NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 10/22/26

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Wednesday, October 28, 2026
3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT

ROLL CALL

Ben Slutsker, Chair	Minnesota	William Leung	Missouri
Philip Barlow, Vice Chair	District of Columbia	Michael Muldoon	Nebraska
Sheila Travis/Sanjeev Chaudhuri	Alabama	Jennifer Li	New Hampshire
Thomas Reedy	California	David Wolf	New Jersey
Wanchin Chou	Connecticut	William B. Carmello	New York
Hannah Howard	Florida	Andy Schallhorn	Oklahoma
Matt Cheung	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah

NAIC Committee Support: Kazeem Okosun/Maggie Chang

AGENDA

1. Consider Adoption of its 2027 Working Agenda—*Ben Slutsker (MN)* — Attachment 1

2. Hear a Presentation from Bridgeway Analytics on Reinsurance Recapture and Counterparty Risk—*Ben Slutsker (MN)* — Attachment 2

3. Discuss Any Other Matters Brought Before the Working Group —*Ben Slutsker (MN)*

4. Adjournment

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2027 #	Owner	2027 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
~~L2~~	~~Life RBC WG~~	~~1~~	~~2026 or later~~	~~1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made.~~ ~~2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.~~	~~CADTF~~	~~Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup~~	
L23	Life RBC WG	1	2027~~6~~ or later	1. Provide recommendations for the appropriate treatment of longevity risk transfers by updating the approach to develop the C-2 capital amount for longevity reinsurance products. 2. Monitor and make recommendations as needed based on the impact from changes to the non-variable annuity reserve framework.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L34	Life RBC WG	1	2027~~6~~ or later	Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions, and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L45	Life RBC WG	1	~~2026~~ 2027 or later	Update C3 Phase I to modernize the cash-flow testing methodology and revise the scope to include FIAs.	AAA	Being addressed by the American Academy of Actuaries	
L56	Life RBC WG	1	~~2026~~ 2027 or later	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted. Deliberate the relevant weights assigned to various risk components.		3/22/2026 – At the SPNM, the Academy presented Phase 1 research examining the relationship between authorized control level (ACL) RBC ratios and impairment probability across insurance sectors, with a focus on life insurers.	

L~~67~~	Life RBC WG	2	202~~76~~ or later	In light of SAPWG INT to permit admittance of negative IMR, SAPWG requested CADTF to consider: 1. The elimination of any admitted net negative IMR from Total Adjusted Capital (TAC). 2. Sensitivity testing with and without negative IMR.	CADTF	12/2/23 - received CADTF referral for Negative Interest Maintenance Reserve (IMR).	
L~~78~~	Life RBC WG	2	~~2026~~ 2027 or Later	Consider SAPWG Referral for Investments in Tax Credit Structures, specifically to consider possible factor changes for investments in Tax Credit Structures	SAPWG referral	3/27/24 – received SAPWG referral on Tax Credit Investments 2025 to address the structural and instructional changes. 5/1/25 - Tax Credit Investment Proposal 2024-21-L MOD was adopted	
L~~89~~	03-27-2024	2	2026 or Later (Completed)	Consider possible structural changes to account for reporting changes for collateral loans addressed through instructional changes for 2024 with the adoption of proposal 2024-15-L	SAPWG referral	2/29/24 – received SAPWG regarding collateral loan reporting changes 6/16/24 – Collateral loans proposal 2024-15-L was adopted 6/5/25 – received another referral from SAPWG on Collateral Loan Schedule BA reporting changes. 6/30/2026 - Collateral Loans proposal 2025-16-L MOD was adopted for 2027 implementation.	2/29/2024
New Items – Life RBC							
L~~910~~	Life RBC WG	2	202~~76~~ or later	Residential Mortgage loans (LR004) and Schedule BA Residential Mortgage Loan (LR009) factors	Comment letters – Pac Life and ACLI INVAWG referral		11/14/2025 05/26/2026

L	10	Life RBC WG	1	2027 or later	In light of the Financial Condition (E) Committee's directive, the Life Risk-Based Capital (E) Working Group is tasked with developing a reinsurance recapture charge for reinsurance ceded to entities domiciled in non-reciprocal jurisdictions, effective for year-end 2027: 1. A reinsurance recapture RBC factor to be applied to ceded reserves and modified coinsurance balances for all reinsurance located outside of reciprocal jurisdictions while of course considering an overcollateralizing of the reserves in establishing the required RBC. The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves. 2. To account for increased credit risk for reinsurers that have lower financial strength ratings, modify the reinsurance methodology used in the life RBC formula for recoverability risk by aligning with the approach used in the property/casualty (P/C) RBC formula.	Financial Condition (E) Committee referral	Under review by the Bridgeway Analytics and NAIC Staff	07/27/2026

BRIDGEWAY ANALYTICS

Attachment 2

Supporting the investment and regulatory community to navigate increasingly complex capital markets

Life RBC Working Group

Reinsurance

An Assessment of Practices and Trends Using Publicly Available Data

October 26, 2026

Bridgeway Analytics supports the investment and regulatory community in working to optimize the design, organization, and utility of regulations surrounding the management of insurance company businesses. While the content in this document is informed by extensive discussions with our client base, the broader industry, NAIC staff, and state regulators and may contain analysis that Bridgeway Analytics had conducted as part of a commercial engagement and retains the right to reuse, the views in this document are solely those of Bridgeway Analytics and are based on an objective assessment of data, modeling approaches, and referenced documentation, that in our judgment and experience, are viewed as appropriate in articulating the issues at hand. Methodologies are available to the public through an email request at support@bridgewayanalytics.com.

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Agenda

1. Current C-1 treatment of reinsurance
2. Reinsurance and recapture risk: A stylized example
3. Recapture risks faced by the cedent
4. Life reinsurance failures
5. Non-Reciprocal reserve credit and collateral composition
6. Rated and unrated transactions
7. Level 3 assets
8. Affiliated transactions
9. Counterparty concentration risk

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Current C-1 RBC treatment of reinsurance

Transaction	Current Life RBC charges and offsets
Ceded reinsurance	0.78% pretax charge on reserve credit and receivables.
Parent cedes to subsidiary	-0.78% pretax credit, multiplied by the parent's ownership percentage. Designed to prevent double counting when the subsidiary's RBC, proportion to the parent's ownership, is rolled into the parent: • NAIC filers receive look-through treatment. • Non-NAIC filing U.S. insurers face a 30% factor. • Alien insurers receive a 0% RBC; a 100% factor is applied to a $0 CV under Life RBC; the carrying value is excluded from TAC.
Non-subsidiary affiliate	No subsidiary credit; sister affiliates are expressly excluded.
Qualifying collateral	-0.78% offsets may apply based for FWH, ModCo and other collateral.

