

Date: 6/5/25

Virtual Meeting

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

Monday, June 23, 2025

2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.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
Ray Spudeck/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 Support Staff: Julie Gann/Maggie Chang

AGENDA

1. Consider Adoption of its Spring National Meeting Minutes Attachment 1
—*Philip Barlow (DC)*
2. Hear Comments on the American Council of Life Insurers' (ACLI's) Risk-Based Capital (RBC) Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings—*Philip Barlow (DC)* Attachment 2
 - A. AmeriHealth Caritas Attachment 4
 - B. Amerisure Insurance Attachment 5
 - C. BCS Insurance Company Attachment 6
 - D. Coaction Specialty Insurance Group Inc. Attachment 7
 - E. Premiera Blue Cross Attachment 8
 - F. The Doctors Company (TDC) Group Attachment 9
 - G. PineBridge Investments Attachment 10
 - H. Alternative Credit Council Attachment 12
 - I. Travelers Attachment 13
3. Consider Exposure of Proposal 2025-12-IRE (Securities Valuation Office [SVO] Funds Alignment Project) — *Philip Barlow (DC)* Attachment 11
4. Discuss Any Other Matters Brought Before the Working Group
—*Philip Barlow (DC)*

5. Adjournment

Draft Pending Adoption

Attachment XX

Capital Adequacy (E) Task Force

--/--/25

Draft: 3/27/25

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou and Tricia Dave (CT); Jane Nelson (FL); Kevin Clark, Carrie Mears, and Mike Yanacheak (IA); Matt Cheung (IL); Roy Eft (IN); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Tadd Wegner (NE); Jennifer Li (NH); Bob Kasinow and William B. Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte and Dan Bumpus (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI). Also participating were: Sanjeev Chaudhuri (AL); Seong-min Eom (NJ); and John Tudino (RI).

1. Adopted its Feb. 11, 2025, and Oct. 22, 2024, Minutes

Barlow said the Working Group met Feb. 11, 2025, and Oct. 22, 2024.

Botsko made a motion, seconded by Chou, to adopt the Working Group's Feb. 11, 2025 (Attachment XX) and Oct. 22, 2024 (Attachment XX) minutes. The motion passed unanimously.

2. Heard an Update from the Academy on the Structured Securities RBC Project

Stephen Smith (Academy) presented a collateralized loan obligation (CLO) C-1 update (Attachment XX). He used the visual aids on the data flow diagram page to explain how the Academy tracks and presents the project's progress. Deriving comparable attributes and C-1 factors (the far-right side of the diagram) will be the ultimate deliverable of the project. Smith went on to provide updates on the three processes in progress. The first process is the collateral model. Smith said the American Council of Life Insurers (ACLI) has been very supportive in liaising between Moody's Ratings (Moody's) and the Academy to obtain access to the C-1 model. The second process is CLO dynamics. Smith said the NAIC Structured Securities Group (SSG) has been supportive by sharing its work on the CLO waterfall structure software. The third process is the C-1 methodology. Smith said all the bullets listed on the C-1 methodology slide represent decision-making points that need to be stepped through in order to determine C-1 factors.

Mears asked for clarification on the "potential of inner vs. outer loops" decision point. Smith compared the modeling of losses for corporate debts and CLOs. He said that unlike corporate bonds, for which credit events automatically bring about defaults, CLOs behave differently. Credit deterioration of the underlying bank loans does not automatically bring about technical default of the CLOs. Instead, the CLOs would stop paying interest in cash but payment-in-kind (PIK). As the Academy deliberates at what point credit events occurred for capital purposes, both outer and inner loops are considered. For the outer loop, the Academy could have theoretically considered 10,000 different economic scenarios in which the underlying bank loans performed differently. The inner loop would require the Academy to use the cash flows associated with each of the 10,000 scenarios and model the potential impairments based on statutory accounting guidance stipulated by *Statement of Statutory Accounting Principle (SSAP) No. 43—Asset-Backed Securities*, which also requires modeling cash flows. The Academy is looking into the possibility of using an inner loop approach, which would allow the Academy to model impairments rather than defaults.

Draft Pending Adoption

Attachment XX

Capital Adequacy (E) Task Force

--/--/25

Slutker asked what level of risk is being assumed for the reserve level when developing capital charges. Smith said the “risk premium” decision point contemplates this question, but the Academy has not been fully vetted on the issue.

Barlow recognized that the Academy and other parties have put a lot of work into this project. He emphasized the desire to keep the project moving along expediently and said he would like to know as soon as possible if any parties involved encounter roadblocks. He said the Working Group will offer help to the extent possible.

3. Received Comments on the ACLI’s RBC Principles for Bond Funds Presentation and the NAIC’s Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Barlow said the Working Group had previously exposed the ACLI’s RBC principles for bond funds presentation and the NAIC’s memorandum of bond funds reported in 2023 annual statement filings for a 24-day public comment period that ended March 7. Three comment letters were received.

Eric Hovey (Payden & Rygel) presented Payden & Rygel’s comment letter (Attachment XX). Hovey said Payden & Rygel supports the conclusion reached in the ACLI’s presentation. Payden & Rygel manages two of the three funds listed on the NAIC Fixed Income-Like SEC Registered Fund List. He said his insurer clients appreciate the clarity and information the Security Valuation Office (SVO) designation provides. He said he believed that should the alignment of RBC treatment among different types of SVO-identified bond funds be effected, more funds will seek SVO designations, and insurers, stakeholders, and regulators will welcome this additional transparency. Hovey added that Payden & Rygel would appreciate this alignment project being applied consistently across three lines of businesses.

Bridget Hagan (Blackstone Credit and Insurance—BXCI), on behalf of the Alternative Credit Council (ACC), presented the ACC’s comment letter (Attachment XX). Hagan said the ACC supports the harmonization of capital treatments applied to bond mutual funds and bond exchange-traded funds (ETFs), given the similarity in credit quality, risk profile, and duration exposure.

Helen Remeza (PineBridge Investments—PineBridge) presented PineBridge’s comment letter (Attachment XX) expressing support for striving for consistency in the treatment of the RBC for bond funds, regardless of legal form. Remeza highlighted that SVO-identified funds are an important asset type among non-life insurers, especially smaller insurers. As such, PineBridge advocated that any changes to harmonize RBC treatment across fund types should be made available to both life and non-life insurers.

