NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 10/5/26

RISK-BASED CAPITAL MODEL GOVERNANCE (EX) TASK FORCE
Thursday, Oct. 8, 2026
3:00 – 4:30 p.m. ET / 2:00 – 3:30 p.m. CT / 1:00 – 2:30 p.m. MT / 12:00 – 1:30 p.m. PT

ROLL CALL

NAIC Member	Representative	State/Territory
Jon Godfread, Chair	Jon Godfread	North Dakota
Doug Ommen, Co-Vice Chair	Doug Ommen	Iowa
Nathan Houdek, Co-Vice Chair	Nathan Houdek	Wisconsin
Peter M. Fuimaono	Peter M. Fuimaono	American Samoa
Michael Yaworsky	Michael Yaworsky	Florida
Scott Saiki	Scott Saiki	Hawaii
Sandra Darby	Sandra Darby	Maine
Micheal T. Caljouw	Micheal T. Caljouw	Massachusetts
Mike Causey	Mike Causey	North Carolina
Judith L. French	Judith L. French	Ohio
Elizabeth Kelleher Dwyer	Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	Michael Wise	South Carolina
Amanda Crawford	Amanda Crawford	Texas
Jon Pike	Jon Pike	Utah
Kaj Samsom	Kaj Samsom	Vermont
Scott A. White	Scott A. White	Virginia

NAIC Committee Support: Dan Daveline

AGENDA

1. Discuss Revised Proposed Solvency Steering Group after Consideration of Comments — Attachment A, Attachment B
   —*Commissioner Jon Godfread (ND)*

2. Consider Exposure of Model Governance Aspirational Document — Attachment C
   — *Commissioner Jon Godfread (ND) & Amnon Levy (Bridgeway Analytics)*

3. Receive Comments on Previously Exposed Most Material RBC Gaps — Attachment D, Attachment E
   —*Commissioner Jon Godfread (ND)*
   - American Council of Life Insurers (ACLI)
   - American Property Casualty Insurance Association (APCIA)
   - National Association of Mutual Insurance Companies (NAMIC)
   - Reinsurance Association of America (RAA)

4. Any Other Matters Brought Before the Committee
   —*Commissioner Jon Godfread (ND)*

RBC Model Governance (EX) Task Force

IV. Commissioner-Level Governance Options

Feedback received to date indicates that the NAIC officers and staff generally support creation of a commissioner-level **Financial Policy Steering Committee**. That structure would provide broader commissioner engagement, visible membership support, and a policy perspective outside the ordinary technical process.

The question is not whether commissioner-level steering has value. The question is where the function should reside and how it should operate without duplicating E Committee, delaying technical work, or elevating routine matters.

Common Charge Under Either Structure

The steering body would:

- Maintain a rolling two-year agenda for major RBC initiatives and related solvency matters that satisfy the elevation standard.
- Recommend priorities, sequencing, assignments, and coordination for significant initiatives.
- Define the policy objective, scope, and key parameters before substantial technical work begins.
- Recommend written referrals or charges to the appropriate parent committees or technical groups, including deliverables, timing, coordination needs, and commissioner checkpoints.
- Receive reports only at defined checkpoints when a material policy choice arises, the approved scope changes, or a cross-group issue cannot be resolved through the ordinary process.
- Coordinate matters spanning multiple solvency disciplines or parent committees while preserving the authority of each body.
- Report to E Committee and, as appropriate, the Executive Committee, officers, and broader membership.
- Monitor the overall portfolio of initiatives and recommend retrospective review when warranted.

Elevation Standard

A matter would be elevated only if it meets one or more of the following standards:

1. **RBC architecture.** The matter would add or remove a risk category, materially alter aggregation or covariance, introduce a new type of charge, or otherwise change the architecture or intended operation of the RBC formula, rather than recalibrate an existing factor.
2. **Material policy choice.** The matter presents a significant policy judgment that cannot be resolved through technical, actuarial, accounting, or data analysis alone and on which reasonable regulators may differ.
3. **Cross-discipline dependency.** The matter creates material dependencies across capital, investments, valuation, accounting, reinsurance, actuarial analysis, financial analysis, or multiple parent committees and requires coordinated policy direction.
4. **Framework-wide principle.** The matter would establish or materially alter a principle applicable across asset classes, lines of business, transaction structures, or company types, rather than address a single instrument, factor, or company-specific issue.

The basis for elevation should be documented in a brief written statement identifying the applicable standard, the policy question, the assigned technical group, and any requested checkpoint. Controversy or public attention alone would not justify elevation.

Limitations and Carve-Outs

The steering body would not:

- Conduct technical analysis, develop factors, or substitute its judgment for the assigned actuarial, accounting, investment, reinsurance, or financial-analysis group.
- Approve individual factors or technical specifications outside the authority and approval process already assigned to the appropriate NAIC bodies.
- Replace, override, or diminish the authority of E Committee, A Committee, or their subsidiary groups.
- Reassign, delay, or withdraw work already in active development unless authorized by the appropriate parent committee, the Executive Committee, or the officers.
- Review routine factor updates, recalibrations, corrections, model maintenance, or other technical matters that do not satisfy the elevation standard.

- Create an independent review requirement for every E Committee exposure or adoption.

Integration with Existing NAIC Processes

The steering function should operate through the existing charge, referral, and priority-setting structure:

1. Commissioners, parent committees, subsidiary groups, and NAIC staff identify potential priorities through the normal planning process.
2. The steering body applies the elevation standards, recommends relative priority and sequencing, and identifies cross-committee dependencies.
3. The appropriate parent committee adopts, modifies, or declines the proposed charge and assigns the technical work. Matters spanning letter committees proceed through coordinated or joint referrals approved by the relevant parent bodies.
4. The assigned technical group incorporates the matter into its work plan and retains responsibility for analysis, exposure, stakeholder engagement, and technical recommendations.
5. The matter returns to the steering body only at a checkpoint specified in the charge or when a new issue independently satisfies the elevation standard.
6. Final authority remains with the appropriate parent committee and the existing NAIC approval process.

This framework would allow the steering body to provide a consistent, organization-wide view of major solvency priorities while relying on the existing committees and technical groups to perform and approve the substantive work.

Option 1: Financial Policy Steering Committee

Under Option 1, the NAIC would establish a small commissioner-level Financial Policy Steering Committee outside the ordinary E Committee structure, likely reporting to or operating under the Executive Committee. Although the proposed title uses "Financial Policy," the charge would be limited to RBC and material cross-cutting solvency-policy issues that satisfy the elevation standard.

A possible seven- to nine-member Committee could include:

- The E Committee chair and vice chair;

- Commissioner representatives connected to Capital Adequacy, Invested Assets, Life Actuarial, Financial Analysis, and other relevant E Committee functions;
- An A Committee commissioner liaison when accounting, valuation, or related cross-letter coordination is material;
- Two or three at-large commissioners to provide broader membership perspective; and
- The President and President-Elect as members, ex officio members, or leadership liaisons.

Relevant technical chairs, NAIC staff, and invited subject-matter experts would participate as advisors. Formal membership and voting authority would remain commissioner-led.

This model would provide broader commissioner participation, continuity beyond changes in E Committee leadership, visible membership support for difficult technical work, and a natural forum for issues that span E Committee groups or letter committees. It would also place the governance function at a level capable of coordinating joint referrals without treating every matter as solely an E Committee issue.

Potential concerns include duplication, an additional procedural layer, and delay. Those risks should be addressed through the objective elevation standard, fixed checkpoints, a limited meeting schedule, written referrals through existing parent committees, and the express preservation of E Committee and A Committee authority. The Committee should meet at defined priority-setting and policy checkpoints rather than maintain a continuous supervisory presence over technical work.

Option 2: E Committee Solvency Steering Subcommittee or Formal Process

Under Option 2, the steering function would remain within E Committee through a formally charged Solvency Steering Subcommittee or a comparable written governance process.

Membership could generally mirror Option 1 but would be drawn primarily from E Committee leadership, relevant task force chairs, senior subject-matter expert regulators, and selected commissioners. Officers and at-large commissioners could participate periodically or receive scheduled reports.

This model would provide direct accountability to E Committee, close coordination with the groups performing the technical work, faster implementation, and less risk of duplicative meetings or referrals. It could function as a cabinet to E Committee while preserving technical development at the task force and working-group levels.

Potential concerns include insularity, dependence on current leadership relationships, less visible support from the broader membership, and a less direct mechanism for cross-letter coordination. Those risks could be addressed through at-large commissioner participation, an A Committee liaison, standardized referrals, periodic reporting to officers or the Executive Committee, and a formal review after an initial implementation period.

Issues for Exposure

The Columbus exposure should seek focused comment on:

- Organizational placement and reporting;
- Membership and officer participation;
- Materiality thresholds;
- Commissioner checkpoints and pre-exposure review;
- Transparency and regulator-only discussion;
- Safeguards against duplication and delay; and
- Whether the selected structure should be reviewed after an initial implementation period.

The comments should help refine the final structure and charge, while recognizing that the ultimate decision is an internal NAIC governance matter.

REINSURANCE ASSOCIATION OF AMERICA

September 25, 2026

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
North Dakota Insurance Department
National Association of Insurance Commissioners

Re: Proposed Commissioner-Level Solvency Governance Framework

Dear Commissioner Godfread:

The Reinsurance Association of America (RAA) appreciates the opportunity to comment on the Risk-Based Capital Model Governance (EX) Task Force's exposure of two potential commissioner-level governance structures for significant RBC and related solvency matters.

RAA supports strong commissioner engagement, clear prioritization and coordination of major solvency initiatives. We agree that material policy questions should be defined before substantial technical work begins, while technical analysis remains with the Capital Adequacy (E) Task Force and other subject-matter groups.

The exposure presents two alternatives: (1) a Financial Policy Steering Committee outside the ordinary Financial Condition (E) Committee structure, likely reporting to or operating under the Executive (EX) Committee, and (2) an E Committee Solvency Steering Subcommittee or comparable formal process within E Committee. Of these two structures, RAA favors the E Committee approach. This approach is consistent with the NAIC's existing financial-solvency framework and preserves accountability within the committee already responsible for capital adequacy, financial analysis, investments, reinsurance, group supervision and related solvency matters.

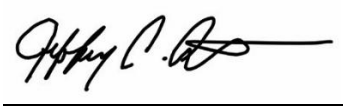
The exposure identifies important advantages of the E Committee approach, including direct accountability, closer coordination with the technical groups performing the work, faster implementation and less risk of duplicative meetings or referrals. By contrast, establishing a separate Financial Policy Steering Committee outside E Committee risks adding another governance layer over matters that largely reside within the existing financial-solvency structure. That approach could blur accountability, create overlapping forums and add process without improving substantive oversight.

RAA also supports the common operating principles proposed in the exposure, including a clear elevation standard for material policy, architecture or cross-disciplinary issues; defined policy questions before technical development; preservation of technical authority within existing NAIC groups; limited commissioner checkpoints; and transparent, documented referrals. These principles can be implemented effectively within E Committee, with targeted participation by other commissioners or letter committees when an issue genuinely crosses organizational boundaries. RAA's preference for the E Committee structure is not intended to reduce commissioner involvement. The steering process should include defined commissioner checkpoints, at-large commissioner participation where appropriate and clear escalation to the Executive (EX) Committee when an issue presents a material cross-committee or organization-wide policy question.

Accordingly, RAA recommends that the Task Force select the E Committee Solvency Steering Subcommittee or formal-process option, retain the proposed elevation standards and limitations, preserve technical responsibility within existing groups and review the structure after an initial implementation period. This approach would strengthen commissioner engagement while remaining consistent with the NAIC's existing governance framework, minimizing duplication and preserving clear accountability for financial-solvency oversight.

We appreciate the Task Force's consideration of these comments.

Sincerely,



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September 29, 2026

Commissioner Jon Godfread, Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Via email: Dan Daveline, ddaveline@naic.org
Jon Godfread, jongodfread@nd.gov

Re: Possible Structures for Commissioner-Level Financial Policy Steering Committee

Dear Commissioner Godfread:

On behalf of AHIP[1], we appreciate the opportunity to provide comments on the above referenced item that was exposed (Exposure) during the August 13 meeting of the Risk-Based Capital Model Governance (EX) Task Force.

AHIP acknowledges the significant work done to date by the Task Force, NAIC Staff and Consultants on this issue and agrees there is significant value in a commissioner-level steering body that oversees the agenda, priorities, scope and coordination of the technical working groups that address RBC/financial issues. A commissioner-level group providing oversight will help ensure that the work performed by the technical groups aligns with the recently approved RBC Principles and avoids unintended policy outcomes by considering those alongside the more technical financial matters.

AHIP believes that Option 1 as described in the Exposure would be the best structure to achieve the stated goals of "provid(ing) broader commissioner engagement, visible, membership support, and a policy perspective outside the ordinary technical process". It would also better facilitate broader visibility of the issues with commissioners who may not be as focused on E Committee matters, and in doing so, help to bring widespread understanding of the effects of the decisions to the individual state insurance markets.

Thank you for the opportunity to provide these comments. AHIP looks forward to continuing to discuss these important matters with the Task Force.

Sincerely,

Miranda Motter
AHIP Senior Vice President of State Affairs and Policy

cc: LaCosta Wix, AHIP Senior Regulatory Counsel of State Affairs and Policy
Raymond Nelson, AHIP Consultant

[1]AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone. Visit www.ahip.org to learn how working together, we are Guiding Greater Health.

Joint Comment Letter from Commissioner Nathan Houdek (WI), Director Elizabeth K. Dwyer (RI), and Commissioner Scott A. White (VA)

September 29, 2026

Commissioner Jon Godfread, Chair
Risk-Based Capital Model Governance (EX) Task Force

RE: Comments Regarding Proposed Commissioner-Level RBC Governance Options

Dear Chair Godfread:

As the current chair and previous two chairs of the Financial Condition (E) Committee (E Committee), we want to offer our perspective on the proposed commissioner-level RBC governance options included in the *August 13 Exposure of Possible Structures* memo (*Possible Structures* memo). We appreciate the significant work that the Risk-Based Capital Model Governance (EX) Task Force has dedicated toward modernizing the risk-based capital (RBC) governance framework over the past two years. The development of the RBC Principles and the update to the RBC Preamble have provided valuable guidance for evaluating and prioritizing future changes to RBC, and the upcoming gap analysis will further assist with those efforts.

We also appreciate the interest in encouraging more commissioner-level engagement in maintaining and updating RBC and related solvency matters. Ensuring long-term insurer solvency and capital adequacy is central to our work as regulators, and that work has become more challenging in recent years as insurer investment strategies and business structures have grown increasingly complex.

The E Committee serves as the central forum and coordinator of solvency-related considerations, including monitoring changes to the RBC formulas. Since the development of RBC in the early 1990s, the technical work of recommending changes to the RBC formulas has taken place in the relevant working groups; currently, the Health RBC (E) Working Group, the Life RBC (E) Working Group, the Property and Casualty RBC (E) Working Group, and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

Coordinating the work of the technical RBC working groups is the Capital Adequacy (E) Task Force (CADTF), which is charged with evaluating and recommending appropriate refinements to capital requirements for all types of insurers. The CADTF is also charged with evaluating application of the RBC formula and emerging risk issues for referral to RBC working groups and

monitoring emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.

We would encourage that any new steering committee/subcommittee structure be fully integrated within the existing E Committee Task Force and Working Group structure and governance framework. As noted in the *Possible Structures* memo, creation of a new steering committee function, "should operate without duplicating E Committee, delaying technical work, or elevating routine matters."

If there is sufficient interest to create a steering function, we would offer the suggestion of developing a more formal governance process within E Committee that could leverage and expand on the existing role of the CADTF, with more direct commissioner engagement and input in overseeing changes to RBC. The current membership of the CADTF already includes the chair and vice-chair of E Committee, the chair of the Life Insurance and Annuities (A) Committee, three of the four NAIC officers, including the current President, the chair of the Financial Stability (E) Task Force, commissioner-level and senior staff representatives across thirty jurisdictions, and subject matter experts representing various E Committee-working groups.

Creating another layer of bureaucracy by establishing a new steering subcommittee, which would largely be comprised of many of the same commissioners and senior staff who are members of E Committee and/or CADTF, does not seem the optimal approach for addressing the issue of insufficient commissioner engagement or a lack of policy perspective in making changes to RBC. Rather, developing a formally structured governance process that incorporates the tasks of the proposed steering body (as described on page 1 of the *Possible Structures* memo) and embedding that process in the charges of the E Committee or the CADTF would accomplish the same goals within the existing E Committee structure. Placement within the E Committee framework would also help structurally safeguard against the stated concerns of duplication and delay.

If the steering function is created, its scope must also be tethered to RBC and not to solvency or financial policy more broadly. The exposed "Elevation Standard" is quite expansive, listing "RBC architecture" as one of four potential standards to elevate a matter to the steering function. We would recommend that "RBC architecture" be a requirement of any matter elevated to the steering function and that at least one of the other three standards be satisfied, as well. Taking this approach avoids elevating all material policy choices, cross-discipline issues, and issues impacting multiple asset classes or lines of business even if they do not relate to RBC.

Narrowing the scope to RBC not only stays within the bounds of the charges of the RBC Model Governance Task Force that seeks to create the steering function, but it also ensures that the scope is proportionate to the underlying goals of encouraging more commissioner-level engagement and addressing a lack of policy perspective in overseeing RBC. No broader

problem has been identified with the current E Committee structure that would warrant creating a steering committee advising on issues outside of RBC.

We look forward to continuing to work with you in our ongoing efforts to modernize and refine the RBC framework as we develop a governance structure that aligns with the broader solvency framework. Thank you for your consideration of our comments.

Sincerely,

Nathan Houdek
Commissioner, Wisconsin Office of the Commissioner of Insurance
Chair, Financial Condition (E) Committee, 2024-current

Elizabeth K. Dwyer
Director, Rhode Island Department of Business Regulation
Chair, Financial Condition (E) Committee, 2023

Scott A. White
Commissioner, Virginia Bureau of Insurance
Chair, Financial Condition (E) Committee, 2020-2022

CC: Dan Daveline, National Association of Insurance Commissioners

Commissioner Doug Ommen, Co-Vice Chair, Risk-Based Capital Model Governance (EX) Task Force

Carrie Haughawout
SVP, Life Insurance and Regulatory Policy
American Council of Life Insurers
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Mariana Gomez-Vock
SVP, Prudential Policy and International
American Council of Life Insurers
Marianagomez-vock@acli.com

September 29, 2026

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
[Via email: ddaveline@naic.org]

Re: Commissioner-Level Governance Options for RBC and Cross-Cutting Solvency Policy

Dear Commissioner Godfread and Members of the Task Force:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Risk-Based Capital (RBC) Model Governance (EX) Task Force's (the "Task Force") exposure of possible structures for the next stage of the RBC model governance process and body. ACLI appreciates the Task Force's thoughtful approach and continued commitment to a risk-based capital framework that is both responsive and resilient.

RBC is an essential component—but not the only part—of a multi-faceted and robust solvency framework. As a result, we believe it is appropriate to create a commissioner-level Financial Policy Steering Committee reporting to the Executive (EX) Committee. This placement would support coordinated input from E and A Committee leadership, other affected committees, NAIC officers, and at-large commissioners.

Further, this group would be best positioned to determine appropriate policy direction for any updates to the RBC framework and how those changes should be considered alongside key NAIC goals, including other regulatory efforts (e.g., reserving, statutory accounting, etc.). To that end, we would recommend the new Steering Committee retain the Task Force's charge to oversee coordination and alignment among all NAIC bodies working on matters related to RBC and solvency initiatives. We believe continued holistic views and insights across the often-intersecting workstreams would add great value and enhance effectiveness of the U.S. statutory framework.

Consistent with our prior comments, ACLI believes it is important for regulators to consider all solvency tools and to maintain a broad, holistic view when contemplating future adjustments to RBC, recognizing the interconnectedness and co-dependencies within the overall framework. If a gap is identified, then supervisors should select the most appropriate tool to address the gap within the supervisory framework. The fact that a supervisory tool already addresses a particular risk should not preclude reassessing its RBC treatment, but adjustments should not be limited to just RBC or reserving alone. Sometimes the best tool to oversee or mitigate a risk will be RBC, sometimes it will be another tool, or it may be a combination.

