

Date: 5/7/26

Virtual Meeting

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Monday, May 11, 2026

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

Philip Barlow, Chair	District of Columbia	Tadd Wegner	Nebraska
Thomas Reedy, Vice Chair	California	Jennifer Li	New Hampshire
Wanchin Chou	Connecticut	Bob Kasinow/William B. Carmello	New York
Carolyn Morgan	Florida	Dale Bruggeman/Tom Botsko	Ohio
Matt Cheung	Illinois	Rachel Hemphill	Texas
Roy Eft	Indiana	Doug Stolte	Virginia
Carrie Mears/Kevin Clark	Iowa	Steve Drutz/Katy Bardsley	Washington
Fred Andersen	Minnesota	Amy Malm	Wisconsin
William Leung/Danielle Smith	Missouri		

NAIC Committee Support: Julie Gann/Maggie Chang

AGENDA

1. Hear an Update from the American Academy of Actuaries (Academy) on the Collateralized Loan Obligation (CLO) Risk-Based Capital (RBC) Project: Portfolio Adjustment Factors—*Philip Barlow (DC)* Attachment 1
(Posted Separately)
2. Consider Referral to the Credit Rating Provider (E) Working Group—*Philip Barlow (DC)* Attachment 2
3. Discuss Application of “Regulatory Judgement” as described in the Principles for RBC Requirements—*Philip Barlow (DC)* Attachment 3
4. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*
5. Adjournment

Attachment 1 – Posted separately on the
Working Group's web page.

Update from the American Academy of Actuaries
(Academy) on the Collateralized Loan Obligation
(CLO) Risk-Based Capital (RBC) Project:
Portfolio Adjustment Factors

To: Jake Garn, Chair of the Credit Rating Provider (E) Working Group
Laura Clements, Vice Chair of the Credit Rating Provider (E) Working Group

From: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Thomas Reedy, Vice Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Re: Limitations of Probability of Default-Only Rating Methodologies for NAIC Designations

Date: May 7, 2026

This referral requests guidance from the Credit Rating Provider (E) Working Group (“CRPWG”) regarding certain rating agency methodologies in predicting expected losses that were discovered during the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (“RBC IRE”) project to develop RBC factors for Collateralized Loan Obligations (“CLOs”).

While the American Academy of Actuaries (“AAA”) was able to confirm that designations (informed by CRP ratings) are a highly predictive comparable attribute that can be relied upon to appropriately assign capital, it did identify one exception to this conclusion which relates to a difference in rating methodologies across agencies. The difference is in whether the methodology incorporates expected loss into the assessment of credit risk, or only probability of default (“PD”).

For those agencies that only assess probability of default, the ratings are assigned on a “first dollar loss” basis. This means that the methodology assesses the likelihood that all contractual principal and interest will be paid.

For agencies that employ an expected loss methodology, expected loss severity is incorporated such that a bond that is expected to experience more severe losses upon default would receive a lower rating.

The modeling work performed by the AAA showed quantitatively that the PD-only methodology did not fully capture increased risk of severe losses for thinner tranches of Broadly Syndicated CLOs. For example, the AAA estimated that the RBC factors for tranches rated below Baa2 that have a thickness (principal of the tranche in comparison to that of all tranches) of less than 4% would require RBC charges that are approximately 10% higher (i.e. 12.52% vs 2.73% for Baa3) in order to capture the more severe expected losses.

RBC IRE is considering introducing tranche thickness as a comparable attribute in addition to NAIC Designation in order to capture this dynamic. Working group members noted that the newly-formed CRPWG would likely also have interest in addressing this issue to the extent that it impacts the ability of CRP ratings to fully reflect risk intended to be captured by NAIC Designations. Addressing through the designation process is likely a more durable solution than establishing a tranche thickness cutoff in the RBC formula, even if it is decided to pursue that approach in the interim.

This referral is to request that the CRPWG investigate and consider steps that would address PD-only ratings methodologies for use in NAIC Designations.

Please contact NAIC Staff of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group with any questions about this referral.

Proposed Section F of the Preamble. Proposed Principles for RBC Requirements

Acknowledging the complex and varied insurance business activities and their associated risks, RBC requirements are established to capture risks using a wide range of data, methodologies, and regulatory judgment. These Principles of RBC Requirements serve as a guiding North Star for governing the purpose and use of, as well as maintaining and prioritizing updates to, RBC requirements.

1. **Purpose.** The purpose of RBC requirements is to identify potentially weakly capitalized companies.
2. **Use.** RBC requirements are primarily used to facilitate regulatory action with respect to weakly capitalized companies. RBC requirements may be used for other purposes, but these uses must not distort or redefine the purpose of RBC requirements.
 - A commenter pointed out that the regulators aren't necessarily taking an action against the insurer.
3. **Materiality.** RBC requirements should be updated when a change is material. Materiality for purposes of RBC means a level at which a decision whether to update RBC could meaningfully impact the regulator's assessment of the solvency risk for all or an identifiable segment of companies.
4. **Equal capital for equal risk.**
 - RBC requirements should be guided by the principle of equal capital for equal risk, consistent in their statistical safety levels and time horizons, appropriate for the underlying risk, unless there are substantial differences in the nature of the risk in the context of the business model (e.g., life vs property & casualty) to warrant alternative treatments. RBC requirements should reflect measurable risks that can impact solvency, including the mitigating effects of risk management.
5. **Objectivity.** Appropriately consider only the factors that impact solvency risk, including but not limited to concentration, diversification, and tail risks, thereby avoiding the promotion or inhibition of objectives that are unrelated to assessing solvency risk.
6. **Accuracy.** Sufficiently precise to assess solvency risk, while avoiding unnecessary complexity.
7. **Grounded in Statutory Accounting and reserving.** Derived from values reported in the statutory annual statement and calibrated to align with Statutory Accounting and reserving practices, to the extent practical.
8. **Emerging risks.** Updated to incorporate emerging risks (including macroprudential risk) by the time they become material to the industry or an identifiable segment of companies.
9. **Transparency.** The process to maintain and update RBC requirements must adhere to the *NAIC Policy Statement on Open Meetings* and follow standards that provide for clear, complete, and transparent communication and documentation of proposed and adopted updates, methodologies, and supporting rationale.
10. **Process.** Maintaining and updating RBC requirements must adhere to model risk management standards, relying on data-driven methodologies with assessments of model performance and model validation, when possible, the need to rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions.
11. **Prioritization.** Recognizing the vast number of potential refinements that could be made to RBC requirements at any given time, the groups tasked with updating and maintaining the RBC model should use regulatory judgment to prioritize changes, considering their necessity, materiality, time and resource intensity, and other relevant considerations.