Non-Reciprocal transactions generally incur a ~$0 RBC charge because reserve credit generally requires collateral, resulting in an RBC offset, with the following exceptions:

- Equity ownership of reinsurance subsidiaries is excluded from Total Adjusted Capital.
- The charge on receivables is generally inconsequential.

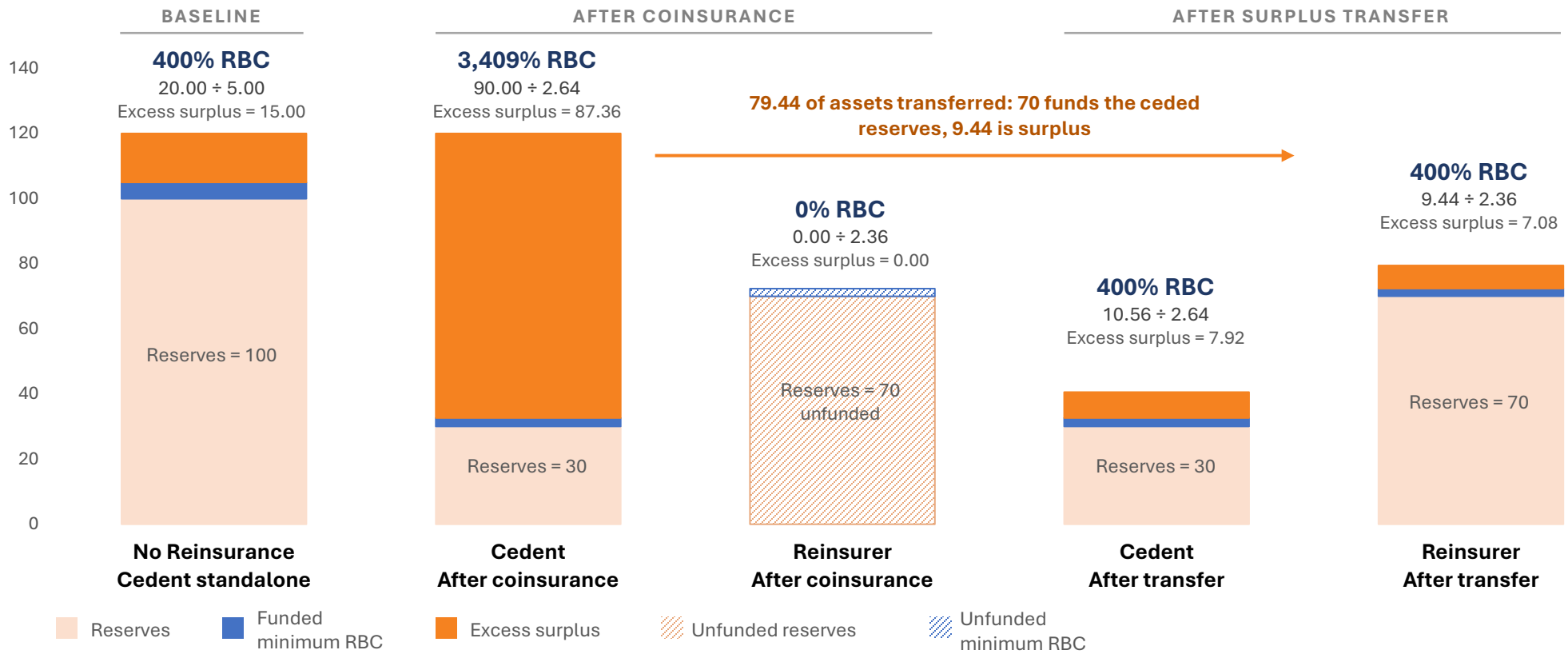
Regulatory concern: Lack of transparency with transactions not collateralized to reflect total asset requirements under NAIC guidelines, including asset composition when not structured as FWH or ModCo. A robust reinsurer rating is not sufficient.

Bridgeway NOTE: Total C-1 RBC can be impacted by the size factor (aka, portfolio Adjustment Factor), the Asset Concentration Factor, and the Common Stock Concentration Factor.

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Stylized case study: Capital neutral reinsurance transaction

70% coinsurance frees 70 of cedent surplus; transferring 79.44 of assets leaves the cedent and reinsurer at 400% RBC