With respect to process, ACLI continues to support checkpoints and feedback loops between the Steering Committee and technical committees, along with a continued commitment to transparency and stakeholder engagement. To that end, agendas, elevation decisions, written referrals, policy objectives, checkpoints, and recommendations should generally be public. Exposures should explain the rationale and supporting

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

analysis, provide an opportunity for written comment during a sufficient period of time that allows stakeholders provide constructive feedback. It would also be helpful to have articulation of the risks that are being addressed, the range of alternative means to address those risks, and the rationale for why the NAIC decided to pursue a certain path.

Limited regulator-only discussions may be warranted for confidential supervisory information or internal deliberations concerning an individual company; such sessions should be consistent with the NAIC's open meeting policy. ACLI appreciates the RBC MoGo Task Force's exceptional transparency with stakeholders and we look forward to working with Task Force's successor body.

Conclusion

ACLI has valued the opportunity to support the Task Force from its establishment through its potential conclusion. As the Task Force considers next steps, ACLI appreciates the Task Force's leadership in developing a model for a durable governance structure for future enhancements to RBC and other cross-cutting solvency matters. A commissioner-led Financial Policy Steering Committee with clear elevation standards, defined checkpoints, and transparent processes would provide greater consistency across RBC while preserving the role of existing technical bodies. We look forward to supporting the Task Force and its successor body.

Sincerely,

Carrie Haughawout

SVP, Life Insurance and Regulatory Policy
American Council of Life Insurers

Mariana Gomez-Vock

SVP, Prudential Policy and International
American Council of Life Insurers

September 29, 2026

RE: Comments on the August 13, 2026 Exposure of Possible Structures for RBC Model Governance

Dear Chair Godfread, Co-Vice Chair Ommen, Co-Vice Chair Houdek, and Members of the Task Force:

These comments are being provided by the chairs and vice chairs of most of the key technical groups operating under the Financial Condition (E) Committee whose responsibilities include the maintenance of various elements of the insurer solvency measurement framework. We appreciate the opportunity to submit joint comments regarding the August 13, 2026 exposure draft outlining possible structures for a newly-formed Financial Policy Steering Committee.

As the leaders of the working groups responsible for maintaining and updating the quantitative components of the solvency framework, we wanted to share our perspective on how these structural options will impact regulatory processes.

General Comment

In our experience in leading the technical activities under E Committee, it is not clear to us that a separate committee is needed or that it would be successful in resolving any perceived shortcomings of the current policymaking process. As the process exists today, the leadership of the various technical groups coordinate effectively with each other and with the leadership of E Committee. For items that are particularly material, time-intensive, or controversial, the technical chairs are often requested by E Committee leadership to provide education and status updates to E Committee as work on significant projects progresses. Commissioners are also members of the various task forces within E Committee, such as the Capital Adequacy Task Force which allows commissioners wanting to be more engaged in the details the ability to attend and follow the work. It is unclear to us what function the steering committee concept would serve that is not available under the current reporting structure. We have concern that adding an additional layer of reporting is more likely to lead to inefficiency than to address any concern that currently exists with the reporting process.

If there is support for pursuing such a steering committee, the remainder of our comments are directed towards our recommendations for its design.

Structural Placement

We recommend pursuing **Option 2**, which establishes a focused sub-committee directly under the E Committee.

We believe Option 2 offers several key organizational benefits. It ensures regulatory clarity and alignment, while streamlining the reporting structure, fostering commissioner engagement and cross-committee collaboration as detailed below.

The primary benefit of keeping the governance structure within the E Committee framework is that it prevents potential confusion for stakeholders and regulators regarding lines of authority. E Committee's adopted mission is as follows:

> The mission of the Financial Condition (E) Committee is to be the central forum and coordinator of solvency- related considerations of the NAIC relating to accounting practices and procedures; blanks; investment risk valuation of securities; financial analysis and solvency; multistate examinations and examiner and analysis training; and issues concerning insurer insolvencies and insolvency guarantees. In addition, the Committee interacts with the technical task forces.

The charges of the Financial Policy Steering Committee as highlighted in the exposure all relate to activities within the scope of E Committee's purpose. In fact, they represent the E Committee's fundamental role – directing solvency policymaking activities.

Under the current structure, the chairs of the task forces and working groups under E Committee are responsible for keeping E Committee updated on their work, providing updates and education as needed throughout the process in order to ensure that E Committee members are able to make informed decisions when the time comes to adopt changes that work their way up through the committee hierarchy. This is further facilitated through more informal coordination between the technical group chairs and the E Committee chair.

While we do see potential benefits of formalizing this process through a dedicated steering subcommittee of E Committee, placing this function outside of the E Committee umbrella would cause significant disruption and confusion. It would be unclear to regulators and stakeholders regarding which committee is responsible for directing the activities of the technical working groups. Among the questions that would need to be answered are:

- Will items meeting the elevation standard require approval of both the Steering Committee and E Committee before work commences?
- If the steering committee is only concerned with matters meeting the elevation standard, how will it be able to determine prioritization and sequencing without considering the more fulsome working agendas of the technical working groups?
- How will any differences in direction of E Committee and the Steering Committee be resolved?
- Will the technical groups need to separately keep both committees informed of their activities?

While we recognize the exposure states that the steering committee is not intended to displace any E Committee authorities, if the committee is established outside of E Committee, it is difficult to foresee how this will not lead to redundancy, conflicting directions, and general confusion amongst regulators and stakeholders. Technical group chairs would be required to manage parallel reporting channels, creating uncertainty around which committee needs to be updated on specific technical milestones and at what

stage of the review process. It would also have the appearance of creating a gatekeeping step that would limit E Committee's ability to respond timely to solvency issues that arise.

We believe each of these questions and concerns are avoided by having the Financial Policy Steering Committee be a sub-committee of E Committee, geared towards improving the ability of E Committee to monitor and make decisions regarding the activities of the technical working groups it is responsible for. Option 2 keeps reporting lines direct, centralized, and clear. Choosing Option 2 does not limit organizational input or collaboration. Cross-committee involvement and the active participation of NAIC officers can remain core components of this model.

Financial Policy Steering (E) Sub-Committee Design

We would also like to offer our recommendations for the scope and activities of a Financial Policy Steering (E) Sub-Committee.

Membership

Small Number of Committed Commissioners – we believe the most significant benefit of the proposed steering committee is to improve commissioner engagement early in the policy-making process. In order for this benefit to be achieved, steps should be taken to ensure that committee members are represented by commissioners. This could be more effectively achieved if membership is comprised of the E Committee Chair and Vice Chair, one or two members from each zone, with at least one member from each zone being a member of the E Committee. Steering committee members should have a specific charge to keep zone commissioners updated. Disallowing proxies could also be considered.

Technical Support for the Committee – we believe technical support for the steering committee can be provided by non-voting subject matter experts from relevant task forces and working groups.

Cross-Committee Involvement – we believe the issues addressed by E Committee generally have limited impact on other letter committees with the exception of A Committee, due to role of the Life Actuarial (A) Task Force. We would recommend the A Committee chairs participate in the steering committee meetings. Also, given the leadership role of the NAIC Officers, we would recommend that they also be invited to attend.

Scope

We believe only certain components of the RBC work warrant early oversight by the steering committee. Involving the steering committee in every update to the RBC calculations would distract from key areas needing review and create unnecessary work for the steering committee. Additionally, any items related to accounting and investment risk assessment should be limited to issues that could impact the measurement of solvency.

Materiality

Materiality is difficult to define with precision. We believe this should be based on the judgement of the task force and working group chairs based on the following considerations:

- Resource intensity – those projects likely to involve significant dedication of NAIC and state technical resources should be raised to the steering committee.
- Quantitative impact – those projects expected to have a material impact to RBC for a meaningful segment of companies should be raised.
- Stakeholder support – those projects that are likely to have a range of viewpoints are more likely to warrant the input of the steering committee than those for which stakeholders are aligned.

Steering Committee members could also choose to elevate items not identified by the Technical Group Chairs.

Conclusion

We thank the Task Force for its thoughtful work on this governance modernization initiative. We encourage the Task Force to consider incorporating any functions proposed for the Steering Committee into the existing E Committee process. If a standalone Steering Committee is needed, we encourage the adoption of Option 2 to maintain organizational clarity and support the long-term operational efficiency of the NAIC's technical groups.

Signed:

Kevin Clark
Iowa Insurance Division
Chair, Statutory Accounting Principles (E) Working Group

Carrie Mears
Iowa Insurance Division
Chair, Invested Assets (E) Task Force

Ben Slutsker
Minnesota Department of Commerce
Chair, Capital Adequacy (E) Task Force
Chair, Life Risk-Based Capital (E) Working Group

Philip Barlow
District of Columbia Department of Insurance
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Vice Chair, Life Risk-Based Capital (E) Working Group

Thomas Reedy
California Department of Insurance
Vice Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Matt Cheung
Illinois Department of Insurance
Incoming Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Steve Drutz
Washington State Office of the Insurance Commissioner
Chair, Health Risk-Based Capital (E) Working Group

Wanchin Chou
Connecticut Department of Insurance
Vice Chair, Property and Casualty Risk-Based Capital (E) Working Group

Jamie Walker
Texas Department of Insurance
Chair, Accounting Practices and Procedures (E) Task Force

Rachel Hemphill
Texas Department of Insurance
Chair, Life Actuarial (A) Task Force

September 29, 2026

Commissioner Jon Godfread (ND), Chair
Commissioner Nathan Houdek (WI), Co-Vice Chair
Commissioner Doug Ommen (IA), Co-Vice Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners

Re: Possible Structures exposure

Dear Commissioners Godfread, Houdek, and Ommen:

On behalf of the American Academy of Actuaries'[1] Risk-Based Capital (RBC) Committees (Academy), we appreciate the opportunity to provide comments to the RBC Model Governance (EX) Task Force (MoGo Task Force) possible structures exposure (Exposure) identified during the Aug. 13, 2026, meeting. We agree with the common charges and understand the limitations set out in the memo. While we do not have a specific preference for either structure, we offer the following considerations:

1. The entity should weigh each proposal against the NAIC's full body of work before charging groups or making recommendations.
2. The entity should ensure ongoing collaboration among and across interested NAIC working groups and task forces.
3. The entity should have a process for promptly addressing emerging risks that fall outside the two-year rolling agenda.

To the extent either structure would be better suited to these tasks, we would lean toward that structure.

If you have any questions or would like to discuss these comments further, please contact Katie Dzurec, Public Policy Outreach Director (dzurec@actuary.org).

Sincerely,

Steve Smith, MAAA, FSA, CFA
Chairperson, Life Investment and Capital Adequacy Committee

Erik Wheeler, MAAA, FSA
Vice Chairperson, Health Solvency and Financial Reporting Committee

Ronald Wilkins, MAAA, FCAS
Chairperson, Property and Casualty Risk-Based Capital Committee

Jeremy Starr, MAAA, FSA
Chairperson, Reinsurance Work Group

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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VIA ELECTRONIC SUBMISSION

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
VIA Email: Dan Daveline; ddaveline@naic.org
Bridgeway Analytics; RBC-MoGo@BridgewayAnalytics.com

RE: Request for Comments on RBC Gaps Exposure and Governance Options

Dear Commissioner Godfread,

Thank you for the opportunity to comment on the Risk-Based Capital (RBC) Model Governance (E) Task Force's RBC Gaps Exposure (Exposure 1) and Proposed Structure (Exposure 2). The National Association of Mutual Insurance Companies (NAMIC)[1] is appreciative of the engagement with industry thus far in this process. This Task Force has spent an immense amount of work and time on this project, taking measured steps towards establishing the foundational Principles, and we hope that attitude continues into this new phase of work. We believe that this Task Force should continue to emphasize and focus on each individual formula's consideration of underlying material risk exposure, including the nature, scale and complexity of risks as relevant to that line of business. The three RBC formulas produce appropriate, proportional, and tailored solvency measures across insurers that reflect differences in line of business (life/non-life/health). RBC is a tool in the toolbox that regulators use to investigate the financial wellbeing of insurers; it is not a model built to do everything related to solvency nor should it be treated as such. It is prudent to address gaps in current formulas that result in material issues with the regulators' view of solvency. We offer the comments below on the Exposures.

Exposure 1

We believe that P/C RBC Formula currently captures material risks for the P/C industry and there is a process in place to address the risks listed in Exposure 1. The P/C formula appropriately focuses on short-duration liabilities which reflect the product offerings, reserve risk and premium risk as those are the main capital drivers in this line of business. There are intentional inconsistencies between the formulas, and it is important that all three formulas continue to focus on the material solvency risks that occur in different lines of business as to not mask relevant risks for that line. The P/C RBC formula is not a fully dynamic risk model; however, the current approach taken by regulators charged with developing and maintaining the formula is to recalibrate the components within the formula on a regular basis. Regulators use multiple tools for solvency and financial wellbeing oversight, such as periodic calibration of the factors, catastrophe modeling updates, and regular interactions with insurers through financial examinations reviews, quarterly reporting, and other corporate level disclosures. The material emerging risks identifying in Exposure 1 can be methodically and thoughtfully incorporated into the P/C formula using existing processes. Given the P/C RBC formula is primarily an underwriting-risk model, catastrophe exposure such as hurricane, earthquake, and wildfire risk is incorporated through a specific catastrophe risk charge within the

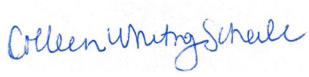
underwriting component. The current RCAT working group is currently adding severe convective storms, which is named in Exposure 1 as a material gap. While there is more work to be done in the catastrophe space and it is important for regulators to understand, there is also well-designed and thoughtful process in place to look at any material emerging risks. Placing RCat on this list gives the impression that there is material gap in regulatory oversight while giving no corresponding facts to say there is a material gap. The document cites severe convective storms as a reason, but as discussed above, this is already being implemented. We request that the RBC component regarding Rcat be taken out or at minimum edited to reflect current practices, as the present language gives the impression that there is no significant work being done on this risk, which is not true.

Exposure 2

It is our understanding that the current structure of RBC oversight works as such: E Committee sets priorities for and evaluates the work of the Capital Adequacy Task Force, which oversees the work of and sets the priorities for the three RBC formula working groups. The formula working groups are populated by state regulators who know the details of the formula and are experts in their respective state. Currently, changes typically are bottom-up as opposed to top-down. This structure is a strength of the current framework as it inherently builds in the appropriate lenses through which solvency should be viewed for each line and allows for ongoing reviews by each working group to address material emerging risks and overall effectiveness of each formula. We appreciate that Exposure 2 makes it clear that this Steering Committee will not override or diminish the authority of E Committee. However, outside of RBC, what would rise to the level of a material cross-cutting solvency policy issue?

NAMIC believes Option 1: Financial Policy Steering Committee makes the most sense. We completely agree that any option should meet defined priority-setting and policy checkpoints rather than maintaining continuous presence of any type of technical work. In addition, neither option should be able to meet exclusively in regulator-only meetings for discussions. The Steering Committee must issue exposures available for industry comments, rather than sending charges and recommendations directly to letter committees. Under either structure, we believe it is important that the regulators charged with maintaining each of the formulas remain focused on the core purpose of RBC: to help regulators identify weakly capitalized companies with material solvency concerns. NAMIC suggests the Task Force use the Principles previously voted upon and adopted to determine if an issue should be looked at by the Steering Committee, paying particular attention materiality and cost-benefit.

Thank you for your consideration of our comments.



Colleen Scheele
AVP – Policy
National Association of Mutual Insurance Companies

September 29, 2026

Via email to: ddaveline@naic.org

Jon Godfread, Commissioner
North Dakota Insurance Department
Chair, Risk-Based Capital Model Governance (EX) Task Force, National Association of Insurance Commissioners
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Re: Comments on August 13 Exposures — Commissioner-Level Governance Options and List of Potential RBC Gaps and Inconsistencies

Dear Commissioner Godfread:

Lincoln Financial appreciates the opportunity to comment on the two exposures released by the Risk-Based Capital Model Governance (EX) Task Force on August 13. We commend the Task Force for its work to date, including a revised RBC Preamble, adoption of the RBC Model Governance Principles, and progress on educational materials highlighting the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.

The Task Force's phased approach—first strengthening RBC governance, establishing a strategic framework for future revisions, and highlighting the strengths and benefits of the RBC framework, then turning to a prioritized agenda of potential RBC gaps—has provided a constructive framework for stakeholder input.

With that context, we offer the following comments on both the governance options and the list of potential gaps and inconsistencies.

I. Commissioner-Level Governance Options

We support the establishment of a commissioner-level steering function for RBC and related cross-cutting solvency-policy matters. Of the two structures presented for comment, we favor **Option 1, the Financial Policy Steering Committee**. We appreciate the Task Force's focus on ensuring that RBC governance continues to benefit from broader

commissioner engagement, visible membership support, and a policy perspective outside the ordinary technical process.

II. Risk-Based Capital List of Gaps and Inconsistencies

Among the items identified in the list of potential gaps and inconsistencies, Lincoln recommends the Task Force acknowledge **Life RBC covariance** as an issue warranting a holistic review and eventual updating. At a high level, the issue is whether the current covariance framework, which has not been holistically updated in decades, continues to appropriately reflect how risks interact across today's life insurer balance sheets. The exposure appropriately captures the justification and importance of this work, noting that current Life RBC covariance assumptions are coarse, generally set at 100% or 0%, and do not adequately recognize diversification or concentration risk across a broad and increasingly varied set of asset classes.

The NAIC Life Risk-Based Capital Working Group has devoted meaningful effort to this issue, including an exposure of the American Academy of Actuaries' *Correlation in Life Risk Based Capital* proposal and consideration of stakeholder feedback throughout 2024 and 2025. While views differ on the specific proposal, the resulting analysis and Life RBC Working Group discussions provide a useful starting point for any future evaluation of the covariance framework. Lincoln believes additional analysis, development, and stakeholder engagement are necessary before pursuing implementation.

We recognize that a comprehensive review of the covariance framework would be a meaningful undertaking. However, the significance of that work should not be a reason to defer the issue or to avoid taking it up at all. Rather, we believe the NAIC should treat Life RBC covariance as an important longer-term modernization objective—one that can be addressed thoughtfully, with appropriate analytical support and stakeholder engagement, while acknowledging that the current framework is long overdue for review.

Several considerations support recognizing this as an issue for review and updating:

- **Significantly outdated.** The current covariance formula has not been subject to a holistic review since the RBC framework was adopted and implemented in the 1990s. Given the amount of time that has passed, the evolution of the balance sheets it is meant to capture, and advances in best practices for these calculations, the covariance formula is due for the kind of periodic maintenance review appropriate for a foundational component of the RBC framework.
- **The current formula may overstate or understate risk.** As the exposure document itself recognizes, Life RBC covariance assumptions are generally set at either 100% or 0%, a simplified approach that may not adequately reflect real-world risk relationships. Because the current formula was not designed with today's risk

landscape in mind, certain risks may be overstated, understated, or combined in ways that do not accurately represent a company's overall risk profile. Updating the framework to incorporate more refined assumptions would better align RBC outcomes with underlying risk exposures and improve the accuracy of the overall measure of insurer risk.

- **The formula predates significant changes to underlying RBC components.** Several risk components have been added or materially revised since the covariance structure was developed. As a result, the formula may no longer appropriately reflect how these components interact across a modern life insurer's balance sheet.
- **Enhanced credibility and defensibility of RBC.** A modernized covariance structure supported by updated analysis could provide regulators and other stakeholders with greater confidence that RBC ratios appropriately reflect aggregate company risk and that the diversification benefits embedded in the formula are supported by current data and methodology.
- **Alignment with RBC Model Governance Principles.** Updating the covariance framework would advance several of the principles articulated through the NAIC's RBC model governance initiative, particularly the principles of *Equal Capital for Equal Risk* and *Objectivity*, by evaluating whether the current framework continues to appropriately reflect the risks captured elsewhere in the RBC formula.

We appreciate the Task Force's consideration of these comments and look forward to continued engagement as this work progresses.