Barlow said there is currently no formal RBC blank proposal drawn up, and he sought the Working Group members’ perspective on the proposal’s scope, for example, whether it should apply to life insurance only or impact all three lines of businesses. Mears supported the latter. Botsko said assessing and documenting the justifications is worthwhile regardless of whether the Working Group landed on consistent treatment or inconsistent treatment among the three lines of business. Drutz seconded. Chou gave an example wherein RBC factors for residuals are different between life and non-life filers, and the justification is that the Academy has not concluded the study.

With no objection from the Working Group members, NAIC staff were directed to develop a formal proposal, starting with the life RBC formula, with an understanding it would not be expected for 2025 adoption.

Draft Pending Adoption

Attachment XX

Capital Adequacy (E) Task Force

--/--/25

4. Received Updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group

Mears said the Valuation of Securities (E) Task Force oversees the CLO modeling and designation process by the SSG, which has collaborated with the Academy. The Task Force is also developing guidance around receiving private letter (PL) rating rationale reports.

Bruggeman gave an update on projects taken on by the Statutory Accounting Principles (E) Working Group that may impact the RBC working groups. First, he said the bond definition became effective Jan. 1, 2025. A prior referral was sent to the health and property/casualty (P/C) RBC groups to inquire about non-bond debt securities as well as capital/surplus notes reported on Schedule BA. As life entities have the ability to influence RBC for these items with SVO-assigned designations, industry has inquired again about that potential for non-life entities. Next, revisions to statutory guidance for investments in tax credits also became effective Jan. 1, 2025. This will also have potential RBC impacts as the reporting and RBC lines have been changed. A key aspect is that the “Federal Guaranteed” tax credit line was eliminated. As such, companies that previously reported their structures in that line will move to other reporting lines and incur higher RBC.

In regard to forthcoming projects, the Statutory Accounting Principles (E) Working Group will likely adopt more granular reporting for collateral loans. Bruggeman said it is up to the RBC groups’ discretion whether a more granular approach should be adopted for collateral loans’ RBC charges. Additionally, two proposals entertained by the Statutory Accounting Principles (E) Working Group are related to modified coinsurance (modco)/funds withheld assets. The first proposes a new schedule to provide details of the modco/funds withheld assets. The second proposes that any modco/funds withheld assets being restricted for the benefit of the cedants are being flagged for reporting purposes. These proposals may impact the modco/funds withheld adjustments in the life RBC framework. Lastly, the Statutory Accounting Principles (E) Working Group has a project to review the “investment subsidiary” reporting that occurs for subsidiary, controlled, and affiliated (SCA) assets on D-6-1, which results in a company-calculated RBC look-through in the RBC formula. The concept of an investment subsidiary was eliminated from statutory accounting in 2005, but the reporting guidance was not eliminated. As there has been an increase in the use of this reporting/RBC look-through, the Statutory Accounting Principles (E) Working Group is reviewing it and may ultimately propose eliminating this reporting/RBC provision. The Statutory Accounting Principles (E) Working Group has identified that it seems companies are using this reporting/RBC option to report residential mortgage loans held in trust, so a review of accounting/reporting for those structures is anticipated to occur before proposing to remove the reporting/RBC for investment subsidiaries.

5. Discussed Other Matters

Barlow said NAIC staff have pulled residual tranches or interests reported on 2024 annual statements and RBC filings. He said it appears that a regulator-only call is warranted to discuss the analysis as it pertains to company-specific information. NAIC staff are going to schedule the call, and comments and feedback are welcome as to whether this should be a joint call with other groups (e.g., Statutory Accounting Principles (E) Working Group, Valuation of Securities (E) Task Force, etc.).

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2025-1-Spring/IRE/RBCIREWG 03-24-25 SPGNM Minutes TPR’d.docx

RBC Principles for Bond Funds

December 2024

Background

- Operating under a regulatory regime where funds with slightly different structures but same economic risks receive different RBC treatment
- (9/27/2017) VOSTF directed NAIC staff to develop a comprehensive proposal to ensure consistent treatment for investments that involved funds that invest in bond portfolios (history included in Appendix)
- (5/10/2019) VOSTF requested that CATF consider formally integrating the comprehensive instructions for mutual funds recently adopted for the P&P Manual into the NAIC RBC framework
- ACLI has agreed with RBC IRE to begin looking at three types of bond funds that get different treatment in RBC calculation. ACLI has been looking at these to determine whether the risk profiles are similar or different to warrant different treatment for different types of bond funds. While this work focuses on these three types of bond funds, ACLI is identifying principles that can be used to expand treatment from these types of bond funds to other similar bond fund types.

Focus on Bond Funds – Current State

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Equity RBC	Bond RBC
RBC Charge Methodology	SVO WARF	30% equity charge (can file and SVO can apply WARF but cannot be used for RBC)	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories

Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Bond RBC	Bond RBC
RBC Charge Methodology	SVO WARF	SVO WARF	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories

Assumptions / Constraints for Principles

- Develop principles for consistent RBC treatment for Bond ETFs, Bond Mutual Funds, and Bond Private Funds that bear substantially the same economic risks regardless of legal form.
- The accounting for the aforementioned Bond Funds will/should not be changed because each different fund type is governed by different SSAPs.

Application of Principles

- Candidate principles developed to evaluate and ensure consistent RBC treatment between various fund types where the underlying holdings are bonds and currently meet the criteria for the SVO WARF methodology.
- Candidate principles could be applied for substantially similar bond fund investments to Bond ETFs, Bond Mutual Funds, and Bond Private Funds (currently meet the criteria for SVO WARF methodology) that the SVO could also apply their WARF as they become known.
- Candidate principles are intended to focus on the C-1 factor exclusively (i.e., excludes concentration factors).
- Principles could be leveraged for addressing similar situations where industry or regulators note similar significantly inconsistent RBC treatment for substantially similar investments. While the principles can potentially be leveraged, they will need to be tailored, as other fund types are likely not subject to the SVO WARF methodology.