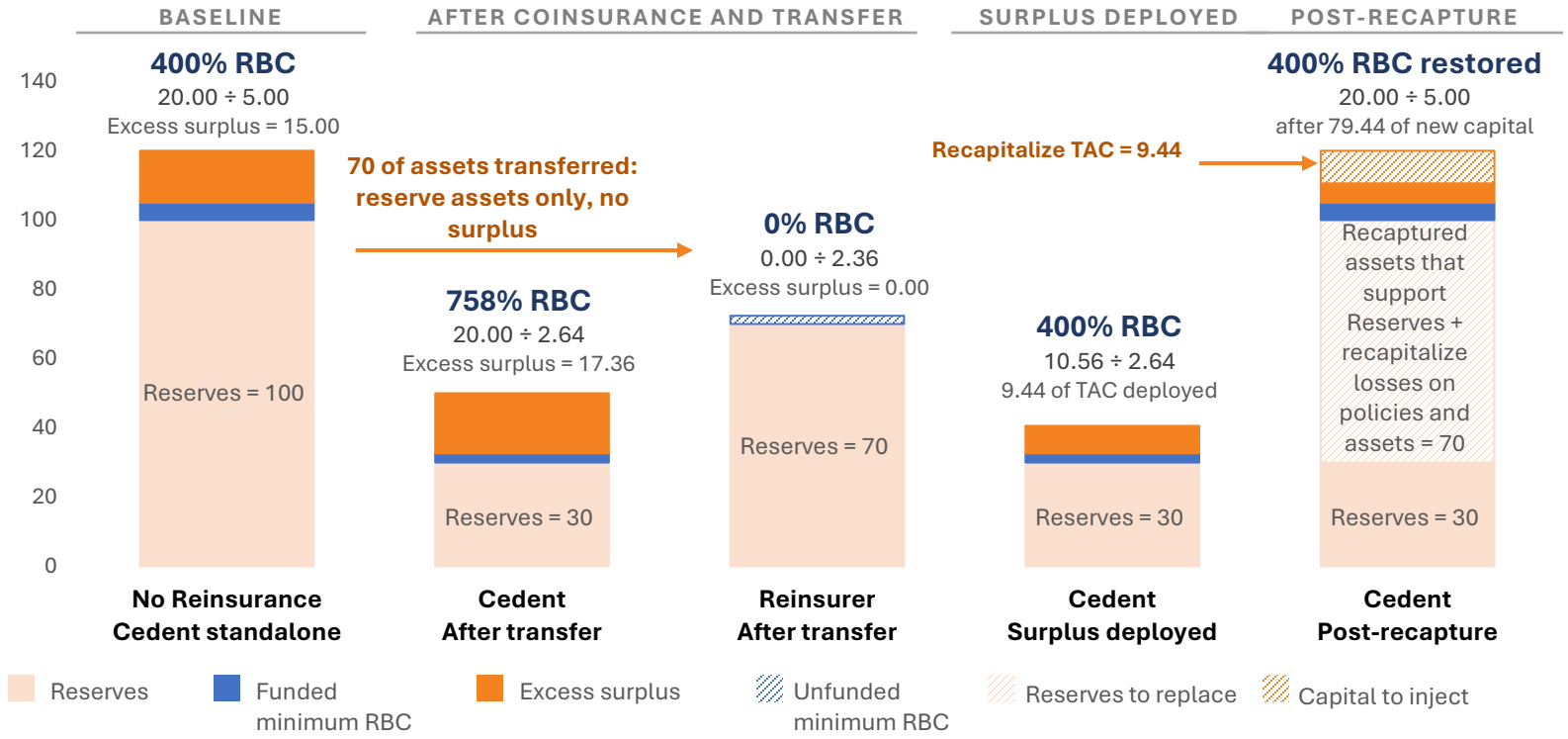
Assumptions & calculations

- Baseline, no reinsurance: reserves 100, minimum RBC 5.00, surplus 20.00 → 20.00 ÷ 5.00 = 400%
- Reserves ceded = 70 (70/120 = 58% of the business reinsured); no assets transferred in coinsurance transaction
- Cedent's release of 70 reserves becomes surplus → TAC 90.00; minimum RBC 2.64 = 2.10 (42% x 5.0) + 0.55 (0.78% x 70) RBC counterparty charge → 3,409% cedent RBC ratio
- Reinsurer after coinsurance: reserves 70 and minimum RBC 2.36 (2.90 assumed – 0.54 credit) are unfunded → 0% > reinsurer RBC ratio
- Transfer 79.44 of assets (70 funds to ceded reserves in trust, 9.44 is surplus): cedent 10.56 ÷ 2.64 = 400%, reinsurer 9.44 ÷ 2.36 = 400%

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Credit and recapitalization risks

Cedent can redeploy freed surplus, but recapture requires recapitalization of surplus beyond recognized losses when reserve credit is collateralized



If the treaty is recaptured, the cedent is exposed to credit losses and recapitalization risk

- **Counterparty credit risk.** The cedent faces uncertain exposure and potential losses on policies (e.g., lower interest rates for fixed-income annuities) and uncertain collateral, with assets that may face distress during such times.
- **Recapitalization risk.** The cedent will need to recapitalize the counterparty credit losses and 9.44 of TAC.
- **There may be other losses.** For example, related to recapturing a retrocession.

Assumptions & calculations

- Baseline, no reinsurance: reserves 100, minimum RBC 5.00, surplus 20.00 → 20.00 ÷ 5.00 = 400%
- Reserves ceded = 70 (70/120 = 58% of the business reinsured); no assets transferred under coinsurance
- Cedent after coinsurance: the released 70 of reserves becomes surplus → TAC 90.00; minimum RBC 2.64 = 2.10 (42% x 5.0) retained + 0.55 (0.78% x 70) counterparty → RBC ratio 3,409%
- Cedent transfers 70 of assets into trust → cedent TAC 20.00, reinsurer TAC 0.00
- After transfer: cedent RBC ratio = 20.00 ÷ 2.64 = 758%, reinsurer 0.00 ÷ 2.36 = 0% (minimum RBC 2.36 unfunded)
- Surplus deployed: the cedent releases 9.44 of TAC → TAC 10.56 ÷ minimum RBC 2.64 = 400%
- Recapture event: Cedent requires 70 reserves and minimum RBC returns to 5.00 → Trust has 70 net of losses + 9.44 additional TAC needed to restore the RBC ratio to 400%

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Recapture risks faced by the cedent

Counterparty credit risk vs recapitalization risk – collateral can mitigate both

- **Counterparty credit risk**. The loss to the cedent when a policy block or assets are placed back on its books. In cases where collateral is required for reserve credit, the collateral must be updated as gains or losses are recognized on policies or assets.
- **Recapitalization risk**. The cedent needs to raise funds for reserves and surplus, separate from any loss (or gain) on the policy block. Raising funds entails costs and risks affecting business viability. For example, if the cedent's cost of raising capital increases, possibly through surplus notes that are now viewed as riskier, the business might look less viable.

Counterparty risks that are somewhat unique to reinsurance

- **Uncertain exposure**. Policy value may evolve, or the cedent and reinsurer's valuation may not align.
- **Uncertain collateral**. Notably, if the assets are Level 3 assets, the cedent and reinsurer's valuation may not align. For non-NAIC-filing insurers, assets may include letters of credit or non-admitted assets.
- **Other losses**. For example, recapturing a retrocession.

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Recapture risk: Life reinsurance failures

