

June 9, 2026

Private Credit: Much Ado About Nothing—Perspectives on Columbia Business School Paper About Private Ratings

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The Columbia Business School's Rating Without Market Discipline paper raises important questions regarding the growth of private ratings in U.S. life insurers' portfolios and the interaction between ratings and regulatory capital. The paper concludes that privately rated bonds understate credit risk, experience higher subsequent impairment rates, and contribute to lower required capital than comparable publicly rated bonds.¹

This KBRA research reviews the paper's methodology and its interpretation of the evidence. Our objective is not to argue that private ratings should be exempt from scrutiny. Rather, it is to help fixed income investors evaluate whether the evidence presented in the paper supports the breadth of its conclusions—which, we believe, they do not (see below). Put differently, the paper's rhetorical emphasis is on systemic risk, policyholder welfare, widespread rating inflation, and the absence of market discipline, while its principal quantitative estimate is a hypothetical modeled capital adjustment that is insignificant relative to the financial resources of the industry.

Key Takeaways

- Even if one accepts the entirety of the paper's analytical assumptions and inferential steps as valid, the authors' own illustrative capital exercise implies approximately \$4 billion of additional required capital for the entire U.S. life insurance industry.
- Based on NAIC's 2024 Life RBC Statistics, that amount represents roughly 0.5% of industry total adjusted capital (TAC), approximately 0.6% of industry surplus, and less than 0.1% of invested assets. In other words, a small pro forma impact on the industry's risk-based capital ratio (RBC) of approximately 38 RBC points (830% versus 868%).²
- That conclusion is considerably narrower and economically more modest than the impression conveyed by the paper's title, abstract, and concluding discussion.

This report also discusses the principal assumptions that drive the Columbia study's conclusions and explains why those assumptions warrant caution.

1 Li, X., Oh, S., and Ricciardi, G., Rating Without Market Discipline, Columbia Business School working paper, May 2026.

2 National Association of Insurance Commissioners, 2024 Life RBC Statistics (year-end 2024; data as of 6/2/2025): Total Adjusted Capital \$752,566,690,699; surplus \$629,142,197,080; invested assets \$5,746,233,628,982.



Introduction

The growth of private credit has shifted a larger share of credit assessment into private channels that are not broadly disseminated to the market. In an insurance context, this matters because rating designations feed directly into regulatory capital calculations. The Columbia paper uses life insurer Schedule D data to study private letter ratings (PLR), their apparent impairment performance, and the regulatory implications.

The paper is somewhat valuable as a retread of previously published statistics: it quantifies the recent increase in PLR usage,³ maps the broad composition of PLR holdings, and raises an important policy question about the relationship between private credit assessments and capital regulation. The central issue for readers, however, is whether the paper's empirical design supports the breadth of the conclusions drawn from it.

The Columbia Paper's Findings

The paper presents four principal findings:

1. It documents the recent growth of private ratings within life-insurer portfolios.
2. Privately rated bonds subsequently experience higher other-than-temporary impairment (OTTI) rates than publicly rated bonds assigned the same NAIC designation.⁴
3. Privately rated bonds are downgraded less frequently.
4. It argues that these results are consistent with weaker market discipline in private rating markets and estimates the capital consequences through a hypothetical capital exercise.⁵

The growth of private markets raises legitimate questions regarding transparency, risk measurement, and regulatory oversight. The key issue is whether the methodology employed by the paper permits the broader conclusions it ultimately reaches.

Summary of Top Seven Material Methodological Limitations

While KBRA takes issue with many assertions in the paper, below we highlight the most important ones:

1. OTTI is not a direct measure of rating performance. The paper substitutes an accounting impairment metric for a rating transition, default, or expected-loss measure. That choice may be defensible as a proxy, but it is not equivalent to direct rating validation.
2. The analysis ignores impairment severity. A one-dollar impairment and a multimillion-dollar impairment are treated as identical in the primary outcome measure. That simplification may be appropriate for a binary event study, but it limits what can be inferred about the economic magnitude of the underlying differences. And in any event, impairment events are rare enough to be shaky ground upon which to build an entire thesis.
3. Rating inflation is inferred rather than observed. The study does not directly measure a two-notch difference. It derives one through multiple analytical steps that depend on the stability of the public-rating benchmark using a very small sample size and on the assumption that impairment differences map cleanly into rating notch differences.
4. The capital estimate relies on broad extrapolation. The paper applies a uniform two-notch downgrade across the entire private-rated universe despite evidence that the strongest effects are concentrated in much narrower non-investment grade portions of the sample.

3 Columbia Business School, Rating Without Market Discipline, Figure 1 and Section 2.1, documenting growth in private ratings from \$46 billion in 2018 to \$481 billion in 2025 (1.5% to 12.2% of insurer bond portfolios).