Candidate Principles

1. Meets qualifications for SVO to apply WARF methodology
2. RBC is based on underlying economic risk
 - Regardless of accounting method applied, fund risk depends on the collateral pool
 - Differences between fund types are considered immaterial where such differences are deemed not to contribute risks captured by RBC (e.g., illiquidity is not measured by C-1)
3. Economic risk of fund investment is materially similar to the collateral pool
 - There are no support tranches
 - All fund investors have equal ownership status (i.e., no fund investors are more senior nor junior than others)
4. Included within an SSAP in AP&P Manual

Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Bond RBC	Bond RBC
RBC Charge Methodology	SVO WARF	SVO WARF	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories

Key Questions for Regulators

- Which candidate-principles do regulators support?
- Are there additional principles not outlined herein that also ought to be incorporated into RBC for funds?

Appendix: History of VOSTF Treatment of Funds Investing in Bonds

- 1991 – Money market mutual funds that hold short-term U.S. Treasuries - exempted from reserve
- 1992 – Funds holding U.S. direct and full faith and credit obligations - exempted from reserving
- 1992 – Funds holding high quality corporate bonds & U.S. Government obligations - reserve as NAIC 1 bonds
- 1995 – Short-term bond funds - holding high quality corporate & U.S./GSO obligations) - Schedule D; market value & reserved as bonds for AVR and RBC
- 2003 – Exchange Traded Funds that held bonds – report as bonds
- 2005 – BA assets with fixed income characteristics can be assigned NAIC Designations
- 2017 – SVO authorized to assign NAIC Designations to private Schedule BA funds, joint ventures or partnership interests if underlying investments are fixed-income like to align with Annual Reporting Instruction

MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: January 6, 2025

RE: Certain Bond funds reported in 2023 Annual Statement Filings

Background

On October 22, 2024, the Working Group met and discussed the status of the Working Agenda #2 & #4 (collectively the “Fund Review Project”). Representatives from the American Council of Life Insurers (ACLI) proposed, and the Working Group agreed, to narrow the scope of the project with the intent to achieve convergence in RBC treatment among three types of funds when they predominantly invest in bonds and receive SVO-assigned designations: 1) exchange-traded funds (ETFs), 2) U.S. Securities and Exchange Commission (SEC)-registered mutual funds; and 3) private funds.

NAIC staff was directed to summarize herein the amount of respective fund types reported on insurers’ 2023 annual statement filings to facilitate the Working Group’s discussions.

	Bond Exchange Traded Fund (SVO-identified)	SEC Registered Bond Mutual Funds (SVO-identified)	Private Bond Funds (SVO-identified)	Total Invested Assets
	Schedule D – part 1 Bonds Line 1619999999	Schedule D – part 2 – Section 2 Common Stock Line 5319999999, 5519999999, 5719999999	Schedule BA, Part 1, Line 079999999, 0899999999, 139999999, 149999999, 1599999999, 1699999999 ^{Note A}	2023 Asset Page Line 12
	(as % of Total Invested Assets)	(as % of Total Invested Assets)	(as % of Total Invested Assets)	
2023 Life	\$5,844,611,923 (0.11%)	\$95,524,695 (0.00%)	\$5,858,319,676 (0.11%)	\$5,470,188,985,349
2023 P/C	\$4,934,503,172 (0.19%)	\$1,652,371,654 (0.06%)	\$905,395,147 (0.03%)	\$ 2,662,293,397,830
2023 Health	\$1,292,501,879 (0.36%)	\$877,352,361 (0.24%)	\$118,990,522 (0.03%)	\$360,699,408,453

Note A, per 2023 AVR instruction, “... the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0799999 and 0899999 and the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to bonds) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ...” should be reported on Line 22 through 28 of AVR Equity Component table, thereby afforded RBC charge based on NAIC Designation. As there is no AVR reporting for P/C and Health, the statistics are obtained directly from lines 0799999, 0899999,1399999, 1499999, 1599999, and 1699999 of Schedule BA, Part 1. As such, overstatement is expected.

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

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

June 10, 2025

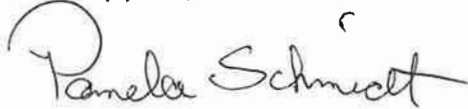
Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a Health insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given [the exposure draft](#). This inconsistency disadvantages us as a Health insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,



Pamela Schmidt
Vice President Treasury & Chief Investment Officer
AmeriHealth Caritas

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)



Amerisure Mutual Holdings, Inc.
Amerisure Mutual Insurance Company
Amerisure Insurance Company
Amerisure Partners Insurance Company

April 25, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a Property & Casualty insurer, presently we are subject to punitive RBC charges, eg. Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a Property & Casualty insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets and fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,

A handwritten signature in black ink, appearing to read "Casey Mungall", written over a circular stamp.

Casey Mungall

Vice President, Enterprise Risk Management & Investments
Amerisure Insurance



BCS Insurance Company

2 Mid America Plaza, Suite 200 | Oakbrook Terrace, IL 60181
630.472.7700 | bcsf.com

April 25, 2025

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

Alexander D Hudson

Alex Hudson
Vice President, Investment Services and Treasury
BCS Insurance Company

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)



Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

April 29, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a **P&C** insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given [the exposure draft](#). This inconsistency disadvantages us as a **P&C** insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

DocuSigned by:

A handwritten signature in black ink that reads "William Sloan".

403B1A6472D1484...

William Sloan, Chief Financial Officer

Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)

April 28, 2025

NAIC
1101 K Street, N.W., Suite 650
Washington, DC 20005

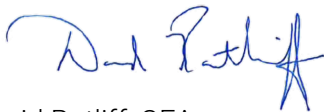
Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a P&C (Health) insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given [the exposure draft](#). This inconsistency disadvantages us as a P&C (Health) insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,



David Ratliff, CFA
VP, Treasury & Investments

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)



T.C. Wilson III
Chief Investment Officer

May 23, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

We utilize fund vehicles such as ETFs and mutual funds extensively for certain fixed income exposures due to their liquidity, diversification, operational and expense efficiencies. In our view, the ability to invest in fixed income funds and to receive fair RBC treatment commensurate with the associated SVO designation risk level is critical for leveling market access across all insurers regardless of size.