Sincerely,

Roman Gabriel
Senior Vice President, Head of Government Relations
Lincoln Financial

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September 29, 2029

Jon Godfread, North Dakota Insurance Commissioner
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Via email: ddaveline@naic.org; RBC-MoGo@BridgewayAnalytics.com

Re: Possible Structures and List of Potential RBC Gaps and Inconsistencies

Dear Commissioner Godfread,

Athene Holding Ltd. (Athene) appreciates the opportunity to comment on the Risk-Based Capital (RBC) Model Governance (EX) Task Force's two exposures: the two options for a commissioner-level governance structure and the list of priority gaps and inconsistencies in the RBC framework. We commend the Task Force for the disciplined, transparent process it has followed since its creation, including the adoption of the RBC Model Governance Principles in December 2025, the revised RBC Preamble, and the structured approach to developing a two-year priority agenda.

We also want to acknowledge, at the outset, the foresight that produced this effort. Two years ago, the NAIC recognized that the sector, and life in particular, was undergoing a profound transformation, and that senior regulators needed to be directly engaged in designing the architecture of RBC and the broader solvency toolkit, rather than leaving that architecture to be assembled piecemeal through purely technical channels. The objective the NAIC set was the right one: to balance insurer solvency and consumer protection against the legitimate need for innovation and for capital to continue flowing into the market that funds Americans' retirement security. That initiative has placed the NAIC at the forefront of regulatory bodies globally that have adapted to a changing market in a thoughtful and balanced way.

That transformation, however, is not static; it continues to evolve. Both the evolution itself and the work the NAIC has already completed, including AG 55 and the enhancements to NRSRO and rating-agency governance, have brought into sharper focus a set of potential gaps in the system. These include continued offshore and onshore arbitrage, questionable asset valuation practices, and instances of irrational market pricing, among others. Congress, the financial press, and market participants are observing the same developments and raising appropriate questions.

As the Task Force takes this next important step of setting priorities, we respectfully recommend that it apply a single initial lens to each candidate item: **will making this a priority address: (a) a material gap or mismatch in the system that will significantly**

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enhance consumer protection and, (b) market solvency while promoting equal capital for equal risk? If the answer is yes, the item warrants further consideration; if the answer is no, it should be set aside, however technically interesting it may be. We have organized our comments on the high-priority items below around precisely that question.

Commissioner-Level Governance Options

Athene supports the Task Force's effort to establish a durable commissioner-level governance function for RBC and solvency policy. The common charges outlined in the exposure (i.e. maintaining a rolling two-year agenda, defining policy objectives before substantial technical work begins, coordinating cross-discipline workstreams, and returning matters to commissioners at defined checkpoints) reflect the right balance between senior policy direction and technical execution. The proposed elevation standard, which focuses the steering body's role on matters involving RBC architecture, material policy choices, cross-discipline dependencies, or framework-wide principles, is well-designed to prevent the function from becoming a bottleneck for routine technical work.

While both exposed options for a governance structure could deliver the intended benefits if implemented with the safeguards described in the exposure, we believe a commissioner-led Financial Policy Steering Committee, outside of the ordinary E Committee structure, would be best positioned to provide coordinated, overarching leadership and direction; continue the important Task Force workstreams; address the material cross-cutting policy issues related to RBC; and combat fragmentation.

Whichever structure the Task Force ultimately supports, it should ensure sustained commissioner engagement and efficient coordination with the existing technical groups.

List of RBC Gaps and Inconsistencies

I. Scope of Our Comments

Our letter addresses the exposed items related to the life RBC formula. Throughout, we focused on anchoring our comments to the RBC Principles adopted by the Task Force in 2025.

II. High-Priority Items

A. Life Reinsurance Transactions

Measured against the lens above, this item plainly qualifies: it presents a material solvency mismatch, it directly implicates the policyholders whose obligations are ceded away, and the sums involved are large and growing.

Athene therefore supports the Task Force's identification of life reinsurance transactions as a high-priority item, particularly as the current reinsurance framework likely does not

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sufficiently test total solvency protection when liabilities are ceded to reinsurers located in non-reciprocal jurisdictions. Given that reserve credit and modified coinsurance arrangements attributable to non-reciprocal jurisdictions have reached roughly $135 billion, we agree this is material and support the reinsurance related work already underway, including AG-55 reviews, the development of risk charges at the Life RBC Working Group, the enhancements to the financial analysis and financial examiners handbooks, and updates to the Disclosure of Material Transactions Model Act. We have submitted a comment letter supporting and providing feedback on the Life RBC Working Group's initial proposal that would impose a recapture risk charge on business ceded to reinsurers located in non-reciprocal jurisdictions.

We would extend the Task Force's focus beyond offshore cessions to permitted practices and onshore captive formations, which raise closely related concerns and are increasingly the subject of external scrutiny. The strength and credibility of the state-based system rest on solvency standards that are applied uniformly across it. That uniformity is what produces consistent regulation and a level playing field, and, ultimately, what ensures that the promises companies make to consumers are kept. On the occasions when the state-based system has drawn the scrutiny of Congress, it has most often been because that foundational principle was not observed.

The NAIC and its members should therefore be deeply concerned about states granting permitted and prescribed accounting practices and approving captive and affiliated reinsurance structures, on terms that are material, not uniformly available across the market, and often without any or sufficient public disclosure. The result is a growing unlevel playing field, in which otherwise comparable insurers face materially different capital and reserving outcomes depending on their state of domicile, and, in some cases, a genuine erosion of total solvency protection.

Left unaddressed, this dynamic invites precisely the regulatory race to the bottom that a national RBC framework is meant to prevent. We therefore encourage the Task Force to treat onshore captive and permitted-practice arbitrage as part of the same workstream as offshore reinsurance, so that the framework tests total solvency protection consistently, regardless of where, or through what structure, liabilities ultimately come to rest.

B. Residential Mortgage Loan Classification and Calibration

This item satisfies the same threshold. A charge that was never calibrated to residential data, and that applies a single flat factor regardless of underlying risk, is a genuine mismatch between capital and economic risk; correcting it sharpens solvency measurement and, in turn, consumer protection.

We therefore support recalibrating the residential mortgage loan (RML) charge on the basis of underlying economics, consistent with the principle of ECER. As the May 26, 2026

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Investment Analysis Working Group referral acknowledged, the current flat factor of 68 basis points was anchored to commercial mortgage factors that predate the current framework and was never calibrated to residential data. A flat charge applied across the entire category (without stratification by loan characteristics or underlying risk drivers) provides no basis to determine whether the charge is appropriate for any particular segment.

We believe that the Statutory Accounting Principles (E) Working Group's initiative to develop a statutory accounting definition of an RML should be completed before the capital factor is recalibrated, because the accounting classification will determine which charge applies. Today, the definitional foundation is thin: *SSAP No. 37 – Mortgage Loans*, which is Level 1 authority in the statutory hierarchy, carries no definition of an RML; the Annual Statement Instructions (Level 3) define residential only by property type and dwelling-unit count. The Life RBC formula itself has no independent definition.

As a starting point, we support establishing an authoritative definition in *SSAP No. 37* anchored to the one-to-four family property concept in *12 CFR § 1266.1*. The definition should turn on the underlying property and should not reclassify economically similar exposures on the basis of factors such as loan size, property count, occupancy, or other variables unrelated to credit risk. The recalibrated factor should be applied to a stable, well-defined population.

C. CMBS and RMBS Intrinsic Price Treatment

This item, too, meets the standard: the intrinsic price methodology produces capital outcomes that diverge materially from the treatment of economically comparable fixed-income exposures, and that divergence is exactly the kind of mismatch the priority agenda should target.

As a result, Athene supports the Task Force's inclusion of CMBS and RMBS on the priority list. In our March 12, 2026 comment letter, we provided a detailed diagnostic of the intrinsic price methodology used for CMBS and RMBS and its departure from the corporate bond framework that governs the broader C-1 charge. Those differences remain significant: 1) the intrinsic price approach calculates loss based on deterministic scenarios calibrated annually, rather than historical, through-cycle data; 2) it determines RBC factors based on an asset-level rather than portfolio-level assessment; 3) it does not consider reinvestment or correlation; and 4) it offers limited transparency on scenario calibration and probabilities.

Each of these features produces outcomes that diverge from the treatment of comparable fixed-income exposures, and we continue to believe they should be evaluated against Principle 4 (ECER) and Principle 9 (Transparency) in particular. We urge the Task Force to

ensure that this item receives dedicated attention in the two-year priority agenda and as part of the Structured Securities Project.

III. Deferral of Life RBC Covariance

We recommend that the Task Force defer work on revising Life RBC covariance at this time. Covariance is the aggregation layer above the individual risk components. It cannot be calibrated sensibly until the charges it aggregates are correctly measured at the portfolio level. In particular, the refinement of the portfolio adjustment factor (PAF) to a portfolio-level construct should be resolved first, since the recently adopted CLO framework assesses each tranche on a standalone basis without measuring its interaction with the insurer's other corporate credit exposures, whether held directly or through other structures containing the same obligors. Correlated and duplicated credit exposure belongs within C-1, and that work should be completed before covariance is revised; otherwise, the aggregation would be recalibrated against a C-1 charge that is itself subject to change and would need to be redone.

Additionally, the asset concentration factor is currently applied within C-1 only after the asset-by-asset factors and before covariance, doubling the pre-tax RBC factor on the insurer's ten largest asset exposures aggregated by issuer, subject to a 45% pre-tax maximum. Covariance is then applied afterward to the resulting C-1 amount. Until the individual risk charges and portfolio-level adjustments are stable, recalibrating the covariance layer would be premature.

IV. Structured Securities Project - ABS Charges

We note that the structured securities project with the Academy to develop charges for various types of ABS is <u>not</u> included on the exposed list, which we understand reflects the view that this work is already in progress at the RBC Investment Risk and Evaluation (E) Working Group. Now that the Working Group has completed the CLO phase of its mandate, a key question is how it will leverage the Academy's analytical framework to address other ABS asset classes. We flag this item for the record to ensure it is not lost between the two bodies. We expect the Working Group's forthcoming structured securities project plan to provide a clear roadmap for extending the principled approach developed for CLOs to the broader ABS universe to the extent possible, and we encourage the Task Force to maintain visibility into that work as part of its coordination role and as part of this broader initiative to address RBC gaps and inconsistencies.

V. Remaining Exposed Items

We recommend deferring the review of C-3 for non-single-premium products until the related work for C3 Phase I and Phase 2 is completed. The remaining items on the exposed list in the life RBC formula (i.e., life RBC factor-designation grid mismatch and life investment valuation-basis mismatch) are legitimate areas for continued monitoring,

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future review and, where appropriate, refinement, but do not require elevation to the two-year priority agenda at this time or ahead of the ongoing Structured Securities Project.

VI. Executing the Priority Agenda Consistent with the RBC Principles

As the Task Force finalizes its two-year priority agenda and transitions work to the appropriate technical groups, we encourage it to ensure that execution remains anchored to the RBC Model Governance Principles adopted in December 2025. In particular, Principle 4 (ECER) should serve as the primary analytical lens for evaluating each gap item, ensuring that comparable economic risks receive consistent treatment across asset classes in their statistical safety levels and time horizons. Principle 3 (Materiality) should guide sequencing and resource allocation, so that the most consequential items (i.e. those that could meaningfully impact the regulator's assessment of solvency risk) receive attention first. And Principles 9 and 10 (Transparency and Process) should govern how the work is conducted, with clear documentation of methodologies, data-driven calibration, and open communication at each stage.

A disciplined commitment to these Principles will strengthen the credibility of the modernization effort and build confidence among regulators, industry participants, and policyholders that the resulting framework is analytically sound, consistently applied, and focused on what matters most to solvency oversight.

VII. Conclusion and Offer of Continued Engagement

Athene supports the Task Force's ongoing efforts to build a disciplined, principles-based framework for identifying and addressing RBC gaps and inconsistencies. Anchoring the priority agenda to materiality, modeling consistency, and ECER will help ensure that modernization efforts are focused where they matter most to solvency oversight and sequenced in a way that avoids redundancies and produces durable results.

We appreciate the opportunity to provide these comments and would welcome the chance to discuss any of these topics as the Task Force finalizes its two-year priority agenda.

Respectfully submitted,

Michael Consedine
Executive Vice President and Global Head of Government and Regulatory Affairs
Athene Holding Ltd.

DRAFT FOR DISCUSSION

Aspirational Risk-Based Capital Model Risk Management Guidelines

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1 Background

As explained in the Risk-Based Capital (RBC) Preamble, the Capital Adequacy (E) Task Force of the Executive (E) Committee and its RBC Working Groups oversee the RBC formula and the process for implementing changes to it. These Aspirational Model Risk Management Governance Guidelines provide a framework to help ensure that RBC models meet their intended regulatory purposes by ensuring that their risks are appropriately monitored and managed. The guidelines are aspirational for CATF and its Working Groups to apply, with regulatory discretion and limited-resource considerations in mind.

The Preamble outlines eleven Principles for the purpose and use, and maintaining and updating RBC requirements, along with historical context. It explains that the purpose of RBC requirements is to identify potentially weakly capitalized companies. RBC requirements are primarily used to facilitate regulatory action with respect to weakly capitalized companies. RBC requirements may be used for other purposes, but such uses must not distort or redefine their purpose. As explained in the Transparency and Process Principles, maintaining and updating RBC requirements must adhere to standards that ensure clear, complete, and transparent communication and documentation of proposed and adopted updates, methodologies, and supporting rationale. Maintaining and updating RBC requirements must adhere to model risk management standards, relying on data-driven methodologies with assessments of model performance and model validation when possible, acknowledging the need to rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions.

RBC requirements should be updated when a change could meaningfully impact the regulator's assessment of the solvency risk for all or an identifiable segment of companies. RBC requirements should be guided by the principle of equal capital for equal risk, consistent in their statistical safety levels and time horizons, appropriate for the underlying risk, unless there are substantial differences in the nature of the risk in the context of the business model (e.g., life vs property & casualty) to warrant alternative treatments. RBC requirements should reflect measurable risks that can impact solvency, including the mitigating effects of risk management. They should consider only the factors that affect solvency risk.

They should be sufficiently precise to assess solvency risk, while avoiding unnecessary complexity. They should be grounded in Statutory Accounting and reserving. They should be updated to incorporate emerging risks (including macroprudential risk) by the time they become material to the industry or an identifiable segment of companies.

Recognizing the vast number of potential refinements that could be made to RBC requirements at any given time, the groups tasked with updating and maintaining the RBC model should use regulatory judgment to prioritize changes, considering their necessity, materiality, time and resource intensity, and other relevant considerations.[1]

1.1 Model, Model Risk, and Intended Purpose Defined

This document does not provide a single definition of a model or model risk but rather points to the definitions used in well-accepted standards in *Actuarial Standard of Practice No. 56, Modeling (ASOP No. 56)*, and *SR 11-7* of the Federal Reserve System and the Office of the Comptroller of the Currency. While those standards are often framed as model risk management guidelines for financial institutions, including insurance companies, this document applies those concepts to RBC models.

[1] See also the *RBC for Insurers Model Act (Model Law 312)*, NAIC 2012, and *RBC for Health Organizations Model Act (Model Law 315)*, NAIC 2021.

ASOP No. 56 defines a model as: *A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, non-quantitative, or scientific concepts and equations. A* ***model*** *consists of three component an information* ***input*** *component, which delivers* ***data*** *and* ***assumptions*** *to the* ***model,*** *a processing component, which transforms* ***input*** *into* ***output****, and a results component, which translates the* ***output*** *into useful business information.*

SR 11-7 defines models as: *A quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model consists of three components:*

1. *an information input component, which delivers assumptions and data to the model;*
2. *a processing component, which transforms inputs into estimates; and*
3. *a reporting component, which translates the estimates into useful business information.*

…

The definition of model also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature.

ASOP No. 56 defines **Model Risk** as: *The risk of adverse consequences resulting from reliance on a model that does not adequately represent that which is being modeled, or the risk of misuse or misinterpretation.*

SR 11-7 explains: *The use of models invariably presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports… Model risk occurs primarily for two reasons:*

1. *The model may have fundamental errors and may produce inaccurate outputs when viewed against the design objective and* ***intended business uses****. The mathematical calculation and quantification exercise underlying any model generally involves application of theory, choice of sample design and numerical routines, selection of inputs and estimation, and implementation in information systems. Errors can occur at any point from design through implementation. In addition, shortcuts, simplifications, or approximations used to manage complicated problems could compromise the integrity and reliability of outputs from those calculations. Finally, the quality of model outputs depends on the quality of input data and assumptions, and errors in inputs or incorrect assumptions will lead to inaccurate outputs.*
2. *The model may be used incorrectly or inappropriately. Even a fundamentally sound model producing accurate outputs consistent with the design objective of the model may exhibit high model risk if it is misapplied or misused. Models, by their nature, are simplifications of reality, and real-world events may prove those simplifications inappropriate. This is even more of a concern if a model is used outside the environment for which it was designed… Decision makers need to understand the limitations of a model to avoid using it in ways that are not consistent with the* ***original intent****. Limitations come in part from weaknesses in the model due to its various shortcomings, approximations, and uncertainties. Limitations are also a consequence of assumptions underlying a model that may restrict the scope to a limited set of specific circumstances and situations.*

ASOP No. 56 defines **Intended Purpose** as: *The goal or question, whether generalized or specific, addressed by the model within the context of the assignment.* Section 3.1.2 of the ASOP states that: *When selecting, reviewing, or evaluating the model, the actuary should confirm that, in the actuary's professional judgment, the model reasonably meets the intended purpose.*

SR 11-7 explains that: *An effective development process begins with* ***a clear statement of purpose to ensure that model development is aligned with the intended use****. The design, theory, and logic underlying the model should be well documented and generally supported by published research and sound industry practice. The model methodologies and processing components that implement the theory, including the mathematical specification and the numerical techniques and approximations, should be explained in detail with particular attention to merits*

and limitations. Developers should ensure that the components work as intended, are appropriate for the intended business purpose, and are conceptually sound and mathematically and statistically correct. Comparison with alternative theories and approaches is a fundamental component of a sound modeling process.

1.2 Purpose of Aspirational RBC Governance Guidelines

The Governance Guidelines help ensure that RBC models adhere to their Principles and maintain their strategic foundation, with revisions to the RBC framework aimed at enhancing it and furthering the principle of 'equal capital for equal risk.' In addition, the Governance Guidelines should improve efficiency by avoiding the need to reverse-engineer the rationale behind poorly documented models. Documented processes and procedures will enable model developers and reviewers to implement changes more quickly. The transparency of the framework should also aid in understanding any model limitations, so that conclusions drawn from model results are properly informed.

1.3 Elements of the RBC Model Governance Guidelines

These Aspirational RBC Model Risk Management Guidelines are composed of six elements:

1. **Roles and responsibilities**. Maintaining and updating RBC components can involve a wide range of stakeholders. It is important that the roles and responsibilities involved in developing, implementing, monitoring, and maintaining are understood and documented (see *Section 2*). Parties are designated as the model developer, model owner, and model user.
2. **Risk-ranked model inventory.** Stakeholders should aspire to inventory models, ideally ranked by model risk rating. This could be based on the model's potential impact on insurer solvency assessment (i.e., the significance of the business practice to which the RBC model is applied), which could involve an assessment of the materiality of the model's use, an assessment of the model's appropriateness of use, with consideration given to model complexity, potential changes to business practices, and when the model was last monitored (see Section 3.3). When combined with an assessment of model revision costs, the process enables the appropriate prioritization of limited resources. Acknowledging the resources needed to inventory models, CATF and its Working Groups should consider prioritizing inventorying newly developed models.
3. **Model development guidelines**. *Section 4* includes aspirational model development guidelines that include a statement of a model's purpose and scope; criteria for selecting data and model methodologies and assumptions; model validation; and an assessment of impact and incentives. Generally, the most robust requirements will apply to the models with the potential for the highest Model Risk Ratings, while less rigorous requirements may apply to those with lower Model Risk Ratings.
4. **Model monitoring guidelines**. *Section 5* outlines guidelines for ongoing model monitoring to ensure the timely identification of models that are not suitable for use, an assessment of the materiality of their use, and an evaluation of their potential impact on solvency assessment (i.e., the significance of the business practice). The process is crucial for maintaining accurate Model Risk Ratings.
5. **Model update guidelines**. Model update guidelines provide the process to ensure that model updates are controlled, accurate, and that their impact is well understood, minimizing unintended consequences (see *Section 6*).
6. **Model documentation guidelines**. Aspirational model documentation guidelines are described in *Section 7* and ensure that model updates are appropriately documented, traceable, and understandable to qualified reviewers. Model documentation should be updated to reflect any revisions to existing models, including their assumptions, methodologies, and data inputs. Documentation guidelines include an articulation of the model's intended purpose, its appropriate use, methodologies, limitations, and associated risks.

