, the amendment will result in a 50% (or 15 percentage point) increase to the RBC charge applicable to ABS residual tranches as so reported on Schedule BA of the Annual Statement for life insurance companies and fraternal benefit societies.

³ See e.g., our letter to the RBCIRE dated May 12, 2023 entitled *Comments regarding Risk-Based Capital Investment Risk and Evaluation (E) Working Group 2023-09-IRE Residual Factor Proposal*, which is memorialized in the NAIC 2023 Summer National Meeting Minutes at pages 2057-2059, available at: <https://naic.soutrnglobal.net/Portal/Public/en-US/DownloadImageFile.ashx?objectId=10416&ownerType=0&ownerId=26573>.

currently slated to take effect for the 2024 reporting year. Stated differently, **we interpret the OW Report as establishing that the 45% charge is unreasonably conservative.** At minimum, the RBCIRE should afford itself and interested parties additional time to assess the valid issues raised by the American Council of Life Insurers (“ACLI”) and other interested parties during the March 17 meeting, including obtaining additional information from Oliver Wyman and considering whether it is inappropriate to apply a single RBC factor to all ABS residual tranches. We urge the NAIC and RBCIRE to consider the differences between ABS categories and the adverse effect that an unreasonably conservative single residual RBC factor could have on lenders’ willingness to originate loans and the real economy more broadly.

In light of the foregoing, **we respectfully request that the RBCIRE retain the current 30% RBC factor for ABS residual tranche investments for an additional year in order to give regulators and interested parties time to evaluate whether a 45% charge is unreasonably conservative relative to other equity RBC factors.** We welcome the opportunity to serve as a resource to the RBCIRE as it considers both “interim” and “long-term” regulatory frameworks for ABS and would be pleased provide insight into our members’ perspective on these issues.

Sincerely,

/s/ Rebekah Goshorn Jurata
General Counsel
American Investment Council

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners (via email)