

Draft date: 9/17/24

*Virtual Meeting*

**CAPITAL ADEQUACY (E) TASK FORCE**

Thursday, September 26, 2024

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

**ROLL CALL**

Judith L. French, Chair	Ohio	Grace Arnold	Minnesota
Doug Ommen, Vice Chair	Iowa	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Ricardo Lara	California	D.J. Bettencourt	New Hampshire
Michael Conway	Colorado	Justin Zimmerman	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Karima M. Woods	District of Columbia	Jon Godfread	North Dakota
Michael Yaworsky	Florida	Glen Mulready	Oklahoma
Ann Gillespie	Illinois	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Vicki Schmidt	Kansas	Mike Kreidler	Washington
Sharon P. Clark	Kentucky	Nathan Houdek	Wisconsin
Joy Y. Hatchette	Maryland		

NAIC Support Staff: Eva Yeung

**AGENDA**

1. Consider Adoption of its Revised Procedure Document—*Tom Botsko (OH)* Attachment A
2. Consider Adoption of its 2025 Proposed Charges—*Tom Botsko (OH)* Attachment B
3. Discuss Any Other Matters Brought Before the Task Force—*Tom Botsko (OH)*
4. Adjournment

**PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S  
CAPITAL ADEQUACY TASK FORCE IN CONNECTION WITH PROPOSED AMENDMENTS TO RISK-BASED CAPITAL  
BLANKS AND INSTRUCTIONS**

The following establishes procedures and rules of the Financial Condition (E) Committee's Capital Adequacy Task Force (Task Force) and its Working Groups with respect to proposed amendments to the NAIC RBC Forecasting (blanks) and Instructions.

1. The Task Force may consider relevant proposals to change the RBC blanks and instructions at the national meeting or designated interim meeting as scheduled by the Task Force.
2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at [https://content.naic.org/cmte\\_e\\_capad.htm](https://content.naic.org/cmte_e_capad.htm). All interested party proposals should be emailed to the appropriate NAIC staff support with a completed proposal form and mocked-up changes.

The following guidelines apply:

- ~~Although proposal shall be exposed throughout the year to allow ample time for consideration, A~~ any proposals that affects an RBC blank (e.g. all pages after LR001, PR001, XR001) must be exposed by the Task Force or its Working Groups ~~by no later than January-March 31~~ of the effective year of the change. ~~In only rare instances, where the structure change is urgent, may the exposure deadline be extended to March 15 for either the Task Force or Working Groups.~~ The proposal must be adopted by the Task Force no later than ~~April 30~~ May 15 of the effective year of the change.
- Any proposal that only affects the instructions or factors must be exposed by the Task Force / Working Group by ~~April 30~~ May 15 and adopted by the Task Force by June 30 of the current year.
- Only the Task Force may extend the June 30<sup>th</sup> adoption deadline for previously considered proposals ~~regarding instructions or factors~~ upon a ~~super majority (two-thirds)~~ consent of the Task Force members present where such extension can be no later than July 30<sup>th</sup> of the current year. This would be considered only in rare circumstances where urgency of such adoption is high ~~and implementation by the RBC software vendors is feasible~~. The ~~super majority two-thirds~~ consent applies only in the instance of a Task Force vote that is outside of the standard RBC adoption deadlines (~~April 30~~ May 15 and June 30).

An illustration of the proposed change to the RBC blank, ~~factors~~, or instructions should accompany the Proposal Form. In addition, an impact analysis ~~will be required~~ is preferred for any factor change. If another NAIC Committee, Task Force or Working Group is known to have considered this proposal, that Committee, Task Force or Working Group should provide any relevant information.

The Task Force/Working Groups will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days to ensure adequate time to provide comment on any structural change, unless a shorter exposure is approved by the Task Force or Working Groups) or to reject the proposal. The comment period shall ends at least 3 business days prior to the next designated national or interim meetings of the Task Force/ Working Group. The Task Force/Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Task Force/Working Group if ~~there is general consensus among members that~~ the proposal has merit but warrants additional work or input. ~~However, the Task Force will limit the number of deferrals to two. The proposal must be acted upon after the second deferral, or absent action, the proposal is deemed to have been rejected and will be removed from the agenda.~~ The Task Force may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group, ~~the proposal will be reprioritized on the working agenda and it~~ will be considered again ~~in the form of a modified or new proposal~~ after comments/recommendations are received. The Task Force will review and adopt the working agenda at each National Meeting, if necessary, to ensure all items designated as a priority 1 are being addressed, to add or delete items that have been addressed or to reprioritize the remaining items on the working agenda.