2 Roles and Responsibilities

When relevant, parties are designated as model developers, model owners, and model users. Delegation should be documented to avoid accountability gaps.

2.1 Model Developer

RBC models are traditionally developed externally, often by the American Academy of Actuaries (Academy) or industry, and, in some cases, rely on vendor solutions.[2] Model developers can have varied backgrounds, including actuarial science and financial engineering. Their experience, judgment, and technical knowledge significantly influence the selection of appropriate inputs and processing components. The training and experience of developers exercising such judgment affect the extent of model risk. Responsibilities of Model Developers include:

- Adhering to ASOP No. 56 when applicable.
- Adhering to Model Development Guidelines (see *Section 4*).
- Adhering to Model Documentation Guidelines (*Section* 7).
- Model validation, unless there is a separate and independent model validation function (*Section 4.3*).

2.2 Model Owner

NAIC Committees, Task Forces, Working Groups, and staff can be model owners. They are responsible, possibly through delegation, for setting the threshold for aspirational guidelines, and the degree to which:[3]

- Models are identified and inventoried.
- Models are monitored and remain appropriate for use, and adhere to development guidelines.
- Models adhere to Acceptance Criteria (see *Section 4.2*), aligning with RBC Principles.
- Model Users and other stakeholders can review and potentially challenge proposed updates through the public comment process. Model owners are responsible for considering comments, ensuring that responses are documented, and resolving material concerns before adoption.
- Coordination across NAIC groups. Models underpinning RBC requirements often rely on methodologies, inputs, and assumptions that depend on or are also used in other components of the regulatory interconnected framework (e.g., Principle-Based Reserves for life companies).

2.3 Model Users

NAIC Committees, Task Forces, Working Groups, and staff, U.S. insurers, state insurance regulators, and possibly delegated organizations can be model users. Model users who are subject matter experts can provide valuable business insights during model development and play a critical role in identifying issues, proposing solutions, scoping testing, and contributing to broader model governance efforts that may not be readily apparent to regulators and NAIC staff. Model users would report issues and submit a request to update a model. Stakeholders affected by model outcomes may question the methods or assumptions underlying the models, particularly if a user is significantly affected by the outcome and does not view it as providing the necessary insights. Such questioning can be healthy if it is constructive and prompts model developers to explain and justify the models' assumptions and design. Model users' responsibilities, possibly through delegation, include:

[2] It is worth pointing out that the Academy has additional guidelines, such as *Model Risk Management*, May 2019, and the *Model Governance Checklist, Some Considerations for Practicing Life Actuaries*, April 2017.

[3] The title of a model owner was motivated by the American Academy of Actuaries' *Model Risk Management* May 2019, with concepts borrowed from SR 11-7. The title is different from GOES Model Governance, which has Conning as the model owner, the legal owner of GOES.

- Implementing models.
- Flagging model risks and governance issues, and providing independent feedback, for consideration.
- Actively engaging in the public comment process, providing a critical review of proposed revisions.
- Reviewing model update results and model documentation.

2.4 NAIC Staff

NAIC staff have a range of overlapping responsibilities, including Model Owners and Model Users. Their responsibilities can include, possibly through delegation, monitoring and maintaining the model governance framework:

- Maintain the process to review and evaluate whether RBC requirements are appropriate for use, which includes maintaining an aspirational RBC Model Inventory, described in *Section 3.3*.
- Ensuring adherence to the NAIC Open Meeting Policy and the NAIC Policy Statement: *Maintaining and Updating RBC Requirements*, as outlined in *Section 6.1*.
- Independent model monitoring (e.g., Model Office Tests).
- Bring any governance issues for consideration.

3 Aspirational Risk-Rated Model Inventory

A Model Inventory provides a structured, transparent view of the system of models and their associated model risks. It serves as the central repository for information on model ownership, purpose, appropriate use, and performance, ensuring transparency and accountability across models used in the RBC framework, and supports prioritization of limited regulatory time and resources when maintaining and updating RBC components, consistent with the materiality of models and their potential impact on solvency assessment. Acknowledging the resources needed to inventory models, CATF and its Working Groups should consider prioritizing inventorying newly developed models.

A model risk rating framework categorizes models according to their relative model risk. Models are assigned a risk rating (high, medium, or low) based on the materiality of their use and their potential impact on solvency assessment (i.e., the significance of the business practice to which the RBC model is applied), an assessment of the model's appropriateness of use, with consideration given to model complexity, potential changes to business practices, and when the model was last monitored. Models that are assigned a high-risk rating may be subject to heightened requirements, including the possibility of developing their own model risk management guidelines (e.g., as is the case with GOES). Models that are assigned a low-risk rating may be subject to lower governance requirements.

Appendix 10.1 - Aspirational Model Inventory Fields provides potential fields that CATF and its Working Groups should consider tracking. Editing rights are limited to NAIC staff and any delegates.

4 Model Development Guidelines

Model development guidelines help ensure model design and estimation align with their intended purpose, using sound methods that conform to industry standards, appropriate data and assumptions, and sufficient testing to ensure technical correctness and reliability. Model development guidelines encompass a statement of the model's purpose and scope, guidelines for selecting data and methodologies, model validation, and an assessment of the model's impact and incentives.

RBC models are traditionally developed externally, underscoring the need to uphold a minimum standard for model development. In some cases, the RBC model relies on vendor solutions, requiring ongoing updates (e.g., annual), as is the case with CAT-risk or applications of GOES within C-3. Models that are material, assessed as having the

potential for a high risk rating, and require ongoing updates should have model development guidelines articulated within their model risk management guidelines, including processes for routine and more extensive model updates.

4.1 Model Purpose and Scope

As articulated in SR-11-7, *[a]n effective development process begins with* ***a clear statement of purpose to ensure that model development is aligned with the intended use***. The statement ensures that the model can be developed to align with its purpose.

4.2 Selecting Data and Model Methodologies and Assumptions

The appropriateness of the model depends heavily on the selection of data and the methodologies used. Data should be relevant, sufficiently reliable, and consistent with the model's intended purpose. Actuarial judgment is required to determine whether internal or external data, proxies, or expert judgment are suitable for the situation, and whether any limitations materially affect the results. Assumptions should be clearly aligned with observed experience or credible sources, with justification provided for their use, particularly where uncertainty or estimation risk is high. The methodology should reflect an understanding of the system being modeled and account for known sensitivities and limitations. As explained in SR-11-7, *[t]he design, theory, and logic underlying the model should be generally supported by published research and sound industry practice*.

The model selection process is intended to ensure alignment with the intended purpose. It can include **Acceptance Criteria** comprised of **Quantitative Guidelines** that serve as aspirational benchmarks for what an RBC component is intended to measure (e.g., statistical safety level) and other quantitative metrics, such as statistical precision thresholds, as well as qualitative features agreed upon as a minimum benchmark for a model's suitability for its intended purpose. If one or more criteria fail, it may indicate that a revision to the model is necessary. However, judgment is required in making this decision. It may also include an evaluation of alternative models or methodologies, consideration of model complexity in relation to the problem being addressed, assessment of the availability and quality of input data, and alignment with relevant standards. This process may involve a review process to ensure that the selected model is appropriate for its intended use.

The selection process should assess individual components and the overall functioning within the RBC framework, taking into account potential dependencies and interactions. The process should confirm that the model is accurate, robust, and stable as intended, and that it meets the standard of reasonableness in both its individual assumptions and their aggregate effects on output. This process overlaps with model validation.

4.2.1 Emerging risks

New and emerging risks, by their nature, often lack long historical data series, stable relationships, and well-established methodologies. As a result, greater reliance may be placed on external data sources, scenario analysis, expert judgment, proxies, and simplified or interim modeling approaches, with an existing RBC charge possibly applied at regulators' discretion. Examples include catastrophe and climate-related risks, cyber risk, and new asset classes and evolving investment trends, such as the increased use of alternative assets.

When modeling emerging risks for RBC purposes, data limitations, structural uncertainty, and heightened estimation risk should be acknowledged. Assumptions and methodologies should be transparent, conservatively framed where appropriate, and clearly linked to the intended purpose of the solvency assessment rather than precision or pricing accuracy. The absence of credible data should not preclude inclusion of a risk in RBC; however, it should inform the choice of methodology, the degree of model complexity, and the interpretation of results.

For emerging risks, Acceptance Criteria may rely more heavily on qualitative benchmarks, directional reasonableness, sensitivity testing, stress scenarios, and comparisons to alternative approaches rather than strict statistical calibration targets. The development process should assess whether the model reasonably captures the transmission of the risk to solvency under adverse conditions, including tail behavior and potential interactions with other risks, even if parameter estimates are imprecise.

Given the evolving nature of emerging risks, models addressing them should be subject to more frequent review and updating, with explicit plans for incorporating new data, research, and industry experience as they become available. Interim solutions may be appropriate, provided their limitations are documented, their use is clearly bounded, and their continued appropriateness is reassessed as the risk matures and becomes better understood.

4.3 Model Validation

Model validation provides assurance that the model is conceptually sound, empirically reliable, and operationally correct. In some cases, independent model validation may be warranted. Validation includes two complementary categories: Empirical validation of conceptual soundness and validation of model delivery.

4.3.1 Empirical validation of conceptual soundness

Empirical validation assesses whether the model's underlying structure, assumptions, and parameterization accurately represent the economic reality the model is intended to describe. Recognizing that the RBC requirements are often heavily based on judgment, key elements can include:

- **Back-testing**. Compare model-generated variables to realized historical values over multiple horizons.
- **Quantify predictive accuracy using defined statistical measures** (e.g., mean error, root-mean-square error, coverage probability, calibration slope).
- **Evaluate whether deviations fall within pre-established tolerance ranges**, such as persistent bias or excessive volatility triggers.
- **Empirical fit and distributional testing** assess whether simulated distributions of key variables align with historical distributions through appropriate statistical techniques. It can involve assessing moments (mean, variance, correlations) and tail characteristics that are consistent with economic history and with the model's theoretical design.
- **Benchmark comparisons** assess the model's performance against generally accepted points of reference.
- **Sensitivity and stability testing** verify that output responses are directionally and quantitatively consistent with expectations or benchmarks.
- **Component and comprehensive soundness** ensure individual modeling choices are sound and their interactions produce an overall framework with intended dynamics.

4.3.2 Validation of model delivery

Validation of model delivery ensures that the implemented model, data processes, and control framework accurately execute the intended methodology and deliver reliable results for end users. Key components include:

- **Input validation**. Input validation may include reviewing source data to ensure its robustness and appropriateness for model development.
- **Calculation validation**. Calculation validation may include validation of model components, ranging from independent full model replication and independent sample calculations to process approximation, formula inspection, testing of interim calculations, and verification of results. In addition to the Model Developer's calculation validation, Model Owners can perform independent user acceptance testing for any software modifications required to implement the NAIC model.
- **Output validation.** For models that require ongoing updates, output validation may be based on the analysis of scheduled outputs.

4.4 Impact Assessment

Impact assessments evaluate the potential effect of model changes, updates, or newly developed models on results, decisions, and regulatory outcomes. Its purpose is to ensure that model modifications are well understood prior to implementation and that stakeholders can assess whether the resulting output remains reasonable, stable, and aligned with the model's intended purpose, thereby limiting unintended consequences.

Impact assessment activities should be commensurate with the model's materiality and risk rating and should include both quantitative and qualitative evaluations. Where applicable and practical, the analyses should include an assessment of changes to an RBC component and the overall impact on RBC requirements, incorporating interactive effects within the framework to ensure accuracy and reliability. Given the need to sequence activities and the potentially significant effort required for some impact analyses (e.g., Field Testing), the scope of impact assessment should be planned for as soon as practicable. Key elements include:

1. **Regression testing**. Regression testing should be performed to confirm that model changes produce expected and explainable differences relative to the prior approved version of the model. The analysis should isolate the impact of the specific change(s), verify that unchanged components continue to behave consistently, and identify any unintended effects or anomalies. Results should be compared against baseline outputs to ensure that differences are attributable to the intended model modifications and that overall results remain reasonable, stable, and aligned with the model's design.
2. **Sensitivity and benchmark analysis**. Sensitivity and benchmark analysis should be used to evaluate the stability of model results to changes in key assumptions or inputs and to compare outputs against historical experience, prior model versions, or peer benchmarks. The assessment should quantify and explain material differences, ensure that observed changes are justifiable, and confirm that the model continues to meet its intended purpose.
3. **Documentation and Governance Review**. All impact-assessment results, assumptions, and conclusions should be documented and reviewed by the Model Owner and Model Users prior to implementation.
4. **Model Office Testing**. Model Office Testing can be conducted on stylized or representative business activities prior to implementing a material model update to help assess model performance, directional accuracy, and potential implications to capital requirements or reported results.
5. **Industry Field Testing**. Industry Field Testing can be conducted on stylized business activities prior to implementing material model updates to assess model performance, consistency, and comparability across insurers. Such testing can provide insight into systemic effects, calibration consistency, and whether further refinements or parameter adjustments are warranted before adoption.

4.5 An Assessment of Incentives

RBC requirements, by design, differentiate capital charges according to the risk profile of business activities, whether those activities involve policy offerings, investment strategies, or other risk exposures. Material regulatory requirements can influence insurers' behavior, affecting product design, investment strategies, reinsurance strategies, and competitive dynamics.[4] These effects may be desirable and deliberately considered in model development as an acceptance criterion (for example, remove disincentives to prudent hedging in Life RBC C-3).
Therefore, material RBC model updates should include a qualitative assessment, and, where practical, a quantitative assessment, of reasonably foreseeable and material resulting incentives, along with their implications. The assessment should be proportionate to the incentive's materiality. Reasonably foreseeable and material resulting incentives can include:

- **Risk management**, including prudent hedging.

[4] See, for example, *Efforts to Reform NAIC Investment Guidelines: Lessons Learned from History*, Bridgeway Analytics, 2023.

- **Product design and policyholder impact**, including potential effects on pricing, product availability, or distribution.
- **Market and competitive effects**, including disproportionate impacts across identifiable insurer segments.
- **Alignment with NAIC Policy Objectives**, beyond maintaining solvency protection, such as promoting fair competition and supporting access to insurance.
- **Broader systemic and operational considerations**, including changes in asset allocation, reinsurance strategies, or cross-sector risk exposures.

5 Model Monitoring Guidelines

This section outlines aspirational guidelines for ongoing model monitoring to ensure the timely identification of models that are not suitable for use, an assessment of the materiality of their use, and an assessment of their potential impact on solvency assessment (i.e., the significance of the business practice). The process is crucial for maintaining accurate Model Risk Ratings. When combined with an assessment of model revision costs, the process enables the appropriate prioritization of limited resources.

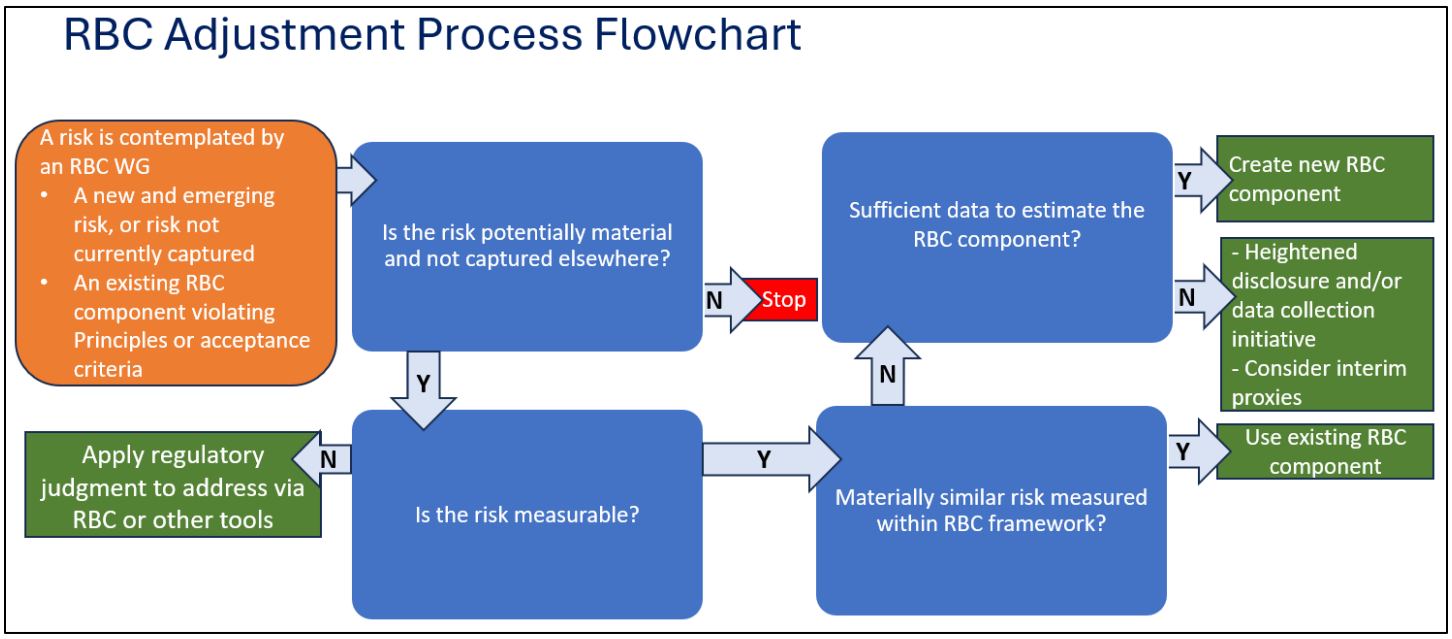
5.1 New Models & Assessing Risks to be Included in the Framework

RBC requirements are one tool in the broader solvency oversight framework. It enables regulators to take corrective measures to ensure policy obligations are met, while acknowledging that not all risks can be accurately measured by a formulaic capital charge. When a risk is identified as not captured in a model or the broader RBC framework, an assessment is needed to determine whether RBC is the most appropriate tool for identifying and overseeing it. The assessment should consider whether the risk is best governed by another tool within the framework, such as ORSA processes, or is primarily idiosyncratic and best managed through company-specific governance or supervisory review.

Figure 1 provides a schematic of key considerations when adjusting the RBC formula. The first considerations are materiality and whether the risk is not captured elsewhere in the framework. The next consideration is whether the risk is measurable and materially similar to risks already measured within the framework. Finally, whether sufficient data exists to estimate an RBC component is available, and whether heightened disclosure is needed.
The flowchart highlights the need for regulatory judgment and the possible need for interim proxies. The flowchart builds on concepts from the Academy's *Principles for Structured Securities RBC*, as well as the *Asset Concentration Flow Chart*, which provides a non-authoritative framework for evaluating whether specific asset-related exposures should be reflected in the RBC formula or addressed through other supervisory tools, such as targeted examinations, stress testing, or qualitative risk assessments. It assists regulators and industry participants in determining:

- Whether a given exposure represents a quantifiable risk suitable for inclusion in the RBC calculation;
- Whether the exposure is already captured elsewhere in the framework (e.g., credit, market, or operational risk components); and
- Whether it should instead be managed through governance, disclosure, or supervisory review mechanisms.

Figure 1: Key considerations when adjusting RBC formula



5.2 Monitoring an Existing Model & Model Incidents

Monitoring an existing model for its appropriate use involves assessing its attributes against **Acceptance Criteria**, which include quantitative metrics such as **Quantitative Guidelines** and **Qualitative Features** agreed upon as a minimum benchmark for a model's suitability for its intended purpose. Examples of Quantitative Guidelines include the statistical safety level or risk horizon used in estimating the model.