Sincerely,

TC Wilson
Chief Investment Officer
The Doctors Company Group



NAPA, CALIFORNIA

MAILING ADDRESS PO Box 2900, Napa, CA 94558 | **LOCAL ADDRESS** 185 Greenwood Road, Napa, CA 94558
P 800.421.2368, x1193 . 707.226.0193 | **F** 707.226.0111 | thedoctors.com | tc.wilson@thedoctors.com

June 18, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), Valuation of Securities (E) Task Force, and Risk-Based Capital (RBC) Model Governance (EX) Task Force:

We commend the working groups for your efforts in harmonizing in the risk-based capital (RBC) treatment for bond funds. In [our March 2025 comment letter](#), we proposed allowing non-life insurers to apply the Securities Valuation Office (SVO) fund designation for RBC purposes for mutual funds and private funds. This harmonization will accomplish several important objectives:

- Creating consistent RBC treatment across fund types (ETF, mutual fund, private fund) and insurer types (Life, P&C, and Health).
- Leveling the playing field for small insurers regarding market access and diversification. Small insurers, for instance, represent over 90% of the P&C industry by insurer count.
- In addition to funds, applying bond-like RBC treatment to tens of billions of non-bond debt obligations that were reclassified as Schedule BA assets and moved out of Schedule D-1 under the Principles-Based Bond Definition (PBBD). This is another area for harmonization across life and non-life.

P&C Industry is Built on Small Insurers

Over 90% of the P&C industry by insurer count is comprised of small insurers that have less than \$5 billion in assets under management (AUM) per entity, totaling \$375 billion in aggregate.¹ These small insurers are a key part of the industry, yet they currently face structural disadvantages. They are subject to an onerous capital charge of 20% on fixed-income funds except for ETFs; and the same treatment is applied to assets held by health insurers. In contrast, life insurers in the same funds would receive bond-like RBC treatment commensurate with their SVO designations.

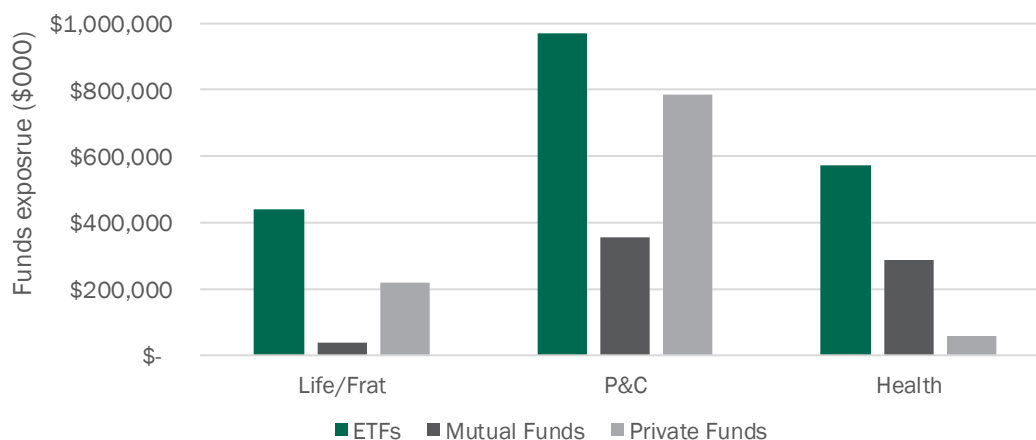
	Aggregate Small Insurers AUM (\$ billion)	Small Insurer Count	Industry Insurer Count	%Count
Life/Fraternal	\$207	281	387	73%
P&C	\$375	1035	1151	90%
Health	\$92	280	428	65%

Source: PineBridge Investments. Based on 2024 Annual Statutory Filings retrieved from S&P Capital IQ

¹ Insurer counts are based on S&P Capital IQ's consolidated subgroups. **Without the subgrouping, 94% of total 2679 P&C entities fall into <\$5 billion in assets.** AUM represents total cash and invested assets of general account.

Investment Funds: A Critical Tool for Market Access and Diversification

Investment funds are essential tools for small insurers. They offer efficient market access, diversification, and asset management expertise that would otherwise be out of reach. For these reasons, small non-life insurers with under \$5 billion in assets, are the most prolific users of funds across all categories including ETFs, mutual funds, and private funds, as indicated in the chart below.



Source: PineBridge Investments. Based on 2024 annual statutory filings data retrieved from S&P Capital IQ

A Disproportionate Burden for Non-Life Insurers

Despite their importance, non-life insurers who purchase interests in non-ETF, fixed-income funds are penalized under the current RBC framework. Using P&C insurers as an example, these funds can be subject to RBC charges as much as twenty times those for life insurers.²

SVO Fund Designation	Non-life Funds RBC	Bond-Like RBC (for P&C Insurers)	Multiplier
NAIC 1.E (A+)	20.0%	1.0%	20.0x
NAIC 2.B (BBB)	20.0%	2.1%	9.5x
NAIC 3.B (BB)	20.0%	6.0%	3.3x

Source: PineBridge Investments. Based on NAIC P&P manual and public materials

These onerous capital charges discourage small, non-life insurers to invest in funds, limit diversification, and disproportionately harm the insurers who need these tools the most. While covariance adjustments may dampen the unfavorable RBC impact illustrated above, for small insurers overall, we expect covariance adjustment will fall short of correcting the significant imbalance illustrated above. For example, assuming covariance adjustment would reduce P&C funds RBC charge by half from 20% to 10%, the multiples would be lowered to 10x, 4.8x, and 1.7x respectively, which remain materially in excess of the investment risk commensurate with a bond-like profile.

² [Assuming the American Council of Life Insurers' \(ACLI\) proposal on harmonizing mutual fund treatment is adopted for the life insurance industry.](#)

Treatment for Non-Bond Debt with SVO Designation

Given the implementation of the PBBD, tens of billions of non-bond debt were reclassified as Schedule BA assets and moved out of D-1, increasing the size of the Schedule BA bucket materially for certain insurers.³ Currently, for life insurers, bond-like treatment is applied to the non-bond debt with SVO designation, but not for non-life insurers. Furthermore, the larger reportable Schedule BA allocation due to non-bond debt can be a challenge for non-life insurers that face tight state regulatory limits on Schedule BA assets in addition to the penal fund RBC charges, further constraining their ability to invest in funds. For non-life insurers, applying the same bond-like treatment for non-bond debt is another area for harmonization.

A Call for Consistency and Harmonization

We are encouraged by [the recent launch of the NAIC RBC Model Governance Task Force by the NAIC Executive Committee](#) to promote RBC consistency. We believe aligning asset RBC charge with appropriate investment risk will improve the accuracy of regulatory capital assessment and promote leveled market access to diverse investment strategies—all of which goes to support a sound solvency framework.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

³ “Q1 bond definition change nets billions of dollars in reclassifications,” published by S&P Capital IQ on May 19, 2025.



