AMERICAN INVESTMENT COUNCIL

June 2, 2025

<u>Via Electronic Portal</u>

International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Secretary General Dixon and Members of the IAIS:

The American Investment Council ("AIC") appreciates the opportunity to comment on the International Association of Insurance Supervisors ("IAIS") draft *Issues Paper on structural shifts in the life insurance sector* ("Issues Paper") that was exposed for public consultation in March 2025. As the advocacy, communications, and research organization for the world's leading private equity and private credit firms, the AIC and its members have substantial experience in understanding and guiding insurers on their investment needs. To that end, AIC and its members would be pleased to serve as a resource to the IAIS as it seeks to strengthen the Issues Paper and considers potential next steps.

As explained in more detail below, AIC supports many of the Issues Paper's stated objectives, including:

- Establishing a clear definition of alternative assets using principles and criteria to classify these investments;
- Obtaining a better understanding of current trends in alternative assets and the drivers behind this trend;
- Evaluating regulatory capital-related issues associated with alternative assets; and
- Gaining a better understanding of what the Issues Paper refers to as "asset-intensive reinsurance" ("AIR").

Despite some commendable intentions, however, the current draft misses the mark on each of these objectives and is inappropriately framed to suggest that certain asset classes and investment-related practices are inherently risky when historical data, market trends, and objective studies indicate the opposite. Accordingly, our comments focus on general revisions to address the Issues Paper's overarching misconceptions and other structural matters that would help to achieve the above-captioned objectives.

As the Issues Paper notes, developed economies are experiencing a significant shift with respect to how businesses, governments and infrastructure projects access capital, such that participants are increasingly looking to private credit and private equity to assist with their capital and investment needs. Although the shift is not limited to one particular industry or economy – for example, some estimates indicate that private credit has evolved into a $40 trillion-plus ecosystem that now funds a vast range of real-economy needs in a diligent and responsible manner – private equity and private credit have a longstanding and successful history of providing capital to, and managing the assets of, the insurance industry, and have played a critical role in supporting the industry for an extended period of time.

As one data point, according to AM Best, "private equity firms have infused considerable amounts of capital to spur growth, a strategy that insurers do not typically execute well. In the first year of private equity ownership, 38% of insurers reported increases of over 20% in capital and surplus, rising to 43% in year No. 2 and 50% in year No. 3." See AM Best, *Best's Special Report: Insurance Companies Remain Prime Targets for Private Equity*, July 2021. In addition, private credit securities, most of which are investment grade, enable insurers to achieve attractive risk adjusted yields versus public investments, while remaining a small portion of insurer balance sheets. Indeed, as Section 3.3.2 of the Issues Paper indicates, there is a natural alignment between the long-dated insurance liabilities and the long-term investment approach taken by alternative asset managers.

Importantly, as the Issues Paper points out, each of these benefits – customizable investment options, additional capital sources, a natural alignment between insurer liabilities and investments, diversification, a demonstrated track record of outperforming other investments, and many others – inure to the benefit of the industry while presenting no material risk to global financial stability. Rather than analyze objective data and historical trends, however, the Issues Paper appears to commingle its discussion of entirely distinct alternative asset classes, leverage anecdotal evidence and unsupported conditional statements, and employ an overall negative tone to support a conclusion that supervisory practices and IAIS supervisory materials need to be enhanced.

The Issues Paper also makes inferences and draws conclusions that are wholly unsupported by quantitative or historical data. A particularly concerning example pertains to the "indicative" alternative asset classes set forth on Table 1 that appear to be intended to serve as the *de facto* alternative asset classes under the IAIS principles-based definition of the same. Section 3.3.1 proposes an open-ended definition of "alternative assets" such that alternative assets are assets "which display a high degree of either valuation uncertainty, illiquidity or complexity, or a combination of these" ("Principles"). An "indicative" alternative asset class as set forth on Table 1 is an asset that meets "two or three" of the Principles.

Although Table 1 classifies a total of 12 alternative asset classes as "indicative" alternative asset classes, the Issues Paper fails to provide a basis for how any one or more of the indicative alternative assets were determined to display a high degree of the valuation uncertainty, illiquidity or complexity, and no quantitative data was provided to support such a conclusion. Although a qualitative survey of insurance supervisors was discussed in the same section, the data – a 2024 survey of supervisors reflecting their views with respect to (a) valuation uncertainty, (b) illiquidity, and (c) complexity of alternative assets (see Figure 2) – actually supports a conclusion that no alternative asset class exhibits a high degree of valuation uncertainty, illiquidity, or complexity. For example, with respect to collateralized loan obligations ("CLO"), only a very small minority of supervisors took the position that CLO investments are "very illiquid" with respect to the liquidity poll, "very hard to value" with respect to the valuation poll, or "very complex" with respect to the complexity poll (see Figure 2). Nevertheless, "structured securities" (which broadly includes CLO) is included in Table 1 as an indicative alternative asset that "meets two or three" of the Principles.

The foregoing example also raises important structural considerations that permeate throughout the Issues Paper: (1) the need to distinguish and define each alternative asset class and discuss each on its own merits, (2) the need to incorporate additional data points to assess the captioned asset classes and instruments, and (3) whether the proposed principles-based definition of "alternative asset" is fit for purpose.