When a model fails to meet its acceptance criteria, possibly because a model or operational error is identified or the model is no longer applicable to the current environment, an assessment should be documented as described in *Section 5.6*. As discussed in *Section 4*. If one or more criteria fail, it may indicate that a revision to the model is necessary. However, judgment is required in making this decision.

Notably, if a model or operational error is identified (i.e., a model incident), the documentation should include a proportional assessment of the root causes and the necessary controls to prevent the error from recurring (i.e., "Postmortem").

5.3 Model Monitoring Frequency

Model monitoring frequency should be specific to each model and closely tied to its risk rating, intended use, and the materiality of its output. Detailed should be inventoried. Higher-risk or higher-materiality models should be monitored more frequently, while lower-risk models may require less frequent review. CATF and its Working Groups should determine a minimum cadence for monitoring models (e.g., every 10 years), and when there is a significant increase in the materiality of its use (see *Section 5.4*), either for the industry as a whole or for an identifiable segment of companies.

5.4 Model Update Cost Assessment

Ideally, a model identified as unsuitable would be accompanied by a description and an assessment of the effort/cost required to revise it to at least the point where it aligns with its intended purpose and adheres to these

Model Risk Management Guidelines. The assessment and cost estimates should align with the requirements outlined in the Model Development Guidelines in *Section 4*.

However, as discussed in *Section 4*, RBC models are traditionally externally developed and, in some cases, rely on vendor solutions. Unless a model has its own model risk management guidelines, an estimate of the revision cost is likely not easily attainable, and significant judgment will be needed to incorporate any cost estimate into prioritization decisions.

5.5 Model-Use Materiality Assessment

An assessment of model-use materiality involves quantifying its application and its potential impact on solvency assessment (i.e., the significance of the business practice to which the RBC model is applied). Model use can be deemed material when it has the potential to meaningfully impact a regulator's assessment of solvency risk for all companies or an identifiable segment of companies. Quantitative thresholds, such as the proportion of liabilities, premiums, or RBC requirements that are influenced by the model's output, may be used to support the materiality assessment.

5.6 Communicating Model Monitoring Results and Inventory

To the extent prioritized, results from model monitoring and model incidents, including the model's risk rating, are documented and recorded in the model inventory as outlined in *Section 3.3* and *Section 10.1 – Appendix: Aspirational Model Inventory and Monitoring Fields*, which is intended to streamline the prioritization of limited resources. Significant shortcomings should be communicated to Model Owners, Model Users, and Model Risk Governance stakeholders in a manner that CATF and its Working Groups see fit.

6 Model Update Guidelines

CATF and its Working Groups will determine the process for updating each model, beyond any applicable Model Risk-Inventory, Development, and Documentation Guidelines (*Sections 3, 4, and 7*), and the nature of the update.

6.1 Model Updates

Models are updated for a range of reasons, including r**outine scheduled updates, model enhancements, model corrections, or cosmetic updates**. CATF and its Working Groups will determine the necessary governance, taking into account complexity (e.g., coordination with a vendor) and materiality. For example, the governance needed for changes in reporting lines that do not impact RBC requirements may be limited to updating the model inventory, if applicable. The following process generally applies to model updates:

1. Requests to update models may be scheduled or initiated by members of CATF or its Working Groups or Subgroups, Interested Regulators, or Interested Parties.
2. If applicable, assigned and inventoried a Model Risk Rating and Model Revision Cost Assessment as outlined in *Section 5*.
3. If and when the NAIC Committee Structure determines that a model update is warranted, roles and responsibilities are assigned. Scheduled updates would already have this in place.
4. Considerations for Model Risk will help CATF and its Working Groups determine the applicability of Model Development Guidelines, including acceptance criteria, and Model Documentation Guidelines.
5. A completed *RBC Proposal Form* that should follow the *RBC Proposal Instructions*.
6. Accessible vendor model, when applicable (e.g., CAT-risk or GOES within C-3).
7. Reviewed, considered, and adopted through the NAIC committee structure.

6.2 Models with Ongoing Scheduled Updates

In some cases, models require ongoing updates (e.g., annually), as with CAT-risk or GOES applications within C-3. In such instances, roles and responsibilities, as well as processes such as routine and more extensive model updates, documentation, training, and user support, should be agreed upon by stakeholders. Consideration should be given to the following roles and responsibilities:

- **Vendor (Model Developer).** The nature of models that require ongoing updates often means they rely on production environments. Those environments should generally have management controls, with separation of duties (e.g., signoff from the development team to advance the model from the development environment to the testing environment; signoff from the testing team that testing was completed and reviewed; and signoff that the tested model was moved successfully to the production environment). Vendors should provide those details, which should generally reside in the model's own Model Risk Management Guidelines. The model developer is responsible for ensuring that scheduled model updates comply with the Model Development and Documentation Guidelines, including cases in which only model parameters are updated. Careful consideration should be given to:
    - Model validation and model performance.
    - Impact assessment, including Field Testing and Model Office Testing with sensitivities to needed resources.
    - Model user support, including summary reports on the frequency and types of questions submitted, and steps taken to address any concerns.
    - Model documentation, with sensitivities to any proprietary aspects of the model.
    - Processes for non-scheduled model updates when unexpected errors arise.
    - Training Materials for the Model Users.

  Vendors should generally be required to provide an attestation to NAIC staff that the above controls are in place and being performed. Vendors should expect to attend NAIC meetings as needed to respond to questions and comments received during the exposure period.
- **Model Owner and Model User, including NAIC staff**. Models that require ongoing updates can be complex and include many interdependent components. Careful consideration should be given to roles and responsibilities with:
    - Model identification and inventory.
    - Model adherence to Development, Monitoring, Update, and Documentation Guidelines.
    - Independent model monitoring (e.g., Model Office Tests)
    - Coordination across Model Users, including across NAIC groups.
    - Bringing any model risks and governance issues, and providing independent feedback, for consideration.
    - Possibly performing independent analysis and benchmarking.
- **NAIC Committee Structure (Model Owner)**. Reviews and adopts all scheduled model updates, including model recalibrations and changes to acceptance criteria.

7 Model Documentation Guidelines

The Model Documentation Guidelines help ensure that model updates are appropriately documented, traceable, and understandable to qualified reviewers. Model documentation must be updated to reflect any revisions to existing models, including their assumptions, methodologies, and data inputs. When applicable, the model developer is responsible for completing the documentation, and the model owner is responsible for reviewing and approving it.

Acknowledging that models vary significantly in their potential Model Risk Rating and complexity, documentation requirements will depend on the model's purpose, risk classification, and degree of reliance within the RBC

framework. Higher-risk or more complex models will require a greater depth of documentation, particularly in areas such as methodology, assumptions, and validation.

Models should aspire to be documented in sufficient detail to enable an independent reviewer to understand, replicate (where practical), and evaluate the model's design, inputs, assumptions, and outputs.
The key components of model documentation are detailed in *Section 10.2* and include:

1. Model Description, Intended Purpose, and Intended Use
2. Methodology and Assumptions
3. Data Choice and Use
4. Limitations and Risks
5. Validation and Sensitivity Analysis
6. Resource Repository (Key Definitions, Model Related Files, Key Contacts)
7. Vendor and Third-Party Models (relevant for models that are regularly updated)

8 Maintenance of the Model Risk Management Guidelines

The need to regularly maintain the RBC Model Risk Management Guidelines is particularly relevant for models that are updated frequently, especially those that are dynamic and face operational complexities, including coordination among regulators, a vendor, and the industry (e.g., GOES). Thus, the RBC Model Risk Management Guidelines should be reviewed by CATF and its Working Group and updated as they see necessary. The process for maintaining and updating the Guidelines should aspire to follow the practices laid out within this document.

9 Reference Documents

The following documents were used as references in the creation of this model governance document:

1. *Model Governance Checklist*, August 2016 American Academy of Actuaries, Principle-Based Reserves Checklist Subgroup.
2. *Actuarial Standard of Practice No. 56 Modeling*, Actuarial Standards Board, December 2019.
3. *Supervisory Guidance on Model Risk Management* (*SR 11-7*), Board of Governors of the Federal Reserve System Office of the Comptroller of the Currency, April 4, 2011.
4. *Model Governance Some Considerations for Practicing Life Actuaries*, Model Governance Practice Note Work Group of the American Academy of Actuaries, April 2017.
5. *Model Risk Management*, Model Risk Management Work Group of the ERM/ORSA Committee of the American Academy of Actuaries, May 2019.
6. *NAIC Policy Statement on Open Meetings*, April 1, 2024, NAIC.
7. *Accounting Policies and Procedures Manual*, March 2025, NAIC.
8. *Draft GOES Model Governance*, NAIC GOES (A/E) Subgroup.
9. *RBC for Insurers Model Act (Model Law 312)*, NAIC 2012.
10. *RBC for Health Organizations Model Act (Model Law 315)*, NAIC 2021.

10 Appendix

10.1 Aspirational Model Inventory and Monitoring Fields

Model Inventory Fields

- **Model name**
- **Model use identifiers**
    - Include RBC Instructions reporting lines
    - Include ASI and ASB reporting lines

  - Include relevant SAPs, any relevant dependencies on the VM and/or P&PM
- **Model documentation and summary of key fields**
  - Model description
  - Model intended purpose and use
  - Dates last updated
  - Summary of key updates since the previous update
  - Links to documentation
  - Any associated model risk management guidelines specific to the model (e.g., GOES)
- **Model status.** Under development, proposed, adopted & future effective date, adopted & active, actively monitored, model update requested, or inactive.
- **Roles and responsibilities, and key points of contact, including any relevant vendors**
  - Model developer and validator if relevant
  - Model owner
  - Model user
- **Model Monitoring**
  - Model monitoring schedule and frequency
  - Model Risk Rating and rationale for the rating
  - Model monitoring status. A summary of the model assessment against Acceptance Criteria, including Quantitative Benchmarks and metrics, and qualitative features agreed upon as a minimum benchmark for a model's suitability for its intended purpose and appropriate for use.
  - The date and results of the most recent monitoring and any corrective actions.
  - The data and results of the most recent model-use materiality summary.
  - Link to Model Monitoring Results Document
- **Model Update Requests and scheduled model updates**
  - Model Update Category
  - Model Update Request sponsor
  - Link to Model Update Request Document and any results associated with the update analysis
  - Model Update Cost Assessment
  - Vendor Model (Y/N)
  - Scheduled Update (Y/N)
  - Off-Schedule Update Rationale
  - Target date adopted.
  - Effective or target effective date.
  - RBC Proposal Form status and date adopted, exposed, rejected, deferred, referred to another group, or other)
  - Link to RBC Proposal Form

<u>Model Monitoring Fields</u>

- Monitoring schedule and frequency
- Model Risk Rating and rationale for the rating
- Model monitoring status and model incidents. An assessment of the model against Acceptance Criteria, including Quantitative Benchmarks and Qualitative Features, agreed upon as a minimum benchmark for a model's suitability for its intended purpose and appropriate for use. It includes any model incidents, with a proportional assessment of the root causes and the necessary controls to prevent the error from recurring (i.e., "Postmortem").
- The date and results of the most recent monitoring and any corrective actions.
- Model-use materiality summary.
- The latest date and extent to which materiality was assessed

- Link to Model Monitoring Results Document

10.2 Model Documentation

The key components of model documentation include:

1. Model Description, Intended Purpose, and Intended Use
2. Methodology and Assumptions
3. Data Choice and Use
4. Limitations and Risks
5. Validation and Sensitivity Analysis
6. Resource Repository (Key Definitions, Model Related Files, Key Contacts)
7. Vendor and Third-Party Models (relevant for models that are regularly updated)

10.2.1 Model Description, Intended Purpose, and Intended Use

- A description and overview of the model.
- Intended purpose and appropriate use. The model's objective, RBC component(s) it supports, and intended use boundaries.
- Model architecture. High-level structure (modules, sub-models), workflows, and computational methods.

10.2.2 Methodology and Assumptions

- Documenting key methodologies selected, through mathematical articulation, equations, and/or documenting pseudo-code to illustrate the methodology behind critical calculations.
- Documentation of key assumptions and justifications. Articulation and justification of key assumptions. If data and information are not representative of industry standards or if assumptions are made to adjust them, these factors should be properly tracked and documented so that users are aware of potential limitations. Documenting methodologies adopted for calibration and parameterization. Detail parameter choices, sources, calibration processes, and tuning decisions.
- Approximations and proxies: Document any key identification and methodologies for quantification (where possible) of any material simplifications or expert-judgment substitutions.
- Model-selection rationale. Document explanation of methodological or parameter-setting choices when alternatives exist.

10.2.3 Data Choice and Use

- Data choice. Document the rationale for the selected data and highlight any exclusions.
- Input specifications. Define the data elements, formats, frequency, and sources.
- Data lineage. Document change management and methodologies adopted, such as tracing data transformations from the original source to the final input, and the reconciliation checks conducted to ensure accuracy and the success of the data transformation.
- Quality Controls. Procedures for accuracy, completeness, reconciliation, and error handling.

10.2.4 Limitations and Risks

- Model limitations. Description of known constraints and conditions under which the model may be unreliable.
- Model risks. Documentation of known or potential misuses and the expected magnitude of impact, where quantifiable.

10.2.5 Validation and Sensitivity Analysis

- Performance assessment. Summary of validation activities, including documenting types of benchmarking, back-testing, and assessments of performance conducted. This may include documenting the selection and relevance of particular historical scenarios in such assessments.
- Stress and scenario test summaries. Documentation of test design, key results, and sensitivity of outcomes to major assumptions.

10.2.6 Resource Repository (Key Definitions, Model Related Files, Key Contacts)

- Glossary and acronyms. Define all specialized terms.
- File storage and naming conventions. Identification of storage locations for documentation, source code, and data files, with version control procedures.
- Contact information. Identify subject-matter experts for clarifications.

10.2.7 Vendor and Third-Party Models (relevant for models that are regularly updated)

1. **External documentation**.
    a. Attach or reference vendor manuals, model library documentation, or other technical papers describing methodologies, calibration processes, or validation procedures.
    b. Include or reference relevant training materials for users and maintainers.
2. **Modeling platform and environment**
    a. For models that require ongoing updates, specify hardware/software requirements, version numbers, and dependencies.
    b. Provide step-by-step guidance for executing the model.
    c. Where results are not expected to be fully reproducible (e.g., reliance on vended data that may be restated), explain why and describe how consistency is monitored.
3. **Model and data updates**
    a. Describe how and when input data are refreshed.
    b. Maintain change logs for methodology, code, or parameter updates.
    c. List expected outputs, units, and acceptable ranges.
    d. Document validation checks on outputs, including reconciliations to benchmarks, prior runs, or independent sources.

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

NAIC

Attachment D

A reminder of current initiatives

Several significant long-term initiatives that regulators have prioritized:

- **Life RBC**
  - RBC Covariance (possibly related to the portfolio adjustment function (PAF)/size factor)
  - Structured Securities Project (with the Academy) (possibly related to the PAF/size factor)
    - Refinements to the CLO RBC C-1 factors, including possible differentiation of MM CLOs
  - RBC C-3 Harmonization & GOES (with the Academy and Conning)
  - Longevity risk (with LATF)
- **Property & Casualty RBC**
  - Climate-related catastrophe risks, including severe convective storms (SCS) and broader climate hazards.
  - R-4 (Reserve Risk) & R-5 (Premium Risk) Loss/Premium Concentration Factors
- **Health RBC**
  - H-2 Underwriting risk charge (with the Academy), managed care credit
  - Stop loss assessment
  - Long-term care assessment

Attachment D

RBC Component (in no particular order)	Description	Materiality benchmark (2025)	Effort
Life reinsurance transactions	While RBC includes a reserve credit and recoverables charge, they are coarse. In addition, the use of arrangements in non-Reciprocal jurisdictions has grown. Thus, the need to assess risks and RBC treatment.	Reserve credit and ModCo has reached ~$2.85 trillion, with ~$135 billion for non-Reciprocal jurisdictions.	Significant
P&C reinsurance transactions	While RBC includes counterparty recoverables charge, by credit quality and collateral, arrangements in non-Reciprocal jurisdictions and nontraditional reinsurance have grown. Thus, the need to assess risks and RBC treatment.	Ceded reserves to non-Reciprocal jurisdictions reached $42 billion in 2025.	Significant
Life residential mortgage loans	Residential mortgages can range from a few hundred thousand to a several hundred million dollar townhouse development that can face significant differences in their risk characteristics. An assessment of whether the current 68 bps charge (~A-rated corporate bond), which was not empirical-based, accurately reflects the risks is needed.	Residential mortgages reached ~$150 billion, exhibiting significant growth, over 30% in 2025. In 2018, holdings were $18 billion.	Moderate
RMBS and CMBS	1. RMBS & CMBS Intrinsic Price (IP) Designations have characteristics that deviate significantly from agency ratings, including having a maturity effect. 2. An assessment of whether corporate C-1 bond factors are appropriate for Life RMBS and CMBS RBC is needed, with considerations for their unique structural features.	1. IP Designations are estimated to result in A2-rated 5-year tranche receiving over 40 times the capital of A2-rated 1-year tranche. 2. CMBS at $148 billion and RMBS at $133 billion (9th- and 10th-life asset classes)	1. Moderate 2. Significant
Life RBC Covariance, including the treatment across asset classes, and the portfolio adjustment factor	Life RBC Covariance assumptions are coarse, generally set at 100% or 0%, which clearly don't reflect reality. Furthermore, the current simplistic structure does not lend itself to recognizing diversification or concentration risks across the broad set of assets that face disparate risks (e.g., corporate, municipal, and consumer backed securitizations). An assessment of the RBC Covariance structure (e.g., cross asset class) and parameters is needed.	A hypothetical insurer with 3% of its portfolio invested in common stock would have its RBC drop from 446% to 384% if, say, common stock-bond correlations of 50% were used, as is the case with Solvency II.	Significant

RBC component (in no particular order)	Description	Materiality benchmark (20025)	Effort
P&C Rcat correlation	Correlations among hurricane, wildfire, and severe convective storm risks to be assessed and update the Rcat calculation formula accordingly.	SCS exposures have grown materially, from $19 billion in 2019 to $47 billion in 2024.	Significant
H-2 Underwriting Risk	Underwriting risk factors need to be assessed and updated, including diversification credit, stop-loss, LTC, and managed care credit.	Direct incurred claims + change in contract reserves = $1.278 trillion • Stop-loss = $34.2 billion • LTC = $23.3 billion • Managed care credit proxy = $1.03 trillion	Significant
Life principle-based capital (RBC C-3)	While the current focus on revising C-3 has been on fixed and variable annuities, and life products that are single-premium, there hasn't been a recent significant effort to align RBC C-3 calibration for life products that are not single-premium. Life recurring-premium and other products are subject to static factors, which should be modernized and principle-based.	At well over $1 trillion, non-single-premium life policies are significant, constituting most life policies. C-3 constitutes roughly 6.5% of Life RBC.	Significant
Life RBC factor-Designation grid mismatch	Schedule D-1 bonds use the granular 20-class C-1 grid. Schedule BA fixed-income is charged the *coarse pre-2021 6-class* grid and the 2021 PAF, which should be assessed for possible update.	Most Schedule BA Designations 1 ($27 billion) and 2 ($11 billion) receive a lower RBC charge, which can be less than 50% if reported on Schedule D-1.	Moderate
Life investment valuation-basis mismatch	Applying bond and mortgage factors to Schedule BA debt may not be appropriate, which needs reviewing, given mismatched valuation. For example, Schedule B mortgages, generally measured at amortized cost, while Schedule BA funds are measured under U.S. GAAP equity method.	The carrying value of Schedule BA commercial mortgages, for example, is $32 billion, 32% of which are valued below cost, with an average markdown of -20%.	Moderate

Gaps & inconsistencies: Model governance

While detailed direction has not been provided on model governance, the proposed process for identifying and prioritizing gaps & inconsistencies does follow the spirit of the formative *RBC Model Risk Management Guidelines* that Bridgeway compiled and reviewed with industry stakeholders.