4 Columbia Business School, Rating Without Market Discipline, Tables V and VI, reporting higher forward OTTI rates for privately rated bonds and lower downgrade rates relative to publicly rated bonds with the same NAIC designation.

5 Columbia Business School, Rating Without Market Discipline, Table VIII, showing that insurers more exposed to the 2021 NAIC reform increased their private rating share, with the effect concentrated in high yield.



5. The paper’s conclusions regarding analyst experience and analytical capacity are not directly supported by the evidence. Workforce characteristics derived from a third-party dataset are used as proxies for analytical capability, but the paper does not establish either the reliability of those measures or any relationship between those measures and ratings performance.
6. Credit rating agency (CRA)-level performance and analytical capacity are not measured. The core dataset does not identify the agency associated with each observation, limiting the ability to attribute outcomes to specific providers or groups of providers. As a result, the paper cannot directly establish whether observed outcomes reflect differences among rating agencies, much less differences in asset composition, variations in dissemination channels, or disparate analytical practices.
7. The market-discipline hypothesis is an inference that relies heavily on a very small dual-rated sample.

What the Paper Does Not Measure

The Columbia paper evaluates insurer impairment outcomes rather than rating performance directly. It does not evaluate cumulative default rates, transition matrices, long-horizon cohort performance, expected-loss calibration, or CRA-specific rating performance. It also does not directly observe the ratings that were compared across all agencies or all transactions. Instead, the paper evaluates insurer accounting outcomes and then infers conclusions regarding rating quality. This distinction matters because traditional rating validation exercises ask different questions than impairment studies.

A transition study tracks how ratings move over time; a default study examines how often bonds ultimately fail to pay; a cohort analysis groups issuances by vintage; and a CRA-level analysis asks whether particular raters systematically underperform. The Columbia paper does none of these things. Readers should therefore distinguish carefully between what the paper directly observes and what it subsequently infers.

Why OTTI Is Not a Rating Metric

The paper’s central arguments are based on observations regarding OTTI. While OTTI is a useful accounting measure and is sometimes used as a proxy for credit risk in research,⁶ it is not equivalent to a rating outcome or action. A security may be downgraded without an OTTI ever occurring. OTTI is also not an indication of default. For example, a security may experience an impairment prior to default, and a default may occur without an impairment being recognized in a particular period. OTTI is not a mark-to-market measure either. A bond may trade below cost because of interest rate movements, liquidity conditions, spread widening, or temporary market stress without necessarily triggering OTTI recognition.

The analysis ignores impairment severity. A one-dollar impairment and a multimillion-dollar impairment are treated as identical in the primary outcome measure. That simplification may be appropriate for a binary event study, but it limits what can be inferred about the economic magnitude of the underlying differences—in any event, impairment events are rare enough to be shaky ground upon which to build an entire thesis.

In contrast, ratings are forward-looking assessments of relative credit risk. They are commonly evaluated through transition studies, default studies, and long-horizon cohort analyses. The Columbia paper instead evaluates ratings indirectly through an accounting impairment proxy. Conclusions regarding rating performance necessarily depend on the assumption that OTTI is an appropriate stand-in for rating quality.

Analyst Experience and Analytical Capacity

The Columbia paper also attempts to support its broader concerns regarding private ratings by comparing workforce characteristics across CRAs. Using data from Revelio Labs (which derives its data from third-party websites), the authors report differences in analyst tenure and educational attainment between the agencies most active in private ratings and the larger public market agencies. The paper then suggests that these differences may indicate weaker

6 Columbia Business School, *Rating Without Market Discipline*, pp. 13-16, describing OTTI as a proxy for realized losses and the accounting basis for the impairment analysis.



analytical capacity among the agencies most active in the private rating market. That inference is not supported by the data and warrants caution for three separate reasons.

First, the paper does not establish the reliability, completeness, or representativeness of the Revelio dataset for measuring analyst experience across rating agencies. While Revelio may provide workforce information, the paper does not demonstrate that the dataset captures comparable or complete populations of analysts across firms, that employee classifications are consistent across agencies, or most important, that the reported differences accurately reflect the personnel responsible for the ratings examined in the study.

Second, the measures used in the paper are weak proxies for analytical capability. Length of tenure at a current employer, years since graduating college, and educational attainment may correlate with experience in some settings, but they do not directly measure analytical rigor, sector expertise, surveillance quality, committee processes, model development, or any of the attributes that rating agencies typically associate with ratings performance. Indeed, historical experience may support the opposite conclusion as KBRA notes that the legacy rating agencies had many very experienced analysts in the years preceding the global financial crisis.

Third, the paper does not establish any relationship between these workforce characteristics and actual ratings outcomes. Taken together, these limitations make the paper's conclusions regarding analytical capacity substantially more speculative than its discussion implies.