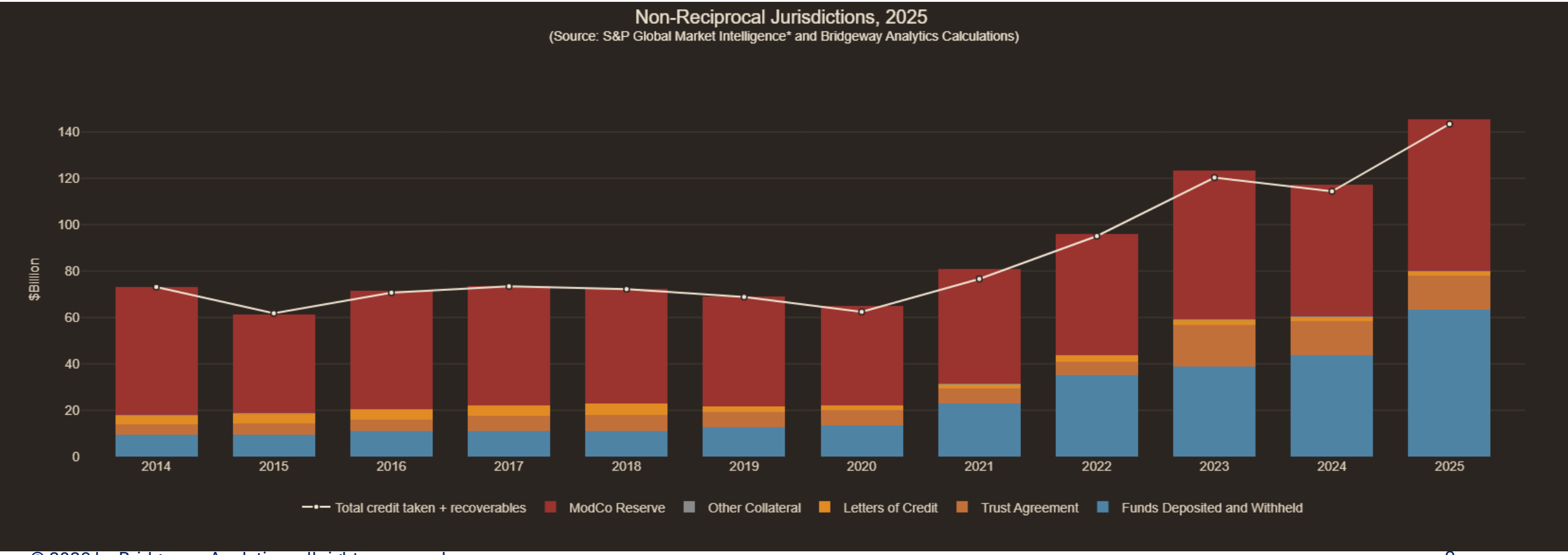
Five life reinsurance failures were identified over the last 10 years

- **Asset and governance failures**
  - Four of five cases involved alleged or established fraud, in which assets were misrepresented. They involved some combination of concentrated affiliated or related-party investments, collateral misuse, bonds with questionable private ratings, Level 3 valuation concerns, and governance and disclosure failures.
  - One case involved significant investment losses during the GFC, compounded by underpriced reinsurance and adverse insurance experience.
- **Collateralization.**
  - Cases with alleged or established fraud were coupled with questionable asset valuations, collateral eligibility, concentration, and liquidity vulnerabilities.
  - While FWH and ModCo mitigate risks, at least one case of losses associated with alleged fraud.
- **Recapture and resolution**
  - Outcomes ranged from rapid recapture, as in FWH and ModCo transactions, to prolonged resolution.
  - Some cedents incurred realized losses, faced liquidity constraints, and required additional capital, with varying recoveries.
  - While some cases prompted regulatory action against cedents, no policyholder losses directly attributable to reinsurer default were identified.
- **Reinsurance counterparty concentration.** In the four cases involving alleged or established fraud, large exposures to a single reinsurer or affiliated group amplify the consequences of recapture

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Reserve Credit & collateral composition

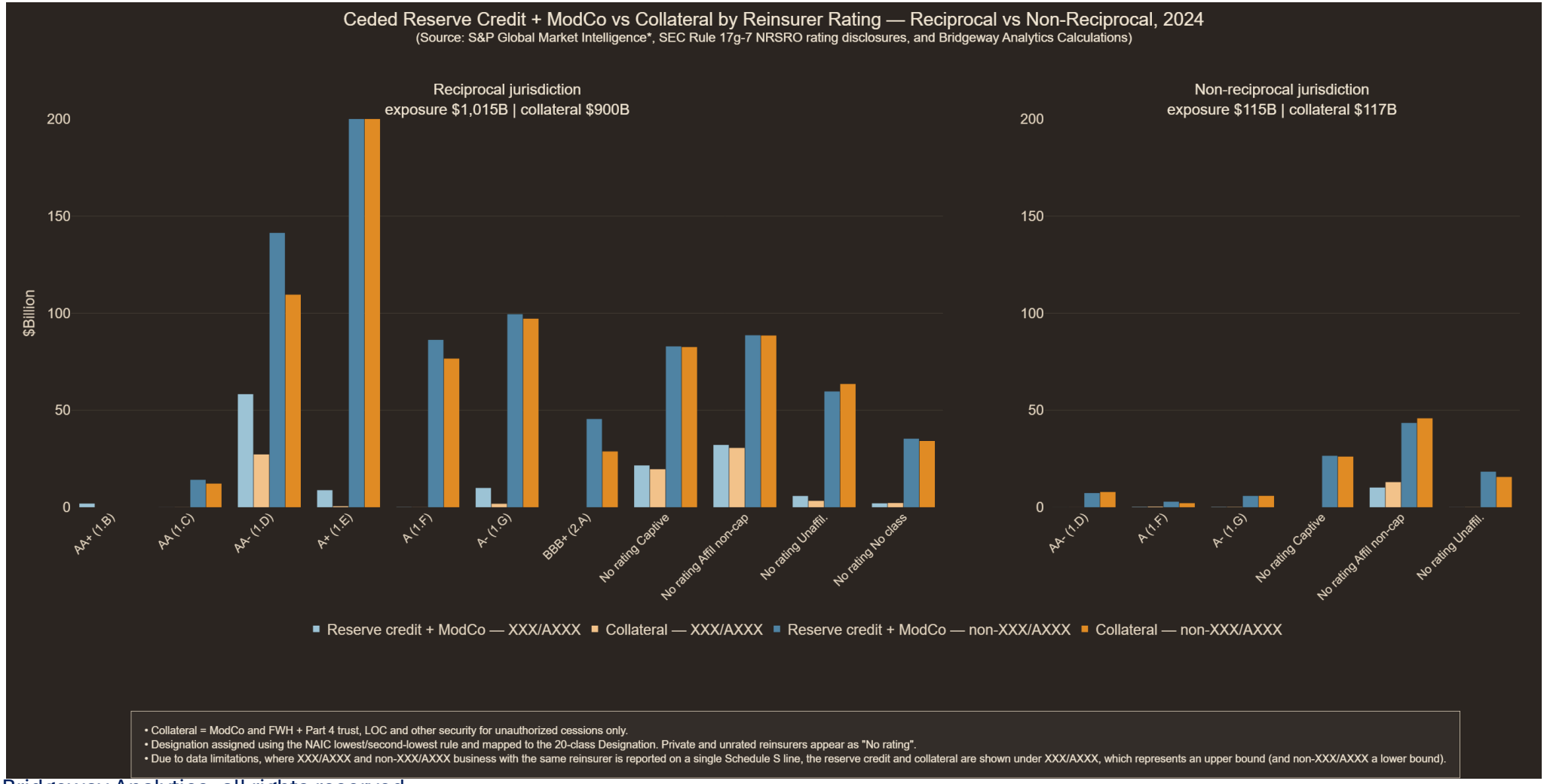
- Non-Reciprocal jurisdictions: More than 99% of transactions were with the Cayman Islands and Barbados in 2025.
- Reserve credit is generally 100% collateralized as required by the Model Law.
- Collateral is mostly comprised of FWH and ModCo, with some trust agreements.
- Letters of credit and other collateral are of limited use for transactions with non-Reciprocal.