The Drafting Group acknowledged the benefits of formalizing coordination across the various Task Forces and Working Groups.

The Drafting Group explored questions related to governance in almost every session, keeping in mind notable points from commenters:

- The question of how RBC charges are set and whether there is a better assignment – examples that were discussed:
  - Life investment valuation-basis mismatch that was included on the list, where, for example, CM factors from Schedule B are applied to Schedule BA mortgage funds.
  - 'Other' categories may be too broad, such as JV, LLC, LP – Other, or **Other Financial-Backed ABS Self-Liquid with Other Collateral** ($41 and **$125 billion life holdings in 2025, respectively)**, given the differentiated risks.
- Whether the prioritization process is sound, and whether a more formal process is needed for new asset classes to receive dedicated capital charges?
- What process should be followed when assessing whether RBC charges need re-evaluation?

Additional discussion is needed to assess how the processes should be structured.

Areas warranting further study

1. **Operational risk charge**. The operational charge (3% x RBC before the operational charge) is not based on an empirical study. The Drafting Group agreed that both qualitative and quantitative assessments of the risks were needed and that the concept needed to be better defined. However, the Drafting Group acknowledged significant challenges, including a possible costly data collection effort. While it was worth conducting a literature review to assess whether there are recent studies on the matter, the Drafting Group concluded the risk was not obviously material. 2025 RBC operational risk totals: (a) ~$0.6 billion (net of C-4a) for Life RBC, (b) ~$14 billion for P&C RBC, and (c) ~$2.7 billion for Health RBC. The effort is expected to be significant.

2. **RBC outliers**. An analysis of companies with high RBC ratios, breaking down how they allocate total available capital and the authorized control-level RBC, could identify some RBC gaps. The effort is expected to be moderate.

Items the Drafting Group did not prioritize at this time (1 of 2)

- **Health reinsurance.** The Drafting Group did not view health reinsurance as a material or emerging risk, although recent growth suggests it warrants monitoring. In 2025, incurred claims + change in contract reserves = $1.3 trillion, with reinsurance recoverables at under $30 billion.
- **Limitations with the Health RBC formula**. RRC's comment letter included several limitations with the Health RBC formula (Attachment Three). While the Drafting Group did not disagree with the list, there was no accompanying assessment of materiality, nor was there an immediate way for the Drafting Group to assess materiality. As with other items, stakeholders advocating for prioritizing updates to the RBC formula should provide a materiality assessment.
- **Significant variation in the calibration of Life RBC investment components**. Athene's comment letter (Attachment Three) highlighted significant variation in model calibration across bonds, commercial mortgages, residential mortgages, real estate, common stock, and other asset classes, including the risk horizon, statistical safety level, Statutory Accounting, discounting, reinvestment, and other modeling features. For example, commercial real estate mortgage CM factors were estimated at a 92% VaR, while the C-1 bond factors were estimated at a 96% VaR. *2021 Revisions to the RBC C-1 Bond Factors.pdf* demonstrates the difference can be significant, with C-1 VaR 96% factors ~40% – 80% higher than VaR 92%. While the Drafting Group acknowledged the variation in calibrations, regulators pointed to deliberate decisions (such as those involving different time horizons) to deviate from benchmarks (e.g., VaR 96) and noted that such deviations alone were insufficient to justify prioritizing updates to those components. As with other items, stakeholders advocating to prioritize an update to the RBC formula should provide an assessment of materiality.

Items the Drafting Group did not prioritize at this time (2 of 2)

- **Life policyholder behavior risk**. RRC advocated for the modeling of behavioral risk. While the Drafting Group did not disagree with RRC that behavior risk was important, embarking on the effort was viewed as too significant in the context of the other priorities.
- **Business practices, including concentrated investment strategies for an identifiable segment of companies**. Several business practices were identified for segments of the industry that the Drafting Group felt were better addressed elsewhere in the framework or were sufficiently narrow that they could be addressed by a state insurance department rather than by utilizing limited RBC resources.
- **P&C, Lines subject to tail risk (e.g., Personal Injury Protection or mass tort), smaller companies increased underwriting risk, and cat risk adjustment does not address all perils (e.g., Severe Convective Storms)**. RRC raised several limitations with the P&C formula, many of which the Drafting Group felt may be legitimate candidate items but required more details and an assessment of materiality.

REINSURANCE ASSOCIATION OF AMERICA

September 25, 2026

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
North Dakota Insurance Department
National Association of Insurance Commissioners

Re: August 13 Exposure – Potential RBC Gaps and Inconsistencies: P&C Reinsurance Transactions

Dear Commissioner Godfread:

The Reinsurance Association of America (RAA) appreciates the opportunity to comment on the Risk-Based Capital Model Governance (EX) Task Force's August 13 exposure of potential RBC gaps and inconsistencies. RAA's comments focus on the potential gap identified for P&C reinsurance transactions involving non-Reciprocal Jurisdictions and nontraditional reinsurance arrangements.

RAA supports the Task Force's objective of identifying material solvency risks that may not be appropriately addressed by RBC. However, the RAA does not believe the current analysis does not establish that P&C reinsurance involving non-Reciprocal Jurisdictions represents a material RBC gap.

Bridgeway's analysis recognizes that P&C RBC already includes a rating- and collateral-sensitive counterparty charge and that unauthorized reinsurance generally requires collateral to support statutory reserve credit. It separately raises the possibility that, if a significant reinsurer fails, the cedent may need to reassume the business and source additional Capital & Surplus to support the resulting RBC requirements, even where the ceded reserves were fully collateralized. Bridgeway also states that further exploration is needed to identify the relevant business practices, risks and regulatory safeguards.

RAA believes that further analysis should begin with the safeguards already applicable to transactions with non-Reciprocal Jurisdictions. Those transactions do not automatically create unsecured statutory credit. Depending on the status of the assuming reinsurer, the cedent must obtain qualifying collateral to support the statutory credit claimed or the reinsurer must qualify for rating-based collateral treatment under the Certified Reinsurer framework. The amount, form, quality, custody and accessibility of collateral are prescribed by state credit-for-reinsurance law and regulation. SSAP No. 62R, Schedule F, the provision for reinsurance and the P&C R-3 charge add accounting, reporting and capital protections for collectability, collateral deficiencies and residual counterparty exposure. Appendix A summarizes these safeguards in greater detail.

These protections operate within a broader solvency framework that includes financial analysis and examination, ORSA, holding-company and group supervision, the Group Capital Calculation, material transaction reporting and domiciliary regulatory authority. Bridgeway itself describes P&C reinsurance oversight as extensive and acknowledges that additional assessment is needed before determining whether a material gap exists. RAA recognizes that these safeguards do not necessarily eliminate every potential capital requirement that could arise if significant reinsured business is reassumed. The relevant policy question is whether any such contingent capital need represents a material, measurable and sufficiently broad residual solvency risk that remains after the existing framework is considered. The state-based solvency framework is risk-based and is not designed to eliminate every conceivable loss scenario. The

existence of a contingent loss scenario should not, by itself, establish an RBC gap absent evidence that the risk is material, measurable and sufficiently broad to warrant formulaic capital treatment.

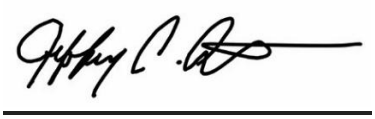
RAA therefore recommends that the Task Force not characterize P&C reinsurance involving non-Reciprocal Jurisdictions as an established RBC gap at this stage. The NAIC should first identify the specific transaction structures or failure mechanisms believed to create risk beyond risks already addressed through the existing solvency framework, determine whether that risk applies broadly or to a narrower subset of transactions, evaluate the complete existing regulatory framework and demonstrate that a material residual solvency risk remains after those safeguards operate as intended.

This distinction is particularly important if the concern arises from deal-specific features such as concentration with a single reinsurer, collateral-release provisions, sidecars, alternative investments, retrocessions, fronting structures or other contractual terms. Bridgeway notes that certain business practices affecting identifiable segments may be better addressed elsewhere in the solvency framework or directly by state insurance departments rather than through RBC.

RBC should not be the primary mechanism for addressing risks that arise principally from individual reinsurance contracts or transaction structures. If a material residual risk is demonstrated, regulators should first consider transaction review, collateral requirements, financial surveillance or another targeted supervisory mechanism. RBC should be considered only if the NAIC demonstrates a material, measurable and sufficiently broad residual solvency risk that remains after the existing supervisory framework is considered. The possibility that underwriting risk could return following future reinsurer failure does not by itself establish that a cedent should hold capital today against both the transferred underwriting risk and the retained counterparty risk. A broadly applicable recapture charge could otherwise create duplicative capital, change transaction economics and diminish the capital, capacity and risk-transfer benefits of reinsurance without demonstrating a corresponding solvency benefit.

RAA appreciates the Task Force's willingness to expose these issues before establishing its two-year priorities and welcomes continued dialogue with the Task Force, NAIC staff and Bridgeway Analytics.

Sincerely,



Jeff Alton
Senior Vice President, Accounting, Finance & Risk
Reinsurance Association of America

REINSURANCE ASSOCIATION OF AMERICA

Appendix A

Existing Regulatory Safeguards for P&C Reinsurance With Non-Reciprocal Jurisdictions

Purpose. This appendix summarizes the principal safeguards that apply when a U.S. P&C insurer cedes business to a reinsurer in a non-Reciprocal Jurisdiction. "Non-Reciprocal" is not itself a collateral category. The applicable treatment depends on the legal status of the assuming reinsurer and the law of the cedent's domiciliary state.

1. Credit for Reinsurance and Security Requirements

The Credit for Reinsurance Model Law (#785) and Model Regulation (#786), as enacted by the cedent's domiciliary state, establish the conditions for statutory credit and the security required when those conditions are not met. A reinsurer in a non-Reciprocal Jurisdiction may qualify through another recognized category, including Certified Reinsurer status if domiciled in a Qualified Jurisdiction. Otherwise, statutory credit for an unauthorized reinsurer is generally available only to the extent the cedent holds qualifying security.

For Certified Reinsurers, Model #786 uses a rating-based collateral scale. Qualified Jurisdiction status alone does not eliminate collateral; the individual reinsurer must be certified and assigned a rating by the commissioner.

Certified Reinsurer Rating	Minimum Security
Secure-1	0%
Secure-2	10%
Secure-3	20%
Secure-4	50%
Secure-5	75%
Vulnerable-6	100%

The commissioner may require additional security based on the reinsurer's financial condition or operating circumstances. If certification is suspended or revoked, new or renewed business generally receives credit only to the extent secured under the applicable security provisions.

2. Permitted Forms of Collateral and Asset Limits

Appendix A-785 of the NAIC Accounting Practices and Procedures Manual specifies the assets permitted in qualifying reinsurance trusts. Trust assets are valued at current fair market value and may include U.S. dollar cash, U.S. financial-institution certificates of deposit, clean, irrevocable, unconditional and evergreen letters of credit issued or confirmed by a qualified U.S. financial institution and specified categories of investments.

Permitted investment categories include qualifying U.S. government and state obligations, certain highly rated OECD sovereign obligations, qualifying obligations of solvent U.S. institutions and certain non-U.S. institutions, specified mortgage-related securities, qualifying equity interests, obligations of qualifying multinational development banks and qualifying investment companies. The rules also

impose diversification and concentration limits designed to constrain excessive dependence on a single issuer, asset class, affiliate or foreign market.

Selected limitation	Appendix A-785 limit
Investments in or issued by an entity controlling, controlled by or under common control with the grantor or beneficiary	5% of total investments
Foreign investments within specified permitted categories	20% of total trust investments
Securities denominated in foreign currencies	10% of total trust investments
Investment in a qualifying investment company under the general qualifying-fund category	10% of trust assets per fund; 25% aggregate
Investment in a qualifying investment company concentrated in qualifying equity interests	5% of trust assets; included within the aggregate equity limit

Appendix A-785 contains additional instrument-specific conditions and limits. The selected limits above are not a substitute for applying the full provision to a particular trust portfolio.

3. Trust Control and Accessibility

The trust framework is designed to make qualifying collateral accessible to the U.S. cedent. The reinsurance agreement may require legal title or blank assignments to be transferred to the trustee so assets can be negotiated without further consent of the assuming reinsurer. The cedent may withdraw trust assets for specified purposes, including payment or reimbursement of the reinsurer's share of covered losses and other amounts necessary to secure the statutory credit. Substitutions must preserve qualifying asset value and, in specified circumstances, the trust must remain at no less than 102% of the required amount after withdrawal.

Letters of credit used as trust assets must be clean, irrevocable, unconditional and evergreen. The trustee must have the right and obligation to draw the full amount if the letter of credit would otherwise expire without renewal or replacement.

4. Statutory Accounting and Schedule F

SSAP No. 62R is the authoritative statutory accounting guidance for P&C reinsurance. Together with Appendix A-785 and the P&C Annual Statement Instructions, it governs recognition of ceded reinsurance and the financial statement consequences when statutory credit or collectability requirements are not satisfied. A collateral deficiency or collectability concern can produce a provision for reinsurance and reduce statutory surplus.

Schedule F provides detailed counterparty reporting for ceded reinsurance, including recoverables, collateral, funds held, authorization or certification status, overdue amounts and the provision for reinsurance. This reporting allows regulators to evaluate counterparty concentration and the relationship among ceded reserves, collateral and the cedent's surplus.

5. P&C RBC R-3 Counterparty Charge

P&C RBC separately addresses residual reinsurance counterparty exposure through R-3. The methodology is sensitive to both reinsurer credit quality and collateral. Recoverables are adjusted for applicable reinsurance provisions, stressed, reduced for specified offsets and separated between

collateralized and uncollateralized amounts. Under the 2025 formula, collateralized factors range from 1.6% to 3.0% and uncollateralized factors range from 1.6% to 12.0%, with the highest treatment applying to weak or unrated counterparties.

6. Broader Solvency and Transaction-Specific Oversight

These protections operate with additional supervisory tools that can address risks that depend on the cedent, counterparty or transaction rather than on reinsurance generally:

- Financial analysis and financial examination, including counterparty concentration, collateral adequacy, liquidity and unusual contractual terms.
- ORSA under Model #505, which provides prospective assessment of material counterparty, liquidity and capital stresses.
- Holding-company and enterprise-risk supervision under Model #440 and the Group Capital Calculation.
- Material transaction reporting under Model #285, including provisions applicable to material P&C reinsurance transactions.
- Direct domiciliary regulatory authority to investigate, condition or otherwise address transactions presenting company-specific solvency concerns.

7. RAA Assessment

The existing framework does not rely on a single protection. For P&C transactions with non-Reciprocal Jurisdiction reinsurers, credit-for-reinsurance and collateral rules constrain the statutory credit recognized; permitted-asset, concentration and trust-control requirements govern the quality and accessibility of collateral; SSAP No. 62R and Schedule F address recognition, collectability and transparency; R-3 provides capital for residual counterparty exposure; and financial surveillance, ORSA, transaction review and group supervision provide additional tools for transaction-specific risks.

The policy question for the Task Force should therefore be what material residual solvency risk remains after this framework operates as intended. RAA recognizes that the existing safeguards do not necessarily eliminate every potential capital requirement associated with a future reassumption of business. Where a residual risk arises principally from identifiable transaction-specific characteristics, targeted supervisory and transaction-review tools should be the primary response. RBC should be considered only if the NAIC demonstrates a material, measurable and sufficiently broad residual solvency risk that remains after the existing supervisory framework is considered.

Authorities and Sources

NAIC, Risk-Based Capital Model Governance (EX) Task Force, 2026 Summer National Meeting Agenda & Materials, Aug. 13, 2026, Attachment Three, Appendix 1.A.B., pp. 21-28.

NAIC Accounting Practices and Procedures Manual, Appendix A-785, Credit for Reinsurance (2026), including paragraphs 17-18 and 39-40.

NAIC Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786), particularly Sections 8 and 11-14, as enacted by applicable states.

NAIC Accounting Practices and Procedures Manual, SSAP No. 62R, Property and Casualty Reinsurance (2026).

NAIC 2025 Property/Casualty Risk-Based Capital Instructions, R-3 Reinsurance Recoverables.

NAIC Property/Casualty Annual Statement Instructions, Schedule F.

NAIC Risk Management and Own Risk and Solvency Assessment Model Act (#505); Insurance Holding Company System Regulatory Act (#440); Disclosure of Material Transactions Model Act (#285).

September 29, 2026

National Association of Insurance Commissioners
Risk-Based Capital Model Governance (EX) Task Force
Submitted to Dan Daveline and Bridgeway Analytics

Comment on the August 13 Exposures of Potential Gaps and Possible Structures

Members of the Task Force:

Thank you for the opportunity to comment on the August 13 drafts of the List of Potential Gaps and Possible Structures. This letter builds on CAT Ventures' June 3 comment to Dan Daveline on the proposed changes to the RBC Preamble.

We support the Task Force's review of how Life RBC measures diversification. An investment whose losses are recorded slowly can look safer, or less closely linked to other investments, than it really is. Established research already explains how this happens and how to check for it. We therefore ask the Task Force to set basic evidence standards now, and to use further research to decide how those standards should affect capital calibration.

We ask for three standards for proposals that rely on return comparisons or diversification assumptions. First, the evidence should be comparable: measured over a common risk horizon, with frequency adjustments explained and valuation and benchmark conventions disclosed. Second, it should be tested for delayed recognition of losses and for how assumed relationships hold up when losses occur together. Third, unresolved measurement problems should be handled openly. When an apparent diversification benefit depends materially on how slowly losses are recorded, that evidence alone should not support additional capital relief.

1 Why these standards belong in the current work

Your gaps list already points to differences in how investments are valued. It gives the example of capital factors applied to mortgages carried at amortized cost and to mortgage funds accounted for under the equity method.[1] That raises the question of whether the factors fit the accounting. The timing of valuations raises a related question about the data used to measure risk.

Getmansky, Lo and Makarov (2004) show how illiquidity and smoothing can make reported returns look less volatile, and risk-adjusted performance look better, than the underlying investment would justify. They also discuss deliberate smoothing.[2] A smooth return history does not prove misconduct. It does mean the evidence should be checked before it supports a capital decision.

Covariance measures how investment returns move together. If one investment records a loss immediately and another spreads it over several quarters, the reported returns can understate their shared exposure. If carried into the capital calculation as diversification, that timing difference can produce a capital benefit unsupported by a difference in risk.

The Drafting Group's own example shows how much can depend on these assumptions. For a hypothetical insurer with 3% of its portfolio in common stock, the RBC ratio falls from 446% to 384% when a 50% common stock–bond correlation is assumed, an assumption the draft compares with Solvency II.[1] That example is not about smoothing. It shows that a single dependence assumption can move the capital result substantially, which is why the evidence behind such assumptions matters.

The principle we ask the Task Force to apply is simple: slower recognition of losses should not, by itself, earn a diversification benefit or a lower capital requirement for an otherwise comparable investment. This does not require daily appraisals or changes to statutory accounting. It does not assume that private assets are riskier.

2 Make measurements comparable

Daily, monthly and quarterly measures of volatility cannot be compared directly. Proposals that rely on return comparisons should state the horizon over which risk is measured, keep it separate from how often returns are observed, and explain how returns, volatility and covariance were converted to that horizon. Labeling every estimate "annualized" is not enough.

The usual square-root-of-time adjustment relies on assumptions about variance and relationships between returns over time. Proposals should explain whether those assumptions hold. When returns in different periods are related, the calculation must account for those relationships; simple scaling can misstate risk and Sharpe ratios.[3] Annualizing a smoothed history also leaves the smoothing in place; it cannot recover value changes that were never observed.

Where beta or alpha is used, proposals should disclose the benchmark, risk-free rate, return definitions, currency, sample dates, observation frequency and regression method. Different mandates may justify different benchmarks. If so, the proposal should explain why and, where useful, show results against a common reference. This is a request for comparable evidence, not a requirement to use CAPM or one benchmark for every asset.

Proposals should also state how investments were valued, the date each value represents and when it became available, and how revised or outdated values, missing data and overlapping return periods were handled. A quarter-end value published later is not information that was available at quarter-end.