Weakness in How the Capital Estimate Is Derived

The paper's headline capital estimate is derived through a sequence of analytical assumptions. First, the authors estimate the relationship between rating categories and future impairment outcomes among publicly rated bonds. Second, they estimate the excess impairment rate associated with privately rated bonds. Third, they convert difference in reported impairments into an implied rating-notch difference. Fourth, they apply a uniform two-notch downgrade assumption to all privately rated bonds. The paper does not directly observe such a difference. Instead, it infers it from impairment outcomes and then applies the resulting adjustment to all privately rated bonds held by all life insurers. Finally, they recalculate industry risk-based capital requirements under that scenario.⁷

The paper's own tables show that the impairment gap is not uniform in strength across the sample. Several of the study's strongest results arise from speculative-grade securities and selected subsamples, including the within-issuer comparison, where the high-yield interaction is economically large and statistically significant. Therefore, while the paper's strongest evidence points to a possible OTTI gap in the non-investment grade portion of the private letter rating portfolio, this only represents approximately 10% of the total private letter rating portfolio. The capital estimate therefore reflects an extrapolation from the segments where the observed differences are greatest to a substantially larger population of assets for which there is no observable evidence.

The capital estimate should be read as a modeled sensitivity, not as an observed shortfall. In practice, any practical use of the figure should note that the empirical evidence is stronger in the speculative-grade and within-issuer subsets than in the full investment-grade book. It does not by itself establish that the entire life insurance sector is meaningfully undercapitalized.

A more precise interpretation would be that private ratings may create pockets of regulatory sensitivity and merit scrutiny, rather than that the entire market is mismeasured at scale. That distinction matters for how regulators, insurers, and investors use the result.

Comparison With Recent PLR Stress Test Scenarios

Notably, the paper's estimated capital effect is driven not by directly observed downgrades but by an assumed two-notch adjustment applied across the entire private-rated universe. Similar scenario-based approaches have appeared in recent industry commentary. Serendipitously, Fitch Ratings recently published one-, two-, and three-notch

⁷ Columbia Business School, Rating Without Market Discipline, Table IA.2 and Table IA.3. Table IA.2 maps the private-public impairment gap to approximately 2.5 to 3.3 rating notches and \$4 billion increase in required capital; Table IA.3 shows the within-issuer high-yield concentration of the effect.



downgrades scenarios for all PLRs while explicitly characterizing those scenarios as “extremely severe” and of “remote probability.”⁸ The distinction is important. Stress scenarios can be useful tools for understanding sensitivity and resilience, but they should not be confused with evidence that such outcomes are likely to occur. Readers should therefore distinguish between scenario analysis and empirical evidence regarding actual rating performance.

The point of this comparison is not to equate the Columbia paper with Fitch’s note. The point is methodological. Both exercises use hypothetical downgrade scenarios to illustrate capital sensitivity, but only the Columbia paper explicitly converts an inferred impairment gap into a broad statement about rating inflation. Scenario analysis can help frame analysis—it is not, by itself, proof of actual rating performance.

Breadth of Conclusions Versus Breadth of Evidence

One of the central tensions in the paper is the difference between the scope of its strongest empirical findings and the scope of its policy conclusions. Several of the study’s most compelling results arise from speculative-grade securities, selected subsamples, and dual-rated observations. Yet, the paper’s broader discussion extends to the private rating market and the life insurance industry as a whole.

Therefore, the policy implications depend on extrapolating from the portions of the market where the evidence is strongest to a substantially larger population of assets for which the evidence is less direct. Readers should carefully distinguish between what is directly observed and what is inferred.

Put differently, the paper’s principal quantitative estimate of undercapitalization is modeled, and it is modest. That distinction is important when the broader language of the paper points to systemic risk, policyholder welfare, and market discipline, while the numerical result is an estimate equal to approximately one-half of one percent of industry TAC.

Conclusion

The Columbia paper assembles descriptive evidence regarding the growth of private ratings within insurer portfolios and highlights important questions regarding regulatory capital and private-market transparency. However, its broader conclusions regarding widespread rating inflation, market discipline, and capital adequacy depend on assumptions that extend materially beyond the directly observed evidence.

Even accepting those assumptions, the paper’s own illustrative exercise produces a modeled industry capital adjustment of approximately \$4 billion, which is substantially narrower than the breadth of the paper’s framing and policy discussion as it equates to a relatively small number relative to the financial resources of the U.S. life/annuity industry.

Recent Publications

- [Private Credit: A More Balanced Review of the NAIC PLR Review Process for Insurance Balance Sheets](#)
- [KBRA Global Rating Stability and Transition Study: 2011-2025](#)
- [Unpublished Ratings: Same Standards, Different Distribution](#)

8 Fitch Ratings, Private Letter Ratings Regulatory Scrutiny Will Pressure Weaker US Insurers, Fitch Wire, April 30, 2026, pp. 1-3, describing one-, two-, and three-notch PLR downgrade scenarios as extremely severe and of remote probability.



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Doc ID: 1015445