1100 15th Street, NW
Washington, DC 20005

June 18, 2025

aima.org

Chairman Phil Barlow
NAIC Risk-Based Capital Investment Risk and Evaluation (RBC-IRE) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Subject: Second Comment Letter on the Proposed Principles for Bond Funds

Dear Chairman Barlow and Members of the RBC-IRE Working Group,

The Alternative Credit Council¹, the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to provide a supplemental comment on the ACLI's proposed RBC Principles for Bond Funds ("bond fund principles").²

In our March 6th comment letter, we strongly supported the ACLI's proposed bond fund

¹ The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

² National Association of Insurance Commissioners, *RBC Principles for Bond Funds* (February 2025), available at <https://content.naic.org/sites/default/files/inline-files/Attn%20%20Principles%20for%20Bond%20Funds%20%201-9-2025%20%28ACLI%20revised%20deck%29.pdf>.

Alternative Credit Council (ACC)

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)





principles, because they appropriately “address inconsistencies in the risk-based capital (RBC) treatment of bond funds, which arise due to differences in legal structures and accounting standards despite the economic risks being fundamentally similar.” Given that the ACLI volunteered to take the initiative in response to your request, they naturally focused on life insurers.

We urge the RBC-IRE to expand its consideration of more equitable capital treatment for mutual and private bond funds across all insurer types, including property & casualty and health insurance companies. Current RBC rules place an outsized burden on small insurers – who make up the overwhelming majority of the P&C sector – by subjecting them to higher capital charges when investing in bonds via mutual and private funds. Extending the proposed principles to all insurers would enable both large and small insurers to benefit from more appropriate, risk-aligned treatment based on Securities Valuation Office (SVO) determinations.

Over 90% of P&C insurers manage less than \$5 billion in assets. For these smaller firms, pooled investment vehicles such as bond funds are a vital tool. They provide affordable access to diversified fixed income exposures and professional management that would otherwise be operationally or economically out of reach. Yet under the current RBC framework, these funds attract disproportionately high capital charges, discouraging use of the very vehicles that could strengthen portfolio resilience and solvency.

To rectify these imbalances and improve capital efficiency, we recommend extending SVO-based RBC recognition to non-life insurers’ bond fund holdings. This would bring much-needed consistency to capital standards, support prudent diversification, and ensure that solvency rules reflect actual investment risk, regardless of how the bond exposure is accessed or which type of insurer holds it.

We commend the RBC-IRE Working Group and the other related committees for their leadership and commitment to regulatory consistency and capital adequacy. Please contact me at Jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org if you have any questions or would like to discuss these topics in more detail.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council





CC:

NAIC Capital Adequacy (E) Task Force

Property and Casualty Risk-Based Capital Working Group

Health Risk-Based Capital Working Group

Valuation of Securities Task Force

Risk-Based Capital (RBC) Model Governance Task Force





D. Keith Bell

Senior Vice President
Accounting Policy - Finance
Plaza Building, 6th Floor
Phone: (860) 277-0537
Email: d.keith.bell@travelers.com

One Tower Square
Hartford, CT 06183

June 23, 2025

Philip Barlow, Chairman
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Risk-Based Capital (RBC) Principles for Bond Funds Presentation

Dear Mr. Barlow:

Thank you and the NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group (the Working Group) for the opportunity to comment on the proposed RBC Principles for Bond Funds that was presented to the Working Group during its meeting in December 2024.

We offer the following comments.

We believe that a change to the property & casualty (P&C) RBC to accomplish a greater “look-through” for investment risk charges is unnecessary, and if pursued should be done with the knowledge that P&C RBC is an approximate tool, is not meant to differentiate the relative strength of financially viable insurers and is not (and never has been) designed as a mechanism for evaluating or optimizing an insurer’s investment strategy.

Purpose of the formula

As stated in Section 8E of the NAIC’s Risk-Based Capital Model Act, the RBC formula “is not intended as a means to rank insurers generally”. It is meant to identify troubled companies, not to rank financially viable insurers. Additionally, it was not designed as a means of evaluating or optimizing an insurers’ investment strategy or internal compensation metrics. Therefore

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group

June 23, 2025

Page 2

modifications (such as a Schedule D or Schedule BA look-through) designed to better evaluate financially strong insurers are not furthering the purpose of the RBC formulae.

RBC was designed to identify troubled companies and the differences between the life and property casualty formulas were intentionally structured to emphasize the primary risks of each business model.

For example, the P&C RBC formula is structured to emphasize underwriting risk for the 6-month to one-year policies written by P&C insurers, with a much lesser emphasis on asset risk. In contrast, the life RBC formula is structured to emphasize asset risk due to the longer-term nature (measured in years) of a life insurer's insurance products. Additionally, life insurers have the risk that policyholders may cancel and withdraw accumulated balances associated with their products which can occur at the same time that negative market conditions occur, making the asset risk associated with such products much greater than the products offered by P&C insurers.

Covariance impacts

The NAIC's P&C RBC formula currently has six elements within the square root ("covariance") component of the formula. As has been discussed before, the largest elements within the covariance part of the formula drive the final result, with the impact of the smaller elements becoming smaller or immaterial after covariance. For P&C insurers, the biggest elements are from insurance operations (i.e., premiums, reserves, cat risk, reinsurance credit risk), not investment operations. This is borne out by the risk factors for those items being comparable to or above the risk factors applied to equity items, all of which are well above the average risk factors existing for bond investments.

To isolate the impact of the various risk factors, we analyzed the reduction in total RBC ratio after covariance if an RBC component were to be completely eliminated. For the P&C formula, the risk factors are:

- R0 Subsidiary Insurance Companies and Miscellaneous Other Amounts (Off Balance Sheet)
- R1 Asset Risk - Fixed Income
- R2 Asset Risk - Equity
- R3 Asset Risk - Credit (including 1/2 reinsurance)
- R4 Underwriting Risk - Reserves (and 1/2 reinsurance)
- R5 Underwriting Risk - Net Written Premium
- Rcat* Catastrophe Risk

Not surprisingly, the largest impact comes from R4 – Underwriting Risk – Reserves and ½ reinsurance, followed by *Rcat* – Catastrophe Risk, and R5 – Underwriting Risk – Net Written Premium. The elimination of any of the remaining RBC components resulted in a less than 1% change in the RBC ratio.

