Letter to S&P regarding its updated insurance capital model request for comment (RFC)

Dear S&P insurance team,

We would like to thank S&P for releasing an updated request for comment (RFC) in May 2023. We greatly appreciate the opportunity to share our thoughts, which are related to the materiality threshold for company-specific adjustments to risk-based capital (RBC) requirements and asset risk charges on bond funds.

We support S&P's efforts to properly assess investment risk. With that objective in mind, we would like you to consider a further lowering of the materiality threshold to 1% from the currently proposed 5% change in total adjusted RBC requirements (RFC para 61). Depending on the size of an insurer's capital base, 5% may represent hundreds of millions or even billions per investment. Such a large single risk concentration suggests that the 5% threshold is likely irrelevant for most insurers. It may also create an unintended incentive for insurers to make more concentrated investments to meet the materiality threshold, countering the fundamental principal of portfolio diversification. As an alternative proposal, 5% could be applied to the aggregate fund investments of an insurer. As stated in our prior comment letter, smaller insurers are the main users of investment funds because of the greater operational efficiency offered by fund vehicles. Without the benefit of S&P's refined risk assessment on funds, smaller insurers would be disadvantaged if they must apply an equity-like risk charge to investments such as fixed income funds, while larger insurers could invest in the underlying credits directly using separately managed accounts (SMAs) which are subject to much more favorable asset risk charges. Separately, we would like to clarify the capital in RFC para 61 refers to the capital at corresponding insurance OpCo level where the investment resides, but not the group level capital which may include HoldCo capital. Since insurance asset management generally occurs at the OpCo level within the confines of OpCo regulations, HoldCo capital may not be relevant for the materiality threshold for investments within an insurance OpCo.

We support S&P in treating a fund investment as a bond if the fund is primarily invested in bonds (RFC para 107). We would like to clarify, that under the same rationale, this treatment would also apply to other fixed income asset types such as mortgages.

Thank you for your continued efforts on this important update. We hope our comments are useful in ensuring investment risks are properly reflected in S&P's insurance capital model.

Sincerely,

Global Insurance Solutions and Strategies
PineBridge Investments

[1] Request For Comment: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions," published on May 9, 2023 by S&P Global Ratings.

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