



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 12/14/21

Virtual Meeting

CAPITAL ADEQUACY (E) TASK FORCE

Monday, December 20, 2021

1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00 – 12:00 noon MT / 10:00 a.m. – 11:00 p.m. PT

ROLL CALL

Judith L. French, Chair	Ohio	Sharon P. Clark	Kentucky
Cassie Brown, Vice Chair	Texas	Grace Arnold	Minnesota
Jim L. Ridling	Alabama	Chlora Lindley-Myers	Missouri
Lori K. Wing-Heier	Alaska	Eric Dunning	Nebraska
Ricardo Lara	California	Marlene Caride	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Karima M. Woods	District of Columbia	Glen Mulready	Oklahoma
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Dana Popish Severinghaus	Illinois	Mike Kreidler	Washington
Doug Ommen	Iowa	Mark Afable	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jane Barr

AGENDA

1. Discuss RBC Investment Risk & Evaluation (E) Working Group—*Tom Botsko (OH)* Attachment One
2. Discuss Any Other Matters Brought Before the Task Force
—*Tom Botsko (OH)*
3. Adjournment



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MEMORANDUM

TO: Scott A. White (VA), Chair of the Financial Condition (E) Committee
Michael Conway (CO), Vice Chair of the Financial Condition (E) Committee

FROM: Tom Botsko (OH), Chair of the Capital Adequacy (E) Task Force

DATE: Nov. 1, 2021

RE: Request for a New Working Group

In recent years, there have been a significant number of investment-focused proposals that have been received by the Financial Condition (E) Committee or initiated or received by one of its task forces or working groups. Regardless of which group initially vets the proposal, these proposals may have risk-based capital (RBC) impacts, and in many of these proposals, the RBC impact is the driving force. The Capital Adequacy (E) Task Force, along with the RBC working groups, are requesting a new working group be formed to review these investment-related proposals that affect many different areas of the annual statement and financial reporting. When necessary, other groups will be contacted for their expertise. This new working group (RBC Investment Risk and Evaluation (E) Working Group) would be charged with performing a comprehensive review of the RBC investment framework for all business types, which could include: 1) identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) for Insurers Model Act* (#312); 2) assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies (i.e., those companies at action level); and 3) documenting the modifications made over time to the formulas, including, but not limited to an analysis of the costs in:

- Study and development.
- Implementation (internal and external).
- Assimilation.
- Verification.
- Analysis and review of the desired change to the RBC formulas and facilitate the appropriate allocation of resources.

This request recognizes the Committee's recent request for the chairs, vice chairs, and supporting NAIC staff of the Capital Adequacy (E) Task Force, Statutory Accounting Principles (E) Working Group, and Valuation of Securities (E) Task Force to meet on a routine basis to discuss topics pertaining to the bond project that have cross-functional implications. While those meetings may be informative to our pursuit, this is a more holistic endeavor to review appropriate NAIC consideration not limited to one investment area but with a focus on process to maximize efficiency in achieving the NAIC's collective goals.

Since the inception of the RBC formulas in the early 1990s, many of the risk factors have not been evaluated/updated for the appropriateness of the initial risk charge.

Executive Office | 444 North Capitol Street NW | Suite 700 | Washington, DC 20001 | (202) 471-3990

Central Office | 1100 Walnut Street | Suite 1500 | Kansas City, MO 64106-2197 | (816) 842-3600

Capital Markets & Investment Analysis Office | One New York Plaza | Suite 4210 | New York, NY 10004 | (212) 398-9000

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We believe that having a regularly scheduled analysis of these investment risk charges is necessary to maintain accuracy of the formula and to stay current with economic conditions. We also understand that the Insurance Core Principles (ICPs) speak to the periodic review of the solvency framework. This proposed working group would work in parallel with these principles to review and maintain appropriate RBC charges.

One other important aspect of this working group would be to maintain documentation of the analysis and the background of the charge. At various times, the RBC working groups have reached out to the original members of the group that created the RBC formulas to better understand the thought process/reasons for some of the original charges.

As the insurance environment evolves both domestically and internationally, it is imperative that our organization stays current. The development of group capital within the NAIC is an indicator that our organization needs to maintain appropriate and current methodology.

Thank you for taking the time to review this request. We are available to discuss this with you at your convenience.

Please contact Jane Barr, NAIC staff support for the Capital Adequacy (E) Task Force, at jbarr@naic.org with any questions.

Cc: Dan Daveline; Eva Yeung; Crystal Brown; Dave Fleming; Julie Gann

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