For an insurer with a balanced portfolio of directly held investments that are within the

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group

June 23, 2025

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limitations imposed by state investment statutes, the impact of a look-through approach for RBC is minor to negligible. In contrast, the impact of going from a 30% equity risk charge to a look-through approach for RBC can have a meaningful impact for an insurer that relies on an external investment advisor that placed a significant portion of the insurer's investment portfolio in open-ended investment company funds.

As a result, the impact of a look-through approach is generally very small for the property casualty industry overall. This conclusion is consistent with the analysis that was performed by the NAIC staff when the topic of changing the RBC treatment of Schedule BA assets to provide a look-through approach was previously discussed by the Property Casualty Risk-Based Capital (E) Working Group¹ where the following summary was provided:

There is no significant difference on RBC ratios between Scenario 1 and Scenario 2. Most companies with difference in RBC ratio of 2% or less. Only 2 companies with difference between 2% and 5%. No company with difference greater than 5%.

P&C versus Life RBC differences

The above-described situations for the covariance formula are very different for the NAIC Life RBC formula. While most of the information underlying the NAIC P&C RBC formula is public, the same is not true for the life formula. This restricts the ability of rating agencies to rely on proprietary capital strength models vis-a-vis reliance on the NAIC formula.

With regard to the covariance formula, the largest element in the NAIC Life RBC formula is asset risk, with fixed income and asset risk combined into a single element. That fact makes changes to the asset risk factors a material item for the Life RBC formula and resulting RBC ratio, in stark contrast to the situation for the P&C formula.

Rating Agency approaches

The NAIC P&C RBC formula is not utilized by the major rating agencies in their evaluation of capital strength, and as a result, for reflection of financial strength ratings. The rating agencies all have their own proprietary formulas to determine capital strength and to differentiate among well capitalized companies. Accordingly, any look-through added to the NAIC P&C formula will have no impact on a P&C insurer's rating. There is also nothing to prevent these rating agencies from performing a Schedule D or Schedule BA look-through in their proprietary formulas, regardless of what happens to the NAIC's formulas.

The Use of NAIC RBC Formulas in Determining an Investment Strategy

It is generally agreed that any business decision should reflect the risks associated with that decision, and, for those with outside stakeholders, the external view of that

¹ See Attachment F to the Agenda and meeting materials of the Property Casualty Risk-Based Capital (E) Working Group for its meeting on Thursday, April 26, 2018.

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group

June 23, 2025

Page 4

risk. For investment decisions, the internal risk evaluation would include some level of due diligence beyond the use of a single external rating. For an evaluation of external views, that evaluation would look at the most relevant constraint or comparison.

For these reasons, we do not believe an investment look-through approach is necessary or relevant for an insurer's investment strategy to be appropriately managed.

* * * *

In summary, we do not believe it's necessary or impactful to change the P&C RBC formula to provide a look-through. However, if the Working Group concludes that such a change should be made, we recommend that it be optional for property casualty insurers as it may not have a significant impact on an insurer and it may not be cost effective as it requires either the insurer or others to file such investments with the NAIC Securities and Valuation Office (SVO).

Thank you for considering our comments. We look forward to working with you and the Working Group on this topic. If you have any questions in the interim, please do not hesitate to contact me.

Sincerely,

D. Keith Bell

cc: Julie Gann, NAIC staff

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|--|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve Evaluation (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & (E) Working Group |

<p style="text-align: right; margin: 0;">DATE: <u>5/29/2025</u></p> <p>CONTACT PERSON: <u>Maggie Chang</u></p> <p>TELEPHONE: <u>816-783-8976</u></p> <p>EMAIL ADDRESS: <u>mchang@naic.org</u></p> <p>ON BEHALF OF: <u>RBC Investment Risk and Evaluation (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center; margin: 0;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2025-12-IRE</u></p> <p>Year <u>2026 or later</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussions, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. Proposal 2025-12-IRE is drafted in response to the Working Group's direction.

Note that the proposed changes to LR005 Unaffiliated Preferred and Common Stock page are predicated on the changes proposed to the Annual Statement Blanks Asset Valuation Reserve (AVR) instruction. The Working Group will need to sponsor the AVR instruction changes at NAIC Blanks (E) Working Group should the Proposal 2025-12-IRE be supported by the Working Group.

Additional Staff Comments:

5/28/25 NAIC Staff had prepared a drafting notes memo that memorialized decision points in the proposal drafting process.

**** This section must be completed on all forms.**

Revised 2-2023

MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: NAIC Staff

DATE: May 28, 2025

RE: Drafting Notes – Proposal 2025-12-IRE SVO-identified funds alignment project

Background

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussion, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. This memo memorializes the decision points when drafting the proposal.

Staff drafting notes:

- (1) As seen in summary below, there is no complete alignment among three types of funds in scope, with the following justifications:
- a) Classification, measurement convention and reporting of these fund types are under purview of other working groups. With the current reporting of SVO's Fixed Income-Like SEC-Registered Funds reported as stocks, grafting these funds into LR002 Bonds would be inappropriate.
 - b) NAIC Staff noted that funds in scope of SVO's Fixed Income-Like SEC-Registered Funds predominantly own bonds and/or preferred stocks. As such, grafting these funds into current LR005's preferred stock section would be justifiable, especially after considering the hybrid nature of these fixed income-like funds and the potential alignment that the proposed changes created.
 - c) Given the relatively more opaque structure of the private funds, complete alignment among all 3 types is not preferable.
 - d) Operational efficiencies (e.g. structure of the forecasting files, ease of maintenance) are also factored into the drafting consideration.
- (2) Upon review, the NAIC staff believe the Asset Concentration instructions for LR010 and LR011 could be further enhanced to provide the following guidance:
- a) Whether or not SVO identified ETFs and SVO's fixed income-like SEC-registered funds should be considered in LR010 Asset Concentration page or LR011 Common Stock Concentration page?
 - b) How would diversification status of the funds impact the asset concentration exposure ranking?

The proposed edits addressed the above questions and to the extent possible, aligned LR010 and LR011 instructions with Supplemental Investment Risk Interrogatory (SIRI) Line 2 and/or Line 13 instructions.