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Implied FSR-based Designations & collateral by jurisdiction

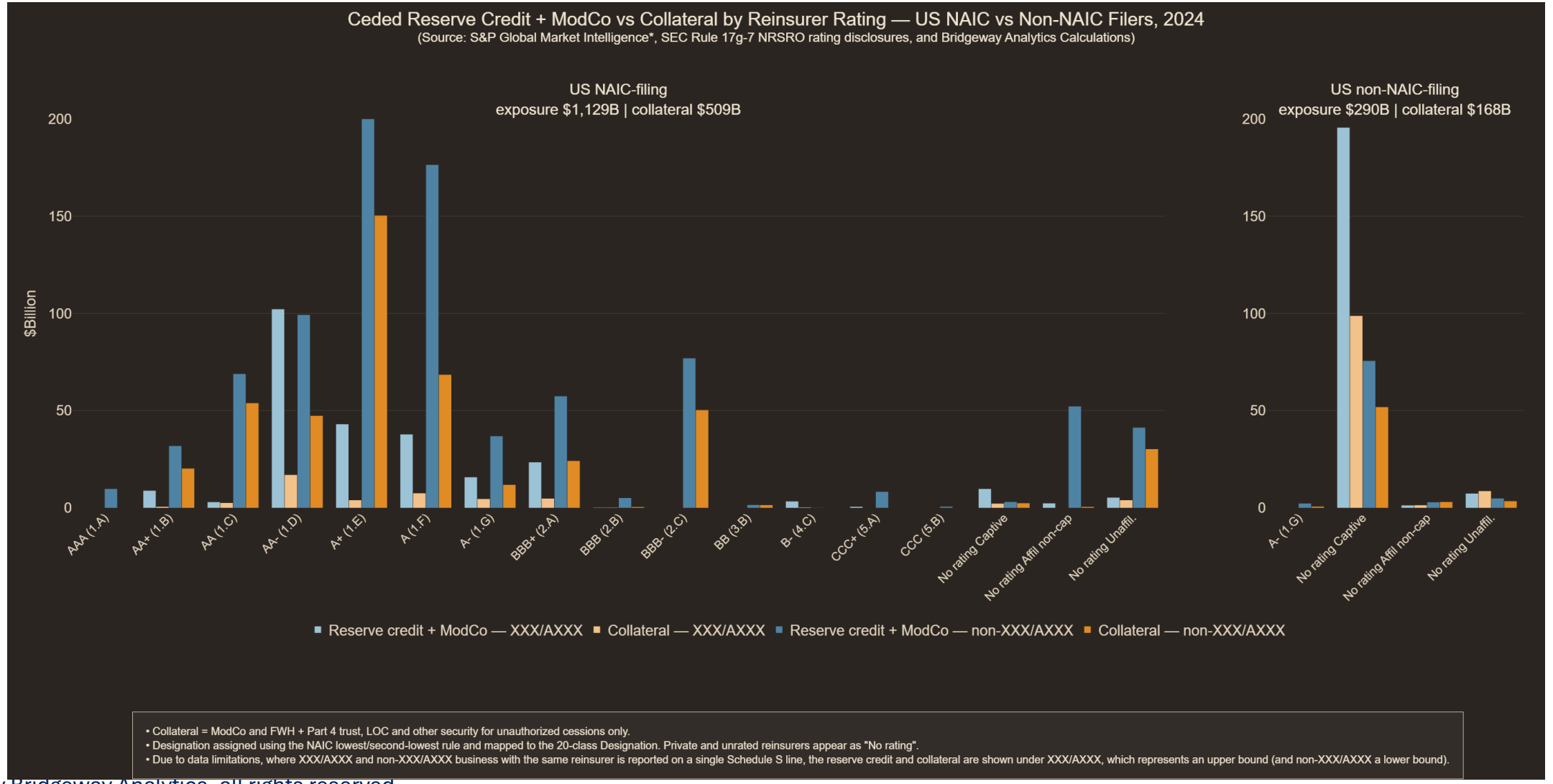
- Non-Reciprocal transactions are rarely publicly rated, whether captive, affiliate, or unaffiliated
- Reciprocal transactions that are rated generally have reserve credit collateralized; transactions with no public rating are collateralized.



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Implied FSR-based Designations & collateral by jurisdiction

- Collateral tends to be lowest for U.S. NAIC filers, particularly XXX/AXXX transactions.
- U.S. non-NAIC-filing reinsurers are mostly non-rated captives with limited collateral.