3. Interested Party proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Task Force/Working Group if the proposal is filed at least ~~ten~~ fifteen business days prior to the meeting.
4. The NAIC staff support shall prepare the meeting materials including all suggested proposals. Interim meeting materials will be posted no later than three business days prior to the scheduled meeting on the NAIC website. Initial national meeting materials will be posted ten business days before the first day of each National Meeting on the NAIC website. Materials posted ten business days in advance of the National Meeting will not be printed for distribution.

5. At each meeting, the Task Force/Working Group will review comments that were received by the comment exposure due date for suggested proposals.
6. NAIC staff support will incorporate any non-substantiveeditorial changes discovered in the annual updates of the RBC formulas e.g., reference changes due to new SSAPs or annual statement references. ~~These changes will be reflected in RBC newsletters that will be presented to the Working Group for adoption at the Summer National Meeting.~~ NAIC staff support may also request that the Task Force/Working Group reconsider items adopted, if these items contain substantial errors-modifications.
7. The Task Force/Working Group may, when deemed necessary, appoint an Ad Hoc Group to study proposals and/or certain issues.
8. The NAIC will publish the RBC Forecasting and Instructions for the next subsequent year on, or about November 1 each year. The following documentation will be posted to the NAIC Web site:
  - RBC Proposals adopted by the Task Force (after each interim and National Meeting)
  - Annual RBC Newsletters (after Summer National Meeting)
  - Annual RBC Statistics (after Summer National Meeting)
  - Working Agenda (after each National Meeting)
  - Any subsequent corrections to these publications (as needed)

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September 13, 2024

Tom Botsko

Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: CADTF Exposures from the 2024 NAIC Summer National Meeting

Dear Chair Botsko:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the three documents that were exposed for public comment during the CADTF session of the NAIC 2024 Summer National Meeting in Chicago, Illinois: the revised RBC Procedures, proposed 2025 Charges, and the request for a new working group to be charged with performing a comprehensive review of the RBC framework for all business types.

ACLI is supportive of the edits to the RBC Procedures and the 2025 Charges.

ACLI also supports the creation of the Risk-Based Capital Risk Research (E) Working Group (the Working Group) and wishes to express our interest and willingness to engage with this new group as it tackles specific RBC issues. To ensure that the Working Group is as effective as possible, industry does suggest that its purpose be well-defined and scoped suitably, as it currently appears that several different topics are being considered for appropriateness under this group's purview.

One likely topic to be addressed by the Working Group is consideration of recently proposed changes to the RBC Preamble. Consistent with our previous comment letter dated May 30, 2024, we believe that CADTF should continue to delay consideration of these edits so that stakeholders can be afforded time to develop a shared understanding of regulator concerns. This would ensure that any future adoptions do not conflict with 1) other ongoing projects at the NAIC and 2) generally accepted industry practices.

Thank you once again for considering our comments and we look forward to continued dialogue at a future CADTF meeting.

**American Council of Life Insurers** | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

**acli.com**

Sincerely,

 Colin Masterson

cc: Eva Yeung, NAIC

Draft: 8/14/24

Adopted by the Executive (EX) Committee and Plenary, Dec. xx, 2024

Adopted by the Financial Condition (E) Committee, Dec. xx, 2024

Adopted by the Capital Adequacy (E) Task Force, **TBD**

## 2025 Proposed Charges

### CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

#### Ongoing Support of NAIC Programs, Products, or Services

1. The **Capital Adequacy (E) Task Force** will:
  - A. Evaluate emerging “risk” issues for referral to the risk-based capital (RBC) working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
  - B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
  - C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.
  
2. The **Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group** will:
  - A. Evaluate refinements to the existing NAIC RBC formulas implemented in the prior year. Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.
  - B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than ~~April 30~~May 15 of the reporting year, and any proposal that affects the RBC factors and/or instructions must be adopted no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by July 30, where the Capital Adequacy (E) Task Force votes to pursue by ~~super-majority (two-thirds)~~ consent of members.
  - C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.
  - D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.
  
3. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
  - A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation

and determine if additional revisions need to be made.

- B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.
4. The **Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
    - A. Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.
  5. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
    - A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
    - B. Continue to update the U.S. and non-U.S. catastrophe event list.
    - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
    - D. Evaluate the RBC results inclusive of a catastrophe risk charge.
    - E. Refine instructions for the catastrophe risk charge.
    - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
    - G. Evaluate other catastrophe risks for possible inclusion in the charge.
  6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
    - A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
      - i. Identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) for Insurers Model Act (#312)*.
      - ii. Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels.
      - iii. 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 facilitating the appropriate allocation of resources.
  7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
    - A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.
    - B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
    - C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
    - D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
    - E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung

SharePoint/FRS-RBC/CADTF/Charges/20234/2023-2024 Proposed Charges.docx