Summary of key similarities/differences among the various types of SVO designated fund, should the proposal be adopted (yellow highlighted):

	SVO-identified Bond ETFs	SVO-identified Preferred Stock ETFs	SVO-identified Fixed Income-Like SEC-Registered Funds	SVO-identified Private Bond Funds
Description	SEC registered	SEC registered	SEC registered	Non-SEC registered
Accounting Standard	SSAP 26	SSAP 32	SSAP 30	SSAP 48
Reporting Schedule	Schedule D –1 Bonds	Schedule D – 2- 1 Preferred Stock	Schedule D – 2 – 2 Common Stock	Schedule BA – Other Long-Term Assets
Measurement Convention	Fair Value unless Systematic Value elected	Fair Value	Fair Value	Equity Method
RBC Reporting	LR002	LR005	LR005	LR008
RBC Risk Component	C-1o	C-1o	C-1o	C-1o
RBC Charge Methodology	Driven by SVO Designation – 20 Designation Categories Same as Bond charges	Driven by SVO Designation – 6 Designations Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges
Tax effect	0.168 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6
AVR Component	Default Component	Default Component	Default Component	Equity Component
AVR factors	Bond AVR Factors	Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely	Entirely

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds. Starting (2026 tentatively), NAIC fixed income-like SEC registered funds designated by SVO are included in the preferred stock section.

Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16 plus sum of Schedule D, Part 2, Section 2 Column 6, Line 5319999999, Line 5519999999 and Line 5719999999. Column (2) should equal Schedule D Summary by Country, Column 1, Line 22 less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in Line (11) of this page.

Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

Line (17)

~~Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line 25 29 less Schedule D Summary by Country, Column 1, Line 24 28 less line (13).~~

Lines (19) and (20)

To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.

ASSET CONCENTRATION FACTOR

LR010

Basis of Factors

The purpose of the asset concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 A to 1.G bonds, NAIC 1 unaffiliated preferred stock, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.85% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash, certain cash equivalents and short-term investments) and SVO-identified exchange-traded funds (ETFs) and SVO designated fixed income-like SEC registered funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. For SVO-identified ETFs and SVO designated fixed income-like SEC registered funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual exposures (unless excluded categories as above) and aggregate those exposures with directly held investments to determine the 10 largest exposures.

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such assets. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Investments held within SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds") that are not diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)] Securities held within Schedule BA joint ventures partnerships limited liability and other fund structures should be aggregated by issuer as if the securities underlying investments are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 A to 1.G bonds or NAIC 1 unaffiliated preferred stock, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the 'Other Invested Assets with Underlying Characteristics of Bonds' AVR category, use the NAIC Designation and NAIC Designation Modifier from the 'NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol' column as reported on Schedule BA – Part 1. The RBC filing software automatically allows for an overall 45% RBC cap.

Lines (17) through (22)

The Asset Concentration RBC Requirement for a particular property plus the Real Estate RBC Requirement for a particular property cannot exceed the book/adjusted carrying value of the property. Any properties exceeding the book/adjusted carrying value must be adjusted down to the book/adjusted carrying value in Column (6) of the Asset Concentration.

Line (18), Column (4) is calculated as Line (17), Column (2) multiplied by 0.1100 plus Line (18), Column (2) multiplied by 0.0925, but not greater than Line (17), Column (2).

Line (20), Column (4) is calculated as Line (19), Column (2) multiplied by 0.1100 plus Line (20), Column (2) multiplied by 0.0925, but not greater than Line (19), Column (2).

Line (22), Column (4) is calculated as Line (21), Column (2) multiplied by 0.1300 plus Line (22), Column (2) multiplied by 0.1125, but not greater than Line (21), Column (2).

Lines (23) through (54)

The Asset Concentration RBC Requirement for a particular mortgage plus the LR004 Mortgages RBC Requirement or LR009 Schedule BA Mortgages RBC Requirement for a particular mortgage cannot exceed 45% of the book/adjusted carrying value of the mortgage. Any mortgages exceeding 45% of the book/adjusted carrying value must be adjusted down in Column (6) of the Asset Concentration.

Line (32), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (31) plus Line (32))] less Line (32) or Line (31) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (34), Column (4) is calculated as the greater of 0.0140 multiplied by [(Line (33) plus Line (34))] less Line (34) or Line (33) multiplied by 0.0068.

Line (36), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (35) plus Line (36))] less Line (36) or Line (35) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (38), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (37) plus Line (38))] less Line (38) or Line (37) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (40), Column (4) is calculated as the greater of 0.0270 multiplied by [(Line (39) plus Line (40))] less Line (40) or Line (39) multiplied by 0.0068.

Line (42), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (41) plus Line (42))] less Line (42) or Line (41) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (43), Column (4) is calculated as Line (43) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (52), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (51) plus Line (52))] less Line (52) or Line (51) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (54), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (53) plus Line (54)) less Line (54) or Line (53) multiplied by the appropriate factor for the CM class to which the loan is assigned.

COMMON STOCK CONCENTRATION FACTOR

LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, ~~investment companies (mutual funds) and common trust funds, SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds")~~ that are diversified with the meaning of the Investment Company Act of 1940 [Section 5(b) (1)], and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code 3 on LR044 (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code 9 (other subsidiaries), the total stock investment including both preferred and common stock should be used. For funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual common stock exposures and aggregate those exposures with directly held common stock to determine the 5 largest exposures. For example, if a reporting entity directly holds common stocks in Exxon Mobil and holds a non-diversified closed-end fund with common stock in Exxon Mobil, the reporting entity shall aggregate the directly held common stock investments with the common stock investments held in the closed-end funds to determine the aggregate exposure to Exxon Mobil.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