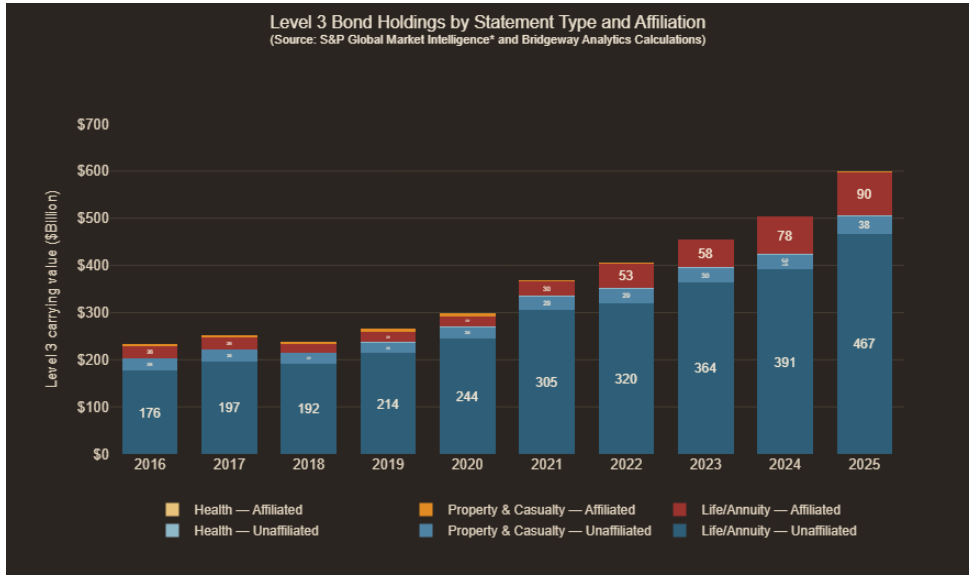


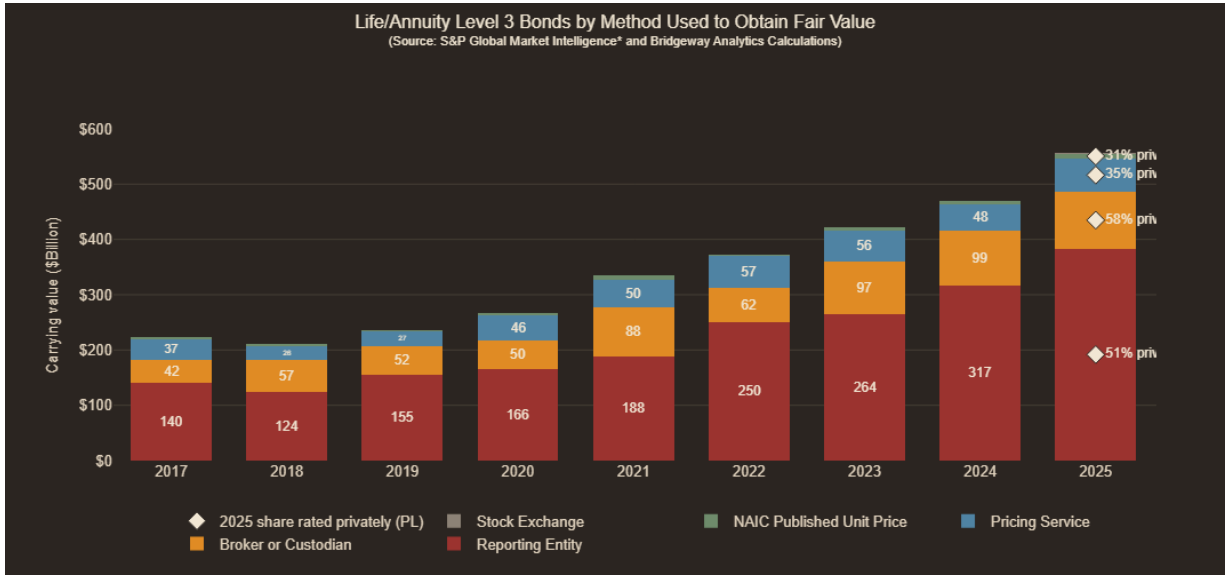
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Level 3 assets: Empirical patterns and cases of related failure

The significant growth in Level 3 assets has been well documented

- While the focus is often on Schedule BA assets, over $600 billion of Level 3 bonds were reported on Schedule D.
- The majority of Level 3 valuations are from the reporting entity itself, many of which receive a private rating.
- Level 3 assets supporting reinsurance transactions are not directly identifiable.
- A review of U.S. (re)insurer failures involving alleged or established fraud did not identify Level 3 valuation audits.
- **Outside U.S. (re)insurance.** Lehman Brothers collapsed in 2008, with tens of billions of Level 3 CRE audited by E&Y. The 2007 models/marks failed to reflect deteriorating fundamentals. Whether Lehman would have been able to exit those positions at a reasonable price had they been Level 1 is unclear. As a reminder, U.S. insurers did not exit their Level 1 positions in CMBS and RMBS in 2008. Rather, the Designation framework was adjusted.



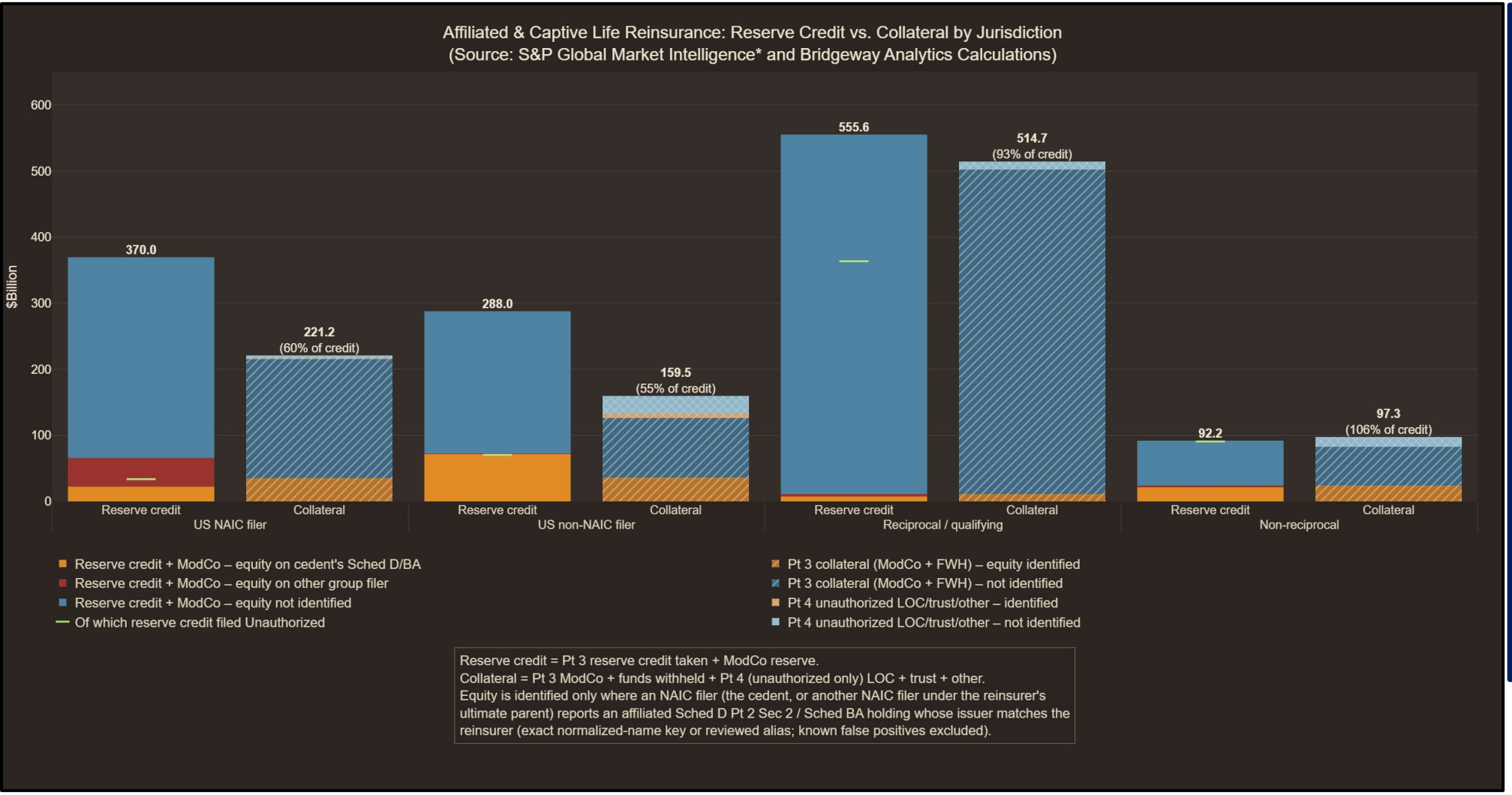


See also: AM Best, *Higher Exposure to Level 3 Bonds Brings Valuation Risk for Life/Annuity Segment*, August 5, 2026

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Affiliated & captive ownership by Jurisdiction

Few affiliated reinsurers identified on Schedule D or BA, suggesting indirect ownership-RBC implications.



