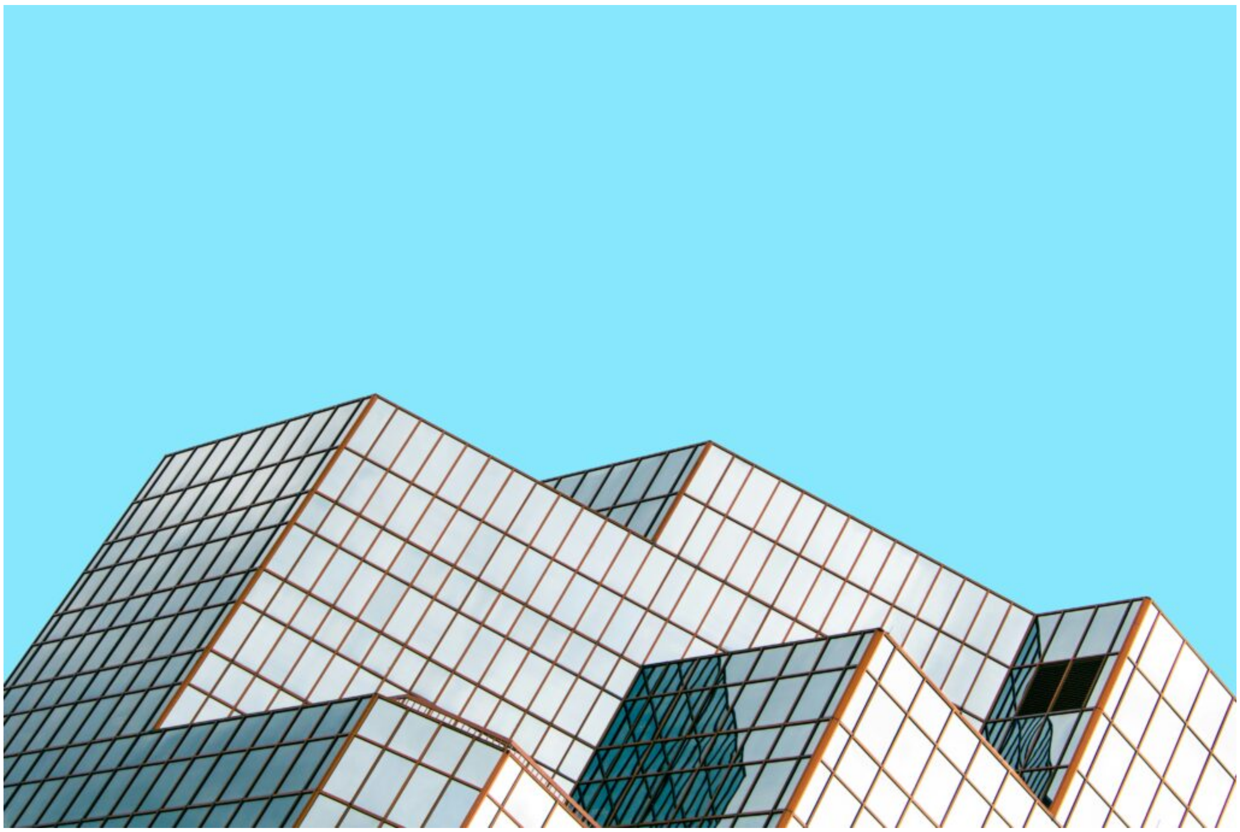
NAIC Report Puts Smaller CRA Ratings Under the Spotlight

Fitch Ratings | December 18, 2024



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At end-2023, US insurers held about USD350 billion of privately rated securities.

The NAIC has adopted a proposal to contest private ratings from CRAs if their ratings are three notches higher than an assessment from the NAIC's Securities Valuation Office (SVO).

Of 109 private ratings reported by the NAIC during 2023, there were eight instances where securities were assigned ratings six notches or more higher than the SVO assessment. All were issued by a smaller CRA.

Two ratings would be beneficial under the new regime: As an additional credit assessment reference and as a fallback if a private rating with a three-notch or more differential is contested by the NAIC.

Fitch’s private and public ratings are assigned using the same policies and procedures, with identical criteria and rating scales. Fitch’s public and private corporate ratings demonstrate similar longer-term default rates at each rating level.

With the recent growth in Private Credit, we think it’s an important time to revisit why two ratings could be beneficial for market participants.