3 Test for delayed recognition and joint losses

Where valuations may lag, proposals should include a sensitivity test for delayed exposure or explain why one is not needed. An established option is to estimate beta using earlier benchmark returns as well as current ones. Asness, Krail and Liew (2001) show that this can reveal market exposure that current-period estimates miss, and they test rising and falling markets separately.[4] Other methods should be acceptable where they are justified.

Their results concern hedge funds, so they do not settle the right adjustment for every private asset or RBC component. A delayed relationship can also reflect economic effects or estimation error rather than stale valuation. That is why we propose a required test with room for judgment, not a mandatory correction.

Proposals seeking diversification credit should also show how the assumed relationships hold up when losses occur together. Standard deviation counts upward and downward movements alike, while conventional beta combines rising and falling markets. These summaries can miss behavior that matters for capital protection. Downside beta, which measures exposure when the benchmark falls, can support this assessment without becoming a required formula.[5] Results should define the adverse periods used, report how many observations they include and show the uncertainty in the estimates. Where losses are recorded later, explain how they are matched to adverse benchmark periods. Smoothing and a small number of bad-market observations limit these tests as well.

Relationships between investments can change in a crisis. An assumption calibrated mainly to normal markets may understate joint losses, while a conservative assumption designed for stress may work well. Either way, the proposal should show how the assumption performs under adverse conditions.

4 Require adequate support for proposed capital treatment

When an apparent diversification benefit depends materially on how slowly losses are recorded, that evidence alone should not support additional capital relief. The proposal should corroborate the benefit with other evidence, such as transaction, cash-flow or appraisal data, and explain how it addresses the measurement weakness. Repeating the same valuation assumptions does not do so. If the evidence remains incomplete, show how that uncertainty affects the proposed treatment.

The responsibility belongs to whoever proposes the treatment. The evidence standard should apply to proposed capital increases as well as reductions, including equity calibration. The Drafting Group’s request for evidence of material impact should apply across proposed changes. Life RBC’s common stock beta adjustment already shows that risk differences within an asset class can be recognized when the evidence supports them.

Proposals should also show how the evidence translates into RBC. A correlation between investment returns is not automatically a relationship between RBC risk components. The proposal should state which losses it measures, over what period and how risks are combined, show how liabilities and statutory valuation affect the result, and disclose how sensitive the result is to its important assumptions.

5 Build these standards into proposal review

We suggest incorporating these requirements into how the Task Force and its technical groups review proposals, with a named owner, a written scope and a date to report back. Work that crosses technical groups needs clear responsibility, and these standards can proceed alongside other improvements.

Research would then address the calibration questions that remain. A practical starting point is a controlled test: take the return history of a liquid investment, create versions reported less often, later or with smoothing, and compare the risk estimates with those from the original series. Separate the effects of fewer observations from delayed recognition and smoothing. This would identify consequential measurement differences and useful checks. Representative RBC calculations would then assess the capital effects. Existing data should be used first, with new reporting sought only where the potential capital impact warrants it.

We are not asking for preferential treatment for any asset class, recognition of an investment strategy, or adoption of either author's method. We have not estimated these capital effects ourselves. We are asking that evidence for diversification credit meet a consistent standard. Thank you for considering these comments. We would welcome the chance to help.

Respectfully submitted,

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Jin S. Chun signs on behalf of CAT Ventures LLC. Professor Phillips joins in his individual capacity; his affiliations are listed for identification only.

References

[1] NAIC, August 13, 2026 Exposure of List of Potential Gaps, pp. 2-3 and 6; accompanying Possible Structures exposure.

[2] Getmansky, M., Lo, A. W. and Makarov, I. (2004). An Econometric Model of Serial Correlation and Illiquidity in Hedge Fund Returns. Journal of Financial Economics, 74(3), 529-609. doi:10.1016/j.jfineco.2004.04.001.

[3] Lo, A. W. (2002). The Statistics of Sharpe Ratios. Financial Analysts Journal, 58(4), 36-52. doi:10.2469/faj.v58.n4.2453.

[4] Asness, C. S., Krail, R. and Liew, J. M. (2001). Do Hedge Funds Hedge? The Journal of Portfolio Management, 28(1), 6-19. See Exhibits 4A, 4B and 5.

[5] Ang, A., Chen, J. and Xing, Y. (2006). Downside Risk. Review of Financial Studies, 19(4), 1191-1239. doi:10.1093/rfs/hhj035.

PETER GOULD

September 28, 2026

Director Jon Godfread, Chair
Risk-Based Capital Model Governance (EX) Task Force
NAIC

Sent via email to:
Dan Daveline (ddaveline@naic.org)
Bridgeway Analytics (RBCMoGo@BridgewayAnalytics.com)

Re: Request for comments on Possible Structures https://content.naic.org/sites/default/files/inline-files/august-13-exposure-of-possible-structures.pdf and List of Potential Gaps https://content.naic.org/sites/default/files/inline-files/august-13-exposure-of-list-of-potential-gaps.pdf

Dear Members of the RBCMGTF:

I am a retiree and am writing to comment as a consumer and annuity contract owner with skin in the game.

I have concerns with the RBC Education and Public Messaging Materials - specifically that this "campaign" be understandable to consumers and provide useful information to consumers and other stakeholders that they can use to incorporate RBC in the selection and ongoing monitoring of their insurers.

In the RBCMGTF's deliberations on the RBC preamble, it was acknowledged that RBC is a useful metric to stakeholders. As you are doing a makeover of RBC, I am again putting forth the proposal for improved RBC reporting by adding "characteristic" codes after the RBC number. These codes would direct the RBC user to factors important for interpreting the reported RBC. The format would be:

###-ABC

is the current RBC score

ABC are the characteristic code(s) that inform the user of exceptions, deviations and other aspects affecting the RBC calculation which can distort the reported RBC. These codes would be helpful to all stakeholders (including state insurance examiners). An insurer could have one or more characteristic codes. Codes could be added or modified, as the need arises over time.

P.O. Box 8815 Bloomington, IN 47407-8815

Initially, the characteristic codes could include the following with others added as needed:

A = no reportable RBC characteristics

B = regulator permitted practice/exception granted to the insurer that affects RBC calculation

Highlights deviations from normal regulatory requirements - a big caveat emptor. This would suggest the need for regular periodic evaluation of the exception(s), how it affects RBC and what RBC would be without the exception.

C = concentration of affiliated/related assets that exceeds the lesser of: (1) 10% of assets, or (2) 50% of Total Adjusted Capital.(TAC)

Highlights investments exceeding Model #280/440 Limitation Investments of Insurers Model Act. Points to Increased risk to TAC due to a decline in the value of concentrated affiliated investment holdings.

D = captive or affiliated US domiciled reinsurance arrangement (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk.

E = captive or affiliated offshore reinsurance arrangement (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk.

F = captive or affiliated US domiciled modco arrangement (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk.

G = captive or affiliated offshore modco arrangement (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk.

H = liabilities ceded to parent (ceded liabilities NOT considered in RBC calculation) (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk.

I = liabilities ceded to subsidiary or related company (ceded liabilities NOT considered in RBC calculation)

Highlights counterparty risk

J = regulator permitted practice/exception granted to a counterparty (reinsurer, modco, parent, affiliate, etc.) that affects RBC calculation

Highlights deviations from normal regulatory requirements - a big caveat emptor. This would suggest the need for regular periodic evaluation of the exception(s), how it affects RBC and what RBC would be without the exception.

K = concentration of counterparty liabilities (ceded to a single entity or related entities) that exceeds the lesser of: (1) 10% of assets, or (2) 50% of Total Adjusted Capital.(TAC)

Highlights increased risk, not reflected in RBC score, due to concentration of ceded liability in the event of the failure of a counterparty.

It's important to note that the proposal for enhanced RBC is for reporting/informational purposes only. It does not prescribe operational guidelines or establish enforceable guardrails. Concurrently with enhanced RBC reporting, a User's Guide to RBC would assist regulators and stakeholders in interpreting the RBC score and the effect of reported characteristics, as well as where to locate the pertinent information in an insurer's Statutory Annual Report.

Here are hypothetical examples of the enhanced RBC reporting:

1. Insurer has an RBC of 420 and no reportable characteristics

   Enhanced RBC: 420-A
   Alerts user that no reportable characteristics exist.

2. Insurer has an RBC of 500, has treaties with captive US and captive offshore reinsurers and the insurer has been granted a permitted practice/exception from their domicile regulator

   Enhanced RBC: 500-BDE
   Alerts user to important factors that affect the reported RBC.

Here are real examples of enhanced RBC reporting for actual companies, using information from Statutory Annual Reports

1. **PHL Variable LIfe** - information from 2023 Annual Statutory Report - 5 Year Historical Data (page 68)

ANNUAL STATEMENT FOR THE YEAR 2023 OF THE PHL Variable Insurance Company

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.
$000 omitted for amounts of life insurance

	1 2023	2 2022	3 2021	4 2020	5 2019
Risk-Based Capital Analysis					
30. Total adjusted capital	(135,955,275)	43,622,703	56,705,673	33,321,348	61,559,234
31. Authorized control level risk - based capital	8,029,016	8,151,790	8,196,894	6,949,681	6,789,048

2019 RBC (as reported) = 906% ($61,559,234/$6,789,048)
2022 RBC (as reported) = 535% ($43,622,703/$8,151,790)

2019 RBC (enhanced) = 906%-CDEJK
2022 RBC (enhanced) = 535%- CDEJK

Without enhanced RBC reporting, the regulators, 92,000 PHL policy owners, advisors and other stakeholders were blindsided by the company's 2023/2024 implosion. With the proposed enhanced RBC reporting, they could have investigated the reported characteristics.

On the Notes to PHL's 2021 Annual Report (Accounting Practices - page 19) it states, "As of December 31, 2021, the Commissioner had not prescribed or permitted the Company to use any accounting practices that would result in the Company's earnings or financial position deviating materially from NAIC SAP". In fact, regulator permitted practices were approved for the PHL's reinsurers. This is not disclosed anywhere on the insurer's Statutory Annual Statement - it was only discoverable through the rehabilitation documentation. Without characteristic code K, this crucial information would remain hidden from those depending on the claims paying ability of the insurer to meet its contractual obligations.

2. **New York Life Insurance Company** - information from 2025 Annual Statutory Report - 5 Year Historical Data (page 22)

ANNUAL STATEMENT FOR THE YEAR 2025 OF THE NEW YORK LIFE INSURANCE COMPANY

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.
$000 omitted for amounts of life insurance

		1 2025	2 2024	3 2023	4 2022	5 2021
	Risk-Based Capital Analysis					
30.	Total adjusted capital	36,076,321,337	34,529,448,539	33,007,577,544	31,125,178,376	31,203,100,782
31.	Authorized control level risk - based capital	3,905,706,961	3,629,996,851	3,495,828,339	3,472,419,760	3,367,357,307

2025 RBC (as reported) = 923% ($36,076,321,337/$3,905,706,961)
2025 RBC (enhanced) = 923%-CDI (note, cannot tell if K applies, since counterparty permitted practices are hidden)

With enhanced RBC reporting, regulators, policy owners, advisors and other stakeholders can see that the reportable characteristics for the company that would affect reported RBC.

3 **Athene Annuity and Life Company** - information from 2025 Annual Statutory Report - 5 Year Historical Data (page 22)

ANNUAL STATEMENT FOR THE YEAR 2025 OF THE Athene Annuity and Life Company

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.
$000 omitted for amounts of life insurance

		1 2025	2 2024	3 2023	4 2022	5 2021
	Risk-Based Capital Analysis					
30.	Total adjusted capital	9,503,503,398	7,682,669,584	5,839,888,115	3,846,996,051	2,619,396,427
31.	Authorized control level risk - based capital	1,090,950,938	916,775,140	745,656,571	495,597,826	360,560,052

2025 RBC (as reported) = 871% ($9,503,503,398/$1,090,950,938)
2025 RBC (enhanced) = 871%-BCDEFGHIJ (note, cannot tell if K applies, since counterparty permitted practices are hidden)

With enhanced RBC reporting, regulators, policy owners, advisors and other stakeholders can see that the reportable characteristics for the company that would affect reported RBC.

While preparing these real company examples, this metric (not sure if it qualifies as a "gap") jumped out at me:

Ratio of concentrated affiliated assets (Five-Year Historical Data, line 49) to Total Surplus (Liabilities, Surplus and Other Funds, line 38)

New York Life Insurance Company =85% ($23,500,029,080/$27,564,506,859)

Athene Annuity and Life Company = 1,262% ($52,014,803,107/$4,121,783,748)

Without characteristic code C, a regulator or other stakeholder might not further explore the insurer's exposure to concentrated affiliate risk.

Peter Gould

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould

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September 29, 2026
Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
[Via email: ddaveline@naic.org]

Re: RBC Model Governance (EX) Task Force Exposure on Potential RBC Gaps and Priorities

Dear Commissioner Godfread and Members of the Task Force:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the RBC Model Governance Task Force's exposure on RBC priorities. ACLI supports the Task Force's efforts to establish a transparent and structured process for identifying, evaluating, and prioritizing RBC initiatives.

With the increasing number of issues facing regulators and stakeholders, ACLI supports a prioritization approach that focuses on material risks, recognizes project interdependencies, and promotes efficient use of regulatory resources. Sequencing should also be considered when weighing prioritization. While a certain issue may appear promising for prioritization in isolation, regulators should consider whether there are other interdependent or related NAIC workstreams already underway that should be completed first. For example, in one such circumstance, C-3 harmonization work should be completed before launching new C-3 work on multi-premium products. We also strongly encourage NAIC to address such double counting or dependency matters as they arise in any RBC and/or solvency projects so that the risk is reasonably captured and addressed within the framework.

ACLI's comments on the Life RBC related issues are below for your consideration.

Life Reinsurance

ACLI continues to support reassessing the treatment of reinsurance in RBC. As reinsurance markets, structures, and utilization have evolved over time, it is understandable that regulators may want to assess risks and RBC treatment. Reinsurance plays an essential role in supporting policyholder protection, insurer solvency, and product availability. Modernizing RBC treatment should be undertaken thoughtfully to assess whether updates are reflective of the actual risk while maintaining the important role reinsurance plays in supporting policyholder obligations, risk management, and maintaining access to capital-intensive, long-term products.

Life residential mortgage loans

ACLI supports the ongoing work to develop a clear and consistent definition of residential mortgage loans and to assess the characteristics and risks relevant to these assets. Any consideration of potential changes to RBC treatment should be informed by and follow this foundational work.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

RMBS and CMBS

ACLI believes the current focus should remain on completing the Structured Products Roadmap being advanced through the RBC Investment Risk Evaluation (E) Working Group and the Financial Condition (E) Committee. Allowing the roadmap process to run its course will provide a more informed foundation for any future work in these areas.

For that reason, we do not recommend immediate prioritization of RMBS and CMBS particularly since RBC charges for RMBS and CMBS are currently derived from the SVO's modeling result for each security.

Life RBC Covariance

ACLI does not recommend prioritizing Life RBC covariance at this time. From a sequencing perspective, addressing other RBC items should be prioritized, as covariance is dependent on those other items. For example, if covariance is revised, then the C-1 equity factor should also be revised, since the current 30% unaffiliated common stock C-1 factor was influenced by covariance assumptions.

Given the foundational role of covariance in the Life RBC framework, any potential changes should be considered holistically and informed by a thorough assessment of the underlying data, assumptions, methodologies, and company-level impacts across a range of economic conditions. The sensitivity of potential outcomes to these considerations, together with the interdependencies identified above, supports a sequencing approach under which covariance would be addressed only after foundational RBC workstreams have progressed sufficiently to provide a more informed basis for evaluating potential changes.

RBC C-3 factors for life products

ACLI believes consideration of C-3 for multi-premium products should be deferred until the work for C3 Phase I and Phase 2 is completed. Harmonizing C-3 should be the priority, reflecting work that has been under development for a few years and will require significant effort for regulators, industry, and the American Academy of Actuaries to finalize guidance.

Life RBC designation grade mismatch

Although Schedule BA should ultimately transition to the 21-designation approach, ACLI believes this work should follow completion of higher-priority RBC initiatives currently underway. Advancing foundational projects first will provide greater regulatory value and help ensure resources are directed toward issues with the most significant impact on risk assessment and capital adequacy.

Life investment valuation mismatch

Given other, more consequential RBC priorities, ACLI does not recommend prioritizing the immediate prioritization of factors for Schedule BA factors at this time due to more immediate needs, particularly when you consider the number of other RBC issues that Life RBC and Capital Adequacy are working on.

Conclusion

ACLI appreciates the Task Force's commitment to strengthening RBC governance and establishing a process for identifying significant gaps and inconsistencies. We support a prioritization approach that focuses on material risks, recognizes project interdependencies, and promotes efficient use of

regulatory resources. We look forward to continuing to work constructively with the Task Force as it refines its priorities and work plan.

Sincerely,

Carrie Haughawout
SVP, Life Insurance and Regulatory Policy
American Council of Life Insurers

Mariana Gomez-Vock
SVP, Prudential Policy and International
American Council of Life Insurers

September 29, 2026

Commissioner Jon Godfread (ND), Chair
Commissioner Nathan Houdek (WI), Co-Vice Chair
Commissioner Doug Ommen (IA), Co-Vice Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners

Re: Exposure of Gaps & Inconsistencies

Dear Commissioners Godfread, Houdek, and Ommen:

On behalf of the American Academy of Actuaries'[1] Cross-Practice Risk-Based Capital (RBC) Task Force (Academy), we appreciate the opportunity to provide comments to the RBC Model Governance (EX) Task Force (MoGo Task Force) on the Gaps & Inconsistencies (Exposure) shared at the Summer National Meeting by Bridgeway Analytics. This is an important conversation, and we offer the following comments for your consideration.

We reviewed the list of gaps and inconsistencies covering the RBC components outlined in the Bridgeway presentation in light of the Principles for RBC Requirements adopted in December 2025. As the MoGo Task Force has expressed the desire to develop a two-year priority agenda, it would be helpful to clarify the purpose of the two-year period by:

- setting benchmarks for completion of the tasks associated with each priority;
- prioritizing intended start dates;
- supporting engagement by committees on topics that are considered priorities, e.g., Statutory Accounting Principles (E) Working Group (SAPWG) annual statement exhibits;
- serving as an endorsement of work planned or in-flight; and,
- supporting enhanced coordination.

As we've thought about the two-year horizon, we've identified several Academy projects that support the NAIC's work around RBC. Seeking this additional clarification to the agenda offers the MoGO Task Force, as well as the Academy and others, a perspective that can help support project prioritization and work timelines.

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

	Academy Committee	Current/Recent Academy Work
LRBC	C1 Subcommittee	Currently finalizing the CLO project and transitioning to a new asset class directed by the RBC Investment Risk & Evaluation (E) Working Group. Collateralized loan RBC charge to be finalized for YE 2027. This may impact timing for additional projects.
	C3 Subcommittee	Currently field-testing C3 revisions for fixed and variable annuities, as well as single-premium life products.
HRBC	Health Solvency & Financial Reporting Committee • Stop-Loss • Long-term care (LTC) • Managed Care	Three separate projects are currently in flight, with work on Stop-Loss and LTC slated to begin upon receipt of necessary data. Follow-on work from the 2025 H2 Underwriting Managed Care report currently underway.
CRBC	P&C RBC Committee	The P&C RBC Committee is updating premium and reserve risk calibrations using the latest available annual statement data. This effort builds upon the methodology published in the P&C RBC Committee's 2021, 2023, and 2025 reports.
Cross	Reinsurance Working Group (RWG)	The Academy has been addressing aspects of life reinsurance risk via AG 55. Currently the RWG is evaluating the treatment of reinsurance in all three RBC formulas to assess NAIC proposals and identify any additional gaps worth bringing to the NAIC's attention. With respect to P&C RBC, an actionable item relates to swing-rated arrangements, which don't have the same issues as other Bridgeway reinsurance RBC proposals.

General Considerations

One of the benefits of the MoGo Task Force is that it sits across the life, health, and P&C industries with respect to RBC considerations, allowing it to bring a cross-sector, cross-formula point of view. While we've noted that items on the Exposure list are currently targeted to specific sectors, there are a number that are cross-practice, which we would suggest warrant further consideration. Many are currently included in the list of gaps and inconsistencies, and we would encourage the MoGo Task Force to consider two new topics—interconnection between assets and liabilities and asset risk.