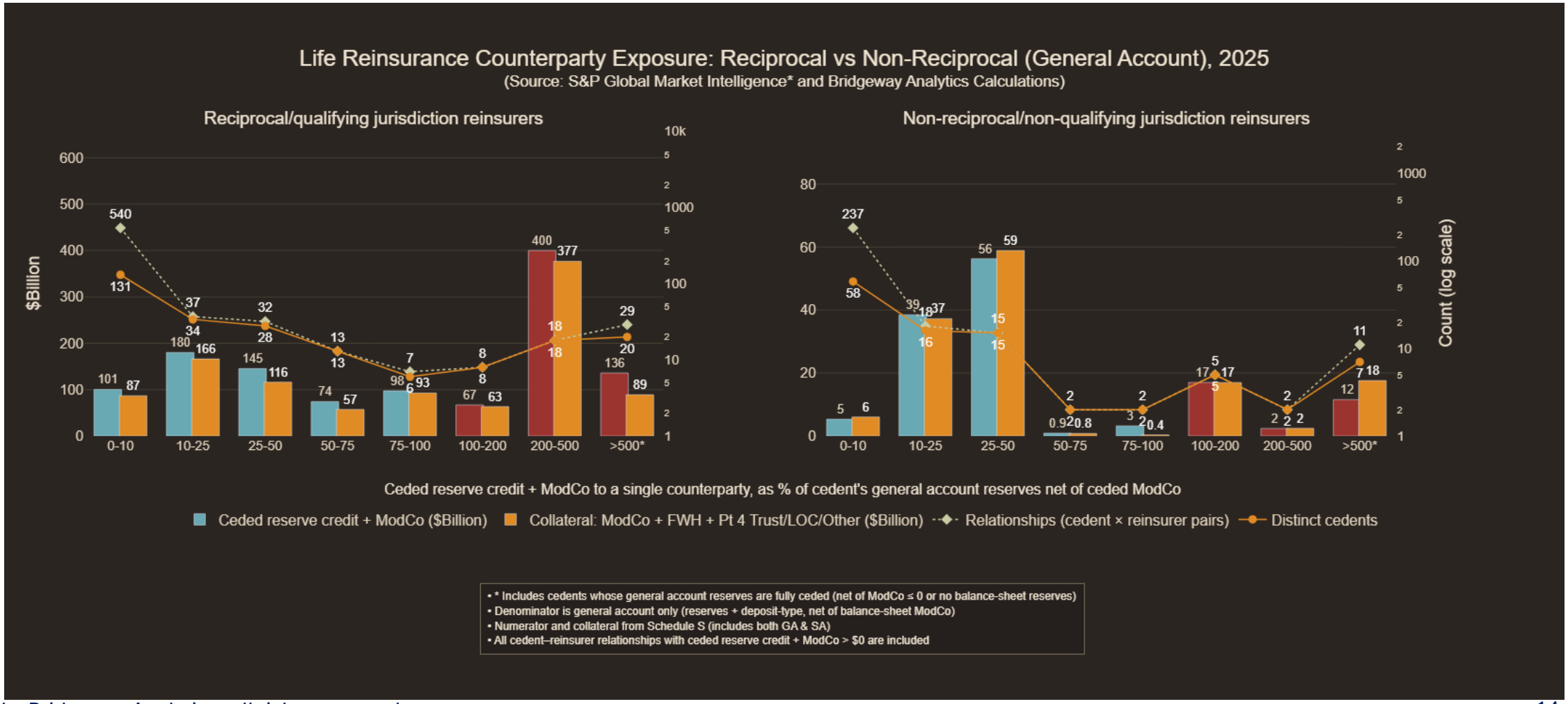
Reinsurance affiliates receive an RBC reserve credit offset and instead face the following RBC charge to the cedent's equity interest:

- U.S. NAIC filer receives a look-through RBC.
- U.S. non-NAIC-filers are subject to 30% RBC charge.
- Offshore reinsurance affiliates are subject to 100% RBC charge.

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Counterparty concentration risk by jurisdiction

