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Growth in Private Ratings Among U.S. Insurer Bond Investments and Credit Rating Differences

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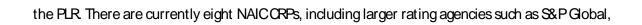
Executive Summary

The number of privately rated securities reported by U.S insurance companies totaled 5,580 a
year-end 2021, an increase from 4,231 in 2020 and 2,850 in 2019.

Small credit rating providers (CRPs) to the NAIC, such as Egan-Jones, DBRSMorningstar, and the Kroll Bond Rating Agency

What Are Private Letter Ratings and Privately Rated Securities?

PLRs are private ratings assigned to securities by NAIC ORPs in the form of a letter or report, which can be obtained by an insurer in its capacity as an investor in the rated security through a confidential process established by the ORP. A privately rated security is a security with a credit rating from a ORP, which is communicated to the issuer and a specified group of investors only, and it is not publicly Therefore, a privately rated security is the subject of



While all CRPs provide PLRs, the small CRPs have been much more active than their larger counterparts. In this analysis, CRPs that have issued PLRs on U.S. insurer investments are categorized based on their market share of the global credit rating industry. Large CRPs include



For the top 10 insurer groups, PLR investments increased by an aggregate \$29.3 billion in BACV from 2019 to 2020; the top 10 U.S. insurer groups in 2019 accounted for \$74.7 billion. The names of the insurer groups in the top 10 did not change year-over-year (YOY). Additionally, in 2020, total PLR investments were 20.4% of total capital and surplus compared to 15.8% in 2019. While PLR investments as a percent of this surplus value increased YOY, concern is somewhat mitigated by the exposure being concentrated among large life companies; i.e., those with more than \$10 billion in assets under management.

The 10 largest issuers with PLRs held by U.S insurers at year-end 2020 were only 8% of total PLR investments (see Table 3). This was consistent in terms of the percentage to the BACV of the same issuers in 2019. However, the BACV increased by \$5.6 billion, or 54%, for the same 10 issuers from 2019 to 2020. Note that the top 10 issuers with PLRs accounted for about half of the investments at year-end 2020.

Table 3: Top 10 Issuers with PLRs for U.S. Insurers (BACV\$ in billions), Year-End 2020

Arthur J. Gallagher & Co.	\$0.0	\$3.3	-
Varagon Sdlp Senior Note Trust	\$1.6	\$1.9	19%
Jetro Holdings, Inc.	\$1.1	\$1.8	63%
Reyes Holdings, LLC.	\$1.8	\$1.7	-5%
Trademark Royalty 2018-1 ЦС	\$1.3	\$1.3	0%
Hofer Financial Services Gmbh	\$1.4	\$1.3	-8%
SEGRO Pic	\$0.9	\$1.2	29%
The Irvine Company, ЦС	\$1.1	\$1.1	5%
EDENSLimited Partnership	\$0.0	\$1.1	-
AESSouthland Energy, LLC	\$1.1	\$1.1	0%
			54%

Rating Differences Among Credit Rating Providers

The SVO performed an analysis to determine the differences, if any, of credit ratings across NAIC CRPs. The analysis compared the credit ratings of all public and private securities held by U.S. insurance companies in 2020 and through Sept. 30, 2021, rated by more than one



Note: A negative value indicates ratings are lower than comparison ratings, and a positive value indicates ratings are higher than comparison ratings.

Analysis of 2021 private and public ratings revealed similar results through Sep()] $TJETQq0.000009120612792 \text{ reW}^*$ nEq. ()]

^{*} As of Sept. 30, 2021.

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