UNAFFILIATED PREFERRED AND COMMON STOCK

		(1)	(2)	(3)	(4)	(5)
	Annual Statement Source	Book / Adjusted Carrying Value	Less Affiliated Preferred Stock Without AVR	RBC Subtotal	Factor	RBC Requirement
<u>Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>						
(1) Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10	\$0	\$0	\$0 X	0.0039	= \$0
(2) Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11	\$0	\$0	\$0 X	0.0126	= \$0
(3) Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12	\$0	\$0	\$0 X	0.0446	= \$0
(4) Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13	\$0	\$0	\$0 X	0.0970	= \$0
(5) Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14	\$0	\$0	\$0 X	0.2231	= \$0
(6) Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15	\$0	\$0	\$0 X	0.300	= \$0
(7) Total Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (pre-MODCO/Funds Withheld) (Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16 plus Schedule D, Part 2, Section 2 Column 6, Line 531999999 + Line 551999999 + 571999999) (Column (2) should equal Schedule D Summary by Country Column 1 Line 22 less Asset Valuation Reserve Default Component Column 1 Line 16.)	Sum of Lines (1) through (6)	\$0	\$0	\$0		\$0
(8) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					\$0
(9) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					\$0
(10) Total Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					\$0
<u>Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>						
(11) Total Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO	AVR Equity Component Column 1 Line 17 Schedule D-Summary-Column 1-Line 29	\$0				
(12) Less Affiliated Common Stock	AVR Equity Component Column 1 Line 4+5+6+7+8+9+10+11+12+13+14+15+16 Schedule D-Summary-Column 1-Line 28	\$0				
(13) Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records	\$0				
(14) Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3	\$0		\$0 X	0.011	= \$0
(15) Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2	\$0		\$0 X	0.300	= \$0
(16) Net Other Unaffiliated Public Common Stock Total Admitted Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds	Lines (11) - (12) - (13) - (14) - (15)	\$0		\$0 X	0.450 †	= \$0
(17) Designated by SVO (pre-MODCO/Funds Withheld) (Column 1 should equal Schedule D Summary by Country Column 1 Line 29 less Line 28 less Line (13))	Lines (14) + (15) + (16)	\$0		\$0		\$0
(18) Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line (0299999)					\$0
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					\$0
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					\$0
Total Admitted Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds						
(21) Designated by SVO (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					\$0

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

ASSET VALUATION RESERVE

This exhibit and its supporting calculations are designed to address the non-interest-related (default) and equity risks of the company's assets by calculating a basic contribution, a reserve objective and a maximum reserve amount and controlling the flow of the reserve from/into surplus. These instructions cover the Asset Valuation Reserve (AVR) for both the General Account Statement and the Separate Account Statement. If an AVR is required for investments in the Separate Accounts Statement, it is combined with the General Account AVR and accounted for in the General Accounts statement. Worksheets supporting the separate accounts portion of the reserve are included with the Separate Accounts Statement. The criteria for determining when an AVR is required for separate accounts are described in the Separate Accounts AVR Worksheet instructions.

Line 1 – Reserve as of December 31, Prior Year

Enter amounts from Line 16 of the prior year's Reserve Calculation.

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stock (regardless if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding asset-backed securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43—Asset-Backed Securities*, for asset-backed securities only:

DEFAULT COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factor

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Lines 1 through 7 – Long-Term Bonds

Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4. Categorize the bonds and other fixed income instruments into NAIC designations 1 through 6 as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, except that, exempt obligations should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 8 – Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion

“Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion” are securities acquired through the conversion of a portion of the company’s assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

For instructions for completing this line, refer to “Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion.”

Line 9 – Total Long-Term Bonds

Column 1 should agree with Page 2, Line 1, Column 3 plus Schedule DL Part 1, Column 6, Line 2009999999.

Lines 10
through 15

- Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all preferred stocks, mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”), owned in Columns 1 and 4. Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. Categorize the preferred stocks and SVO-identified mutual funds, unit investment trusts and closed-end funds into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 16

- Affiliated Life Insurer with AVR

Report the book/adjusted carrying value of all preferred stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the preferred stocks are not required to be included in the asset valuation reserve of an affiliated company.

Line 17

- Total Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.1, Column 3 plus Schedule DL, Part 1, Column 6, Line 4509999999 plus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999.

Lines 18
through 24

- Short-Term Bonds

Report the book/adjusted carrying value of all short-term bonds and other short-term fixed-income investments (Schedule DA, Part 1 (Line 0509999999) and short-term bonds included on Schedule DL, Part 1, Line 9509999999 owned in Columns 1 and 4. Categorize the short-term bonds and other fixed-income instruments listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* into NAIC designations 1 through 6 as directed by the Securities Valuation Office instructions, except that exempt obligations listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Lines 26
through 32

- Derivative Instruments

Report the book/adjusted carrying value exposure to counterparty credit risk associated with the use of derivative instruments, net of acceptable collateral, for all counterparties by each SVO designation, from Schedule DB, Part D, Section 1, Column 8. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 34

- Total

Column 6 must be reported on Page 29, Line 7, Column 1.

Column 8 must be reported on Page 29, Line 10, Column 1.

EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factors

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Line 1 – Unaffiliated Common Stocks – Public, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds, unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. Exclude money market mutual funds appropriately reported on Schedule E, Part 2 and exclude mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”). Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. - Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

See Footnote (a) on the Annual Statement Blank for reference on the minimum and maximum reserve factors for Line 1, Column 7 and 9.

The reserve factor is equal to 15.8% times the company's weighted average portfolio beta. The weighted average portfolio beta is the market value weighted average of four (4) portfolio betas, one from the end of the prior year and the remaining from the first three (3) quarters of the current year. Calculation of this weighted average portfolio beta is illustrated in the following worksheet:

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 17 – Total Common Stocks, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.2, Column 3 plus Schedule DL, Part 1, Column 6, Line 5989999999 minus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999. The Columns 6, 8 and 10 amounts, respectively, must be reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, respectively, Column 4.

Lines 18 through 20 – Real Estate

Categorize the real estate as indicated on Lines 18 through 20. Real estate reported in Schedule DL, Part 1, Line 9209999999 would also be included in this section. Report the sum of Columns 1, 2 and 3 in Column 4. Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

NOTE: Related party encumbrances are loans from the reporting entity and the amount reflected in Column 2 should be deducted in Column 2 in the corresponding section of the AVR worksheet. If the real estate entity to which the loan was made is not wholly owned by the reporting entity, the related party encumbrance amount reflected in Column 2 should be based on the reporting entity's ownership percentage. The amount of the third-party encumbrances without recourse to be reflected in Column 3 is limited to the extent that the maximum reserve (Column 6) should not exceed the sum of the book/adjusted carrying value (Column 1) plus related party encumbrances (Column 2) and third-party encumbrances with recourse which are included in Column 3.

Line 21 – Total Real Estate

The Columns 6, 8 and 10 amounts must be combined with Line 83, Columns 6, 8 and 10 amounts and reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, Column 5.

Lines 22 through 28 – Other Invested Assets with Underlying Characteristics of Bonds

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.