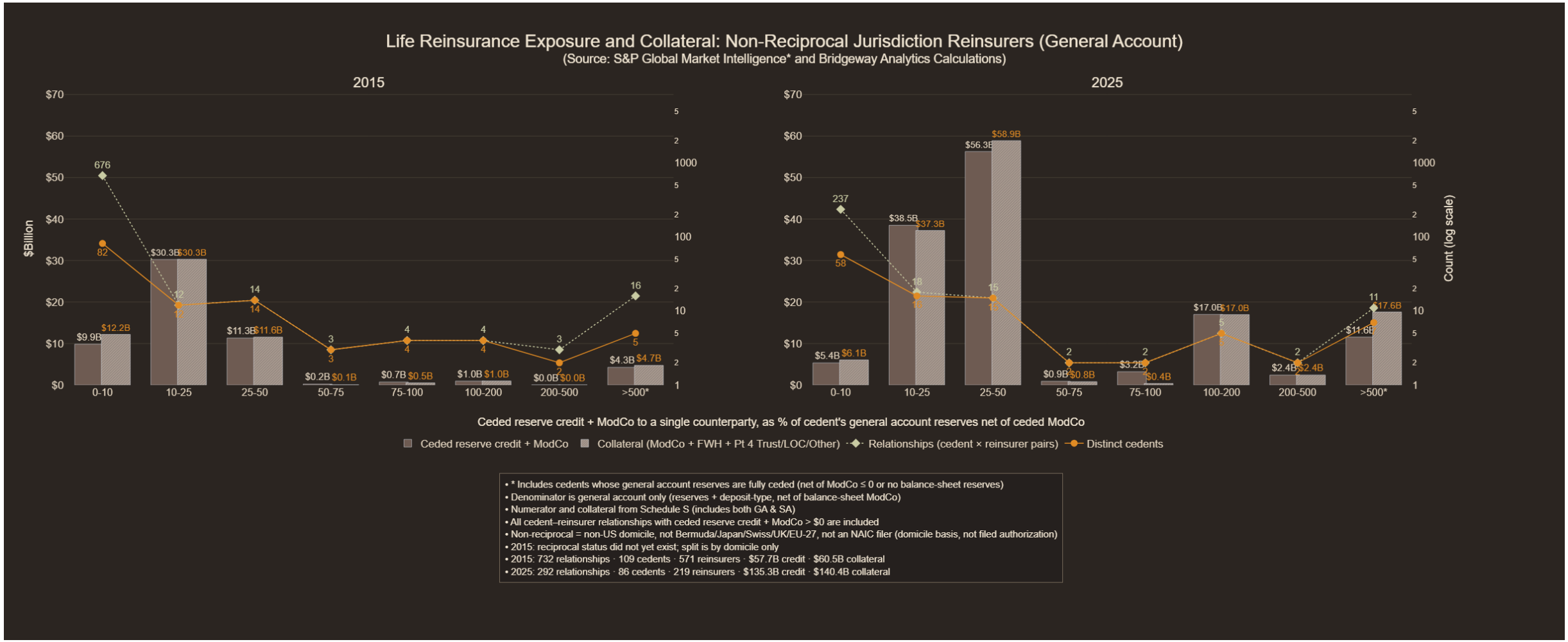
- Reinsurance transactions can be concentrated, with transactions often representing multiples of the cedent's reserves, net ModCo.
- For Reciprocal transactions, reserve credit is generally fully collateralized.
- For non-Reciprocal transactions, reserve credit can be overcollateralized.



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Concentration risk for non-Reciprocal transactions:10 years

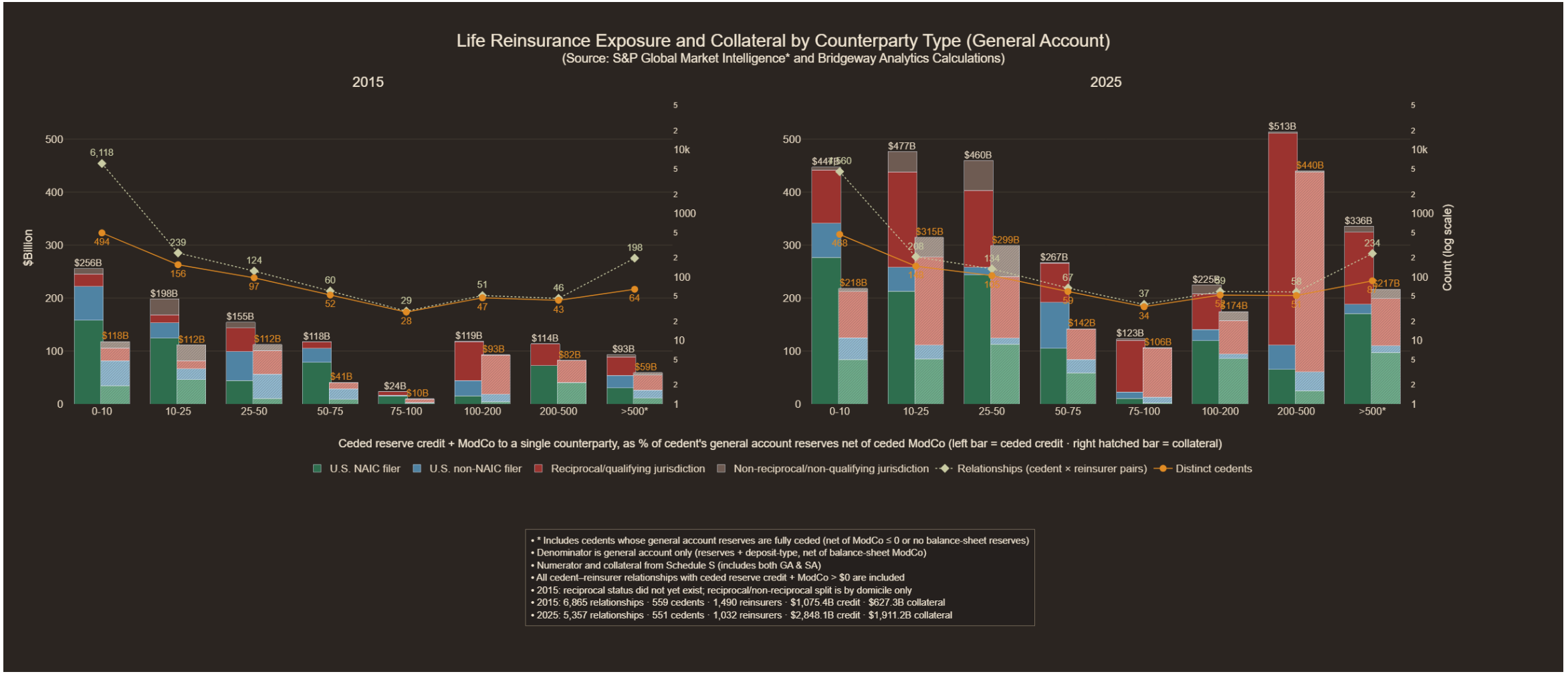
The higher level of concentrated transactions, where more than 50% of Ceded Reserves + ModCo as a % of the cedent's Reserves net ModCo, has increased noticeably over the last 10 years



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Concentration risk by jurisdiction over the last 10 years

The higher level of concentrated transactions, where more than 50% of Ceded Reserves + ModCo as a % of the cedent's Reserves net ModCo, is noticeably over the last 10 years across all jurisdictions.



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Summary and the next step

- **Regulatory concern:** Lack of transparency with transactions not collateralized to reflect total asset requirements under NAIC guidelines, including asset composition when not structured as FWH or ModCo. A robust reinsurer rating is not sufficient.
- **Reinsurance transactions with non-Reciprocal jurisdictions and trends**.
  - Growth has been significant: ~100% over the last 5 years.
  - Reserve credit is mostly FWH and ModCo and overcollateralized, but does not reach total asset requirements.
  - Reinsurers are mostly non-subsidiary affiliates and captive.
  - Generally, do not have a public rating.
  - Cedents can have significant counterparty concentration, which is a relatively new phenomenon.
- **The next step**. The Life RBC (E) Working Group will share materials ahead of the National Meeting with an initial proposal of the non-reciprocal recapture charge.

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