(1) <u>The need to distinguish and define each alternative asset class and discuss each on its own merits</u>

The current version of the Issues Paper conflates an extremely diverse set of products whose only similarity is that they are not corporate bonds or publicly-traded equities. The Issues Paper should endeavor to describe each of the various types of asset managers, alternative asset classes, and financial instruments referenced throughout the report, and how they differ from one another. The Issues Paper should also discuss each alternative asset class and instrument on its own merits (based on quantitative and historical data), rather than grouping everything into one discussion and suggesting that potential drawbacks of one instrument apply to all of the captioned alternative assets. Along the same lines, the Issues Paper should seek to use consistent terminology throughout the report, particularly with respect to asset classes and instruments. These recommendations align with the stated objectives of the Issues Paper.

(2) <u>The need for additional data points to assess the captioned asset classes and instruments</u>

The Issues Paper concludes that there is a need for additional data on alternative asset investments and AIR, and that "certain data items are only available in a limited number of jurisdictions." See Section 3.3.3. Such a concession should be sufficient to conclude that additional data is necessary to produce a report that is fit for purpose. Although it does appear that the IAIS has collected a limited amount of relevant data (e.g., via the GIMAR), which was utilized to conclude that alternative assets "currently do not pose a global financial stability concern" (see Section 3.2), there are also abundant objective studies and analyses by scholars, industry groups, and others that can be leveraged to develop a more objective report and provide clarification on some of the misconceptions referenced therein. For example:

- Macroeconomic Considerations: The Federal Reserve Bank of Boston recently concluded that, in comparison to traditional banks, private credit funds are less vulnerable to runs and that overall financial stability risk would decrease to the extent that (as the Issues Paper suggests) private credit lending represents a credit substitution (i.e., private credit firms are lending to borrowers that might otherwise seek loans from a traditional bank). *See* Federal Reserve Bank of Boston, Current Policy Perspectives, *Could the Growth of Private Credit Pose a Risk to Financial System Stability?*, May 2025. Indeed, objective studies indicate that alternative assets like CLOs "do not pose a systemic risk to the U.S. financial system." *See* LSTA, *Assessing Whether Leveraged Loans and CLOs Pose a Systemic Risk*., December 2023. To the contrary, alternative asset investments like CLOs are unlikely to present a global systemic risk in the future because they are stable, there exists a strong internal governance framework with respect to the investments, they will represent a relatively small proportion of insurer investment portfolios, and insurers remain obligated to demonstrate adequate capital and liquidity buffers, among others.

- Valuation Uncertainty: There are a number of methods to value alternative assets which are broadly accepted and have been used for many years. The International Private Equity and Venture Capital Valuation Guidelines, for example, contemplate a wide array of alternative asset valuations. In addition, insurers and their third-party investment managers have long track records of being able to accurately identify and value appropriate investments. *See e.g.,* Young Soo Jang and Ginha Kim, *Valuation Discipline in Private Credit*, March 2025.

- Illiquidity: Although the Issues Paper takes issue with illiquid assets, such assets actually reduce risk for a given level of return. See e.g., National Association of State Retirement Administrators, *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions*, updated February 2017; Hamilton Lane data via Morgan Stanley Research, *How Long Will the Golden Age of Private Markets Last?,* February 2021.

See also, LSTA, *Private Credit Survey Report*, April2 2025, available at: https://www.lsta.org/content/lsta-private-credit-survey-report/. A 2022 Aon Inpoint white paper titled *Review of Alternative Asset Managers' Involvement with Life & Annuity Insurers*, which was commissioned by the AIC, may also be instructive and is available at: https://www.investmentcouncil.org/wp-content/uploads/2022/09/9.09.2022-Aon-White-Paper_Final.pdf.

(3) Whether the principles-based definition of "alternative asset" is fit for purpose

It is unclear how the proposed principles-based definition of an alternative asset – i.e., an asset with a high degree of valuational uncertainty, illiquidity, and/or complexity – achieves the Issues Paper's objective of "establishing a clear definition of alternative assets and criteria to classify these investments." To the contrary, such a definition is likely to result in further confusion amongst supervisors and lead to incomplete or misleading data points, particularly given the diverse set of supervisor practices, regulatory frameworks, and jurisdiction-specific markets. The definition also fails to account for various product features and options that can vary from product to product and can materially alter the risk profile of the investment. For these reasons, the IAIS should reconsider the appropriateness of establishing an "alternative asset" definition (of any kind), at least until supervisors have the opportunity to conduct further analysis and information gathering efforts.

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Based on the foregoing, the AIC recommends that the IAIS pause any consideration of policy changes until more precise definitions and additional data are incorporated into the Issues Paper and the IAIS is able to verify that any future definition of "alternative asset" is fit for purpose. Moreover, the IAIS Insurance Core Principles, related supervisory materials, and best practices should not be amended until supervisors have the opportunity to conduct further analysis and information gathering efforts. As noted above, the AIC commends the IAIS for seeking to better-understand the foregoing issues and welcomes the opportunity to provide additional information.

Sincerely,

/s/ Rebekah Goshorn Jurata
General Counsel
American Investment Council