Regulators Back Reduced Cap Levels

A working group of the **National Association of Insurance Commissioners** approved a proposal May 27 that reduces capital charges for insurers' real estate investments.

The **American Council of Life Insurers** and the **Mortgage Bankers Association** had been seeking the relief for more than three years, arguing that the capital reserves that life insurers are required to hold against equity investments are set higher than necessary.

Before the latest action, the NAIC, the standard-setting organization for state insurance regulators, required life companies to hold reserves of 15% against direct investments in real estate, and 23% for indirect investments via joint ventures and limited liability corporations. The final change lowers reserves to 11% and 13%. The industry groups had sought reductions to 10% in both cases. The groups have argued that the requirements didn't consider insurers' track record of conservative investment, which has resulted in minimal historical losses.

The Life Risk-Based Capital Working Group, which was charged with overseeing the proposal last year, approved key provisions of a plan that NAIC unveiled in April. That means the relief is in effect for annual portfolio reviews conducted near yearend that inform capital charges for each firm. The issue is important to lenders because insurers often seek debt financing on their commercial-property investments.

Current rules also don't credit insurers for property appreciation, paper gains that they argue should provide a buffer against future losses. The groups asked that two-thirds of gains be factored into and weighed against capital reserves. The proposal reduced that to 50%, but the LRBC working group did not act on that part of it.

"This has been years in the making, and in the end, they decided it was an important project to get done for yearend reporting and they managed to get it over the finish line," said **Bruce Oliver,** associate vice president for commercial real estate policy at the MBA.

The MBA and the ACLI have worked closely with the LRBC group throughout the pandemic, securing NAIC approval for relief extensions that have allowed lenders to work with borrowers without taking capital hits. ❖