Interconnection between Assets and Liabilities

Assets and surplus may be treated differently by different sectors, or even across different lines of business within a sector (e.g., life versus a payout annuity or deferred annuity). The Academy has been discussing whether an asset- or surplus-based metric should be used. Is the concern to address assets over time that are used to meet obligations to policyholders? Or is it surplus deterioration? In either case, this represents a cross-sector inconsistency that may need to be

considered holistically.

Asset Risk
We also suggest considering how credit risk is structurally assessed across the different sectors. Exploring these existing structural variations could help ensure that similar credit exposures are treated consistently across the different sectors, minimizing the potential for unintended capital differences.

Variance/Covariance formula
We believe the MoGo Task Force should evaluate the Variance/Covariance formula, which combines risk charges across all three sectors simultaneously, considering the time horizon and calibrated security levels under each RBC formula. Within P&C, the formula combines overall premium and overall reserve risk, assuming independence. We suggest evaluating correlations at level-1 and level-2 risks across the practices, ensuring they are assessed separately and independent of the specific components under consideration.

The Academy has engaged on issues related to covariance in past years. Most recently, we provided an update on correlation work that included covariance to the NAIC's Life RBC Working Group in May 2025 and in September 2025. The Academy's Health Practice Council also commented on covariance in June 2011.

Long-Term Care (LTC) Risk Capital H2 charge
Given that LTC can be underwritten by life, health, and P&C insurers, we recommend an evaluation of the consistency of treatment across all three sectors, such that risk charges for LTC risks are treated coherently across sectors, without introducing an incentive for regulatory capital arbitrage.

Reinsurance
We observed that the Bridgeway presentation highlights the magnitude of industry involvement. However, RBC is fundamentally an individual company-level consideration designed to identify potentially weakly capitalized insurers relative to the risk they take. There are several considerations, such as collateral requirements in the non-reciprocal jurisdiction or over-collateralization, any recapture fees or surplus strain caused by a recapture, trust agreements, or rating agency scrutiny, which are not consistent across reinsured business. The relevant materiality question is whether, after considering collateral and other available protections, a cedant could face a meaningful need to restore capital and surplus if a reinsurer fails and the business is recaptured.

Gaps & Inconsistencies

Our specific feedback on the gaps and inconsistencies is provided in the table below. Given the dependencies for some of these projects, the table prioritizes work that can be done within the two-year timeframe.

RBC component	Description	Status & Notes on Timing
	Within the two-year timeframe	
RMBS and CMBS	1. RMBS & CMBS Intrinsic Price (IP) Designations have characteristics that deviate significantly from agency ratings, including having a maturity effect. 2. An assessment of whether corporate C1 bond factors are appropriate for Life RMBS and CMBS RBC is needed, with considerations for their unique structural features.	The Academy believes this proposal could be incorporated into existing structured securities work and could be started within the two-year timeframe.
Life principle-based capital (RBC C3)	While the current focus on revising C3 has been on fixed and variable annuities, and life products that are single-premium, there hasn't been a recent significant effort to align RBC C3 calibration for life products that are not single-premium. Life recurring-premium and other products are subject to static factors, which should be modernized and principle-based.	This work was deferred by the NAIC's Life RBC (E) Working Group to manage scope until further notice (see additional notes below). If the deferral is reversed, work could be started within the two-year timeframe.
Life RBC Covariance, including the treatment across asset classes, and the portfolio adjustment factor	Life RBC Covariance assumptions are coarse, generally set at 100% or 0%, which clearly don't reflect reality. Furthermore, the current simplistic structure does not lend itself to recognizing diversification or concentration risks across the broad set of assets that face disparate risks (e.g., corporate, municipal, and consumer backed securitizations). An assessment of the RBC Covariance structure (e.g., cross asset class) and parameters is needed.	The Academy provided an update on correlation work that included covariance to the Life RBC (E) Working Group. Additional work has been paused. If the work is resumed, next steps would include reviewing stakeholder feedback to improve the initial proposal. Additional work could be started within the two-year timeframe.
H2 Underwriting Risk	Underwriting risk factors need to be assessed and updated, including diversification credit, stop-loss, LTC, and managed care credit.	The Academy provided analysis of H2 managed care risk factors in April 2025 (see additional notes below). Work on this project continues. Stop-loss and LTC work will begin upon receipt of data and could start within the two-year timeframe.

P&C Rcat correlation	Correlations among hurricane, wildfire, and severe convective storm risks need to be assessed and the Rcat calculation formula updated accordingly.	The Academy is in the very early stages of correlation analysis. Data will be analyzed and recommendations for use in the RBC formula will be offered. This work can be started upon receipt and analysis of data, which would likely be within the two-year timeframe. Support is available to estimate the correlations between perils based on expert judgment.
	Outside the two-year timeframe	
Life residential mortgage loans	Residential mortgages can range from a few hundred thousand to several hundred million dollars, with properties that can face significant differences in their risk characteristics. An assessment of whether the current 68 bps charge (~A-rated corporate bond), which was not empirically based, accurately reflects the risks is needed.	While this issue needs to be revisited, waiting for the pending Statutory Accounting Principles (E) Working Group residential mortgages proposal to be finalized is recommended. The proposal will determine accounting classifications and what data is available in the schedules, which will then inform the RBC framework.
Life RBC factor-designation grid mismatch	Schedule D-1 bonds use the granular 20-class C1 grid. Schedule BA fixed income is charged the coarse pre-2021 6-class grid and the 2021 PAF, which should be assessed for possible update.	Revisiting all areas in the Life RBC instructions where a 6-class grid is used, for example, Preferred Stock, Surplus Notes, Capital Notes, and Derivatives, is recommended. Considering any dependencies upon Statutory Accounting Principles (E) Working Group and the Securities Valuation Office changes to underlying classifications in Schedule BA is also reasonable.
Life investment valuation-basis mismatch	Applying bond and mortgage factors to Schedule BA debt may not be appropriate, which needs to be reviewed, given mismatched valuation. For example, Schedule B mortgages, generally measured at amortized cost, while Schedule BA funds are measured under the U.S. GAAP equity method.	There is potential volatility with this component, and it may not necessarily be within the RBC Working Groups' respective purviews. The Academy agrees with the assessment of the existing mismatch in accounting, where Schedule B is on a book value basis and Schedule BA is market-to-market, which violates the RBC principle proposed by the Academy where capital charges should follow accounting. The existing valuation mismatch should be addressed.

Life reinsurance transactions	While RBC includes a reserve credit and recoverables charge, they are coarse. In addition, the use of arrangements in non-Reciprocal jurisdictions has grown. Thus, the need to assess risks and RBC treatment.	The Academy is starting work to evaluate the RBC treatment of reinsurance by determining the existence of genuine gaps and inconsistencies before quantifying RBC factors for any identified issues. Given the current sparsity of data, working through these steps and finalizing recommendations will require significant time (see comments below).
P&C reinsurance transactions	While RBC includes a counterparty recoverables charge, by credit quality and collateral, arrangements in non-Reciprocal jurisdictions and nontraditional reinsurance have grown. Thus, the need to assess risks and RBC treatment.	The life reinsurance comments apply equally to the P&C issues surrounding the counterparty recoverables charge, by credit quality and collateral, and arrangements in non-Reciprocal jurisdictions. This is less true for the swing-rated excess of loss arrangements where development of RBC factors can commence first. (see comments below).

Life Principle-Based Capital (RBC C3)

As noted in Bridgeway's presentation, the Academy is field testing revisions to fixed and variable annuities and life products that are single-premium. Bridgeway also noted that "there hasn't been a recent significant effort to align RBC C3 calibration for life products that are not single-premium. Life recurring-premium and other products are subject to static factors, which should be modernized and principle-based." Such alignment was proposed in March 2025.

H2 Underwriting Risk

The underwriting risk factors in the Health RBC formula need to be assessed and updated. The Academy provided its analysis of H2 risk factors in April 2025, which are currently under consideration by the NAIC. The NAIC is also considering the implementation timeline and whether a phase-in approach will be used.

A critical additional gap is the lack of diversification credits in the H2 formula. Currently, the H2 factors are calculated by line of business and then added together. Diversification may result in significant credit for multi-line entities. The NAIC should continue to evaluate the potential need for a diversification credit in the health context in the future.

We agree that managed care credit factors should be updated as well, which was included in the April 2025 comments. With this additional reporting detail implemented for at least three years, further analysis could be performed to update the managed care credits under an expanded set of

categories. Implementing these factors should be coordinated with a periodic update of the H2 risk factors (say, with one of the triennial updates), as it is critical that they be calibrated so that the aggregate impact of the H2 risk factors and managed care credits is neutral across U.S. health insurance companies. Moreover, an impact analysis should be performed to test the impact of updated managed care credits by sector, size of company, and other categories, to ensure the changes are as intended and to consider whether a phase-in is appropriate.

The gap analysis also identified LTC and stop-loss as lines of business that do not have specific H2 risk factors in the Health RBC formula. These lines of business were considered out of scope for the initial H2 analysis produced in 2025, which addressed risk factors for lines of business on HRBC XR013/XR014. In order to develop specific factors for these lines of business, there should be an assessment of the current level of reporting detail in the Health Annual Statement and whether it can support the historical analysis of H2 risk and its implementation within the RBC formula.

Life Reinsurance Transactions and P&C Reinsurance Transactions

Life Reinsurance Transactions

With respect to life reinsurance transactions and the effort level identified in Bridgeway's presentation, the Academy agrees with the assessment that this item's effort level is "Significant." There is no rating- or collateral-graduated structure at all, unlike P&C's R3. Building that from scratch, plus quantifying "risk of needing to recapitalize Capital & Surplus on recapture" (a capital-adequacy question, not a recoverables question), is a bigger lift than the P&C analog. This is partially due to the long-term nature of annuity and life business as compared to P&C. There is also the question of the sparsity of data to base a new factor. In the past few decades, there have been very few life and annuity reinsurance breaches where a forced recapture occurred. The capital and surplus strain impact of the few situations where forced recapture did occur may be difficult to determine. While Actuarial Guideline LV (AG 55) provides some insight into the issue, those insights focus on reserves and capital implications are a secondary concern. It explicitly does not analyze the total assets supporting a transaction. That's a genuine data gap, not merely a modeling gap, and addressing it will require significant time, potentially over multiple years. To put this in perspective, obtaining the missing data first requires agreement on what data would be most useful to quantify the risk. Then there needs to be formulated a data request which can obtain this data. This data request would then be required to be completed by companies and finally it would need to be analyzed. A similar process with AG 55 took 18 months from proposal to NAIC adoption, followed by another year to complete preliminary analysis. This reinforces our belief that it will take significant time to create new RBC factors.

We also note an important sequencing consideration. The MoGo Task Force is still working through whether this represents a material gap, the nature and scope of the potential gap, what data would be needed to evaluate it, and where it should rank against other RBC priorities. Simultaneously, the Life RBC Working Group has been directed to develop a recapture risk

factor and counterparty risk treatment on an accelerated timetable. In our view, the comments above should inform how any RBC solution is designed. Building a factor before the underlying risk, materiality, data, existing mitigants, and scope have been sufficiently evaluated risks could compromise the integrity and appropriateness of the work product.

With respect to materiality, it is possible that the life RBC initiative outlined by Bridgeway is material, but the headline $135B of non-reciprocal reserve credit plus ModCo reserve deposits should not be treated as a proxy for unmitigated counterparty or collectability risk. Further, as stated previously, RBC is an insurer-level and not an industry-wide factor. To determine an individual company's exposure, one must look at the impact of a recapture. Items to consider are the quantity and quality of the collateralized assets and the magnitude of any recapture fee, if any, that would change hands upon a recapture.

Pages 16–20 of the Bridgeway presentation recognize that life reinsurance is already subject to multiple layers of oversight, including transaction-specific safeguards such as collateral levels, investment guidelines, jurisdictional requirements, and ongoing supervisory tools that provide RBC-type protections. These protections must be considered before concluding that similar reserve-credit balances present similar risk. Life reinsurance recoverables should not be the focus of this effort because they are relatively small and generally settle quickly. The more relevant question is whether, after accounting for collateral and the other supervisory protections already available, a cedent could face a meaningful need to restore Capital & Surplus upon recapture if a reinsurer defaults. The Capital & Surplus impact associated with the headline $135B—not the $135B itself—is the value that should be discussed. More information and analysis are needed to determine this lower figure and, once established, to assess its materiality and the associated true collectability.

Accordingly, the existence and materiality of an RBC gap should be established before the design and calibration of a new capital charge are substantially advanced. The size or growth of the underlying reinsurance market, standing alone, does not establish the magnitude of the capital risk that an RBC factor would be intended to address.

As stated, RBC is intended to identify potentially weakly capitalized insurers and facilitate timely regulatory action for companies with low capital balances relative to the underlying risks. Updates should be made primarily where potential adjustments are material to solvency. We encourage equal capital applying to equal risk, with consistent statistical safety levels and time horizons for comparable risks. While we support the principle of equal capital for equal risk, as noted in our comments on the Principles adopted in December 2025, we also recognize that this concept allows for appropriate flexibility. Alternative treatments may be warranted when there are substantial differences in the nature of the risk, naturally reflecting the distinct business models of life, health, and P&C insurers. Implementing RBC changes needs to factor in the materiality, scope, data sufficiency, existing risk mitigants, and the nature of the underlying risks before determining any such change.

The key policy question with respect to this reinsurance issue should be whether the available

tools, together with transaction-specific protections, are insufficient for a particular transaction or class of transactions. Commissioners may also wish to distinguish the question of non-reciprocal jurisdiction exposure from the separate issue of affiliated or captive transaction exemptions, because broader offshore growth may be driven as much by structure and affiliation as by jurisdictional status. To ground the analysis of counterparty risk in established professional frameworks, the MoGo Task Force can look to Actuarial Standard of Practice No. 11, Section 3.5. While ASOP No. 11 does not provide empirical data or statistical calibration tables, it outlines critical qualitative considerations and risk elements—such as collateral provisions, trust agreements, and financial strength—that define how actuaries comprehensively evaluate counterparty risk.

P&C Reinsurance Transactions

With respect to P&C reinsurance transactions, we agree that the effort is "Significant," but suggest that the work be split into two tracks with different difficulty levels, rather than treating it as one item. The first would be non-reciprocal jurisdiction visibility, which builds on P&C's existing R3 charge (already graduated by rating and collateral) rather than building it from scratch. That makes this a lower effort than the comparable life item; however, there are still significant data issues. The second track would be swing-rated excess-of-loss/captive arrangements, which are specific, already well-understood structure (rate swings, loss caps, multi-year windows, conversion-factor fees). Since this has already been characterized clearly, this could move faster as a targeted fix.

We agree that materiality is present, with the same nuance as the life item. The $42B in non-reciprocal ceded reserve credit is small next to $1.397T (U.S.-domiciled) and $184B (reciprocal), but it has more than doubled since 2016, so it is a growth trend. Industry commenters disagree on where the real risk sits. Some say aggregate non-reciprocal exposure isn't the concern and that focus should instead go to lightly capitalized primary insurers dependent on a single non-reciprocal reinsurer. That is a concentration-risk argument, not an aggregate-dollars one. More data is needed before narrowing the scope. This overlaps heavily with the Academy's existing work on the R3 reinsurance credit-risk charge, so it is a refinement of territory the Academy has covered.

We note one notable limitation: the presentation says retrocession data for non-reciprocal jurisdictions "isn't readily available" and ILS/sidecar visibility is similarly limited. Parts of this analysis can't be finished until that data exists. We recommend that the MoGo Task Force factor this in when sequencing this item versus the swing-rated piece, which doesn't have the same data gap.

The swing-rated excess-of-loss issue is likely the most concrete, actionable item on the full 10-item list. It's not a jurisdictional-visibility problem, it's a specific arrangement design (loss caps + multi-year windows + loss-conversion "fees') that gives more RBC credit than the risk actually transferred, in scenarios so extreme that a reinsurer shortfall would already mean the cedent is insolvent. We recommend flagging this as a separate, faster-moving item, distinct from the broader non-reciprocal jurisdiction question. We also recommend this be prioritized over other

topics, including those that may be held up by data-availability problems, e.g., retrocessions and ILS/sidecars.

One structural point for the MoGo Task Force to consider. As noted in the Bridgeway presentation, the drafting process has not resolved a genuine underlying tension: Is the primary risk "non-reciprocal jurisdiction exposure in aggregate" or is it "concentration risk at thinly-capitalized single-reinsurer-dependent cedents?" Those point to different factor designs (a blanket jurisdictional charge vs. a concentration-triggered charge), and that scoping question should be settled or explicitly flagged as still open before either item gets whittled into the list for consideration and discussion at the Fall National Meeting in Dallas, since committing to a data-collection and methodology build without resolving that upstream question risks having to redo the work.

The same sequencing principle applies to the Life reinsurance item as well, where fundamental questions concerning the nature, materiality, measurement and scope of the identified risk remain under consideration even as work on a potential RBC treatment has already begun.

We appreciate the opportunity to provide these comments and look forward to the continued collaborative dialogue with you and other stakeholders as this work continues. If you have any questions or would like to discuss these comments further, please contact Katie Dzurec, Public Policy Outreach Director (dzurec@actuary.org).

Sincerely,

Dana Hunt, MAAA, FSA, FRM
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VIA ELECTRONIC SUBMISSION

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
VIA Email: Dan Daveline; ddaveline@naic.org
Bridgeway Analytics; RBC-MoGo@BridgewayAnalytics.com

RE: Request for Comments on RBC Gaps Exposure and Governance Options

Dear Commissioner Godfread,

Thank you for the opportunity to comment on the Risk-Based Capital (RBC) Model Governance (E) Task Force's RBC Gaps Exposure (Exposure 1) and Proposed Structure (Exposure 2). The National Association of Mutual Insurance Companies (NAMIC)[1] is appreciative of the engagement with industry thus far in this process. This Task Force has spent an immense amount of work and time on this project, taking measured steps towards establishing the foundational Principles, and we hope that attitude continues into this new phase of work. We believe that this Task Force should continue to emphasize and focus on each individual formula's consideration of underlying material risk exposure, including the nature, scale and complexity of risks as relevant to that line of business. The three RBC formulas produce appropriate, proportional, and tailored solvency measures across insurers that reflect differences in line of business (life/non-life/health). RBC is a tool in the toolbox that regulators use to investigate the financial wellbeing of insurers; it is not a model built to do everything related to solvency nor should it be treated as such. It is prudent to address gaps in current formulas that result in material issues with the regulators' view of solvency. We offer the comments below on the Exposures.

Exposure 1

We believe that P/C RBC Formula currently captures material risks for the P/C industry and there is a process in place to address the risks listed in Exposure 1. The P/C formula appropriately focuses on short-duration liabilities which reflect the product offerings, reserve risk and premium risk as those are the main capital drivers in this line of business. There are intentional inconsistencies between the formulas, and it is important that all three formulas continue to focus on the material solvency risks that occur in different lines of business as to not mask relevant risks for that line. The P/C RBC formula is not a fully dynamic risk model; however, the current approach taken by regulators charged with developing and maintaining the formula is to recalibrate the components within the formula on a regular basis. Regulators use multiple tools for solvency and financial wellbeing oversight, such as periodic calibration of the factors, catastrophe modeling updates, and regular interactions with insurers through financial examinations reviews, quarterly reporting, and other corporate level disclosures. The material emerging risks identifying in Exposure 1 can be methodically and thoughtfully incorporated into the P/C formula using existing processes. Given the P/C RBC formula is primarily an underwriting-risk model, catastrophe exposure such as hurricane, earthquake, and wildfire risk is incorporated through a specific catastrophe risk charge within the

underwriting component. The current RCAT working group is currently adding severe convective storms, which is named in Exposure 1 as a material gap. While there is more work to be done in the catastrophe space and it is important for regulators to understand, there is also well-designed and thoughtful process in place to look at any material emerging risks. Placing RCat on this list gives the impression that there is material gap in regulatory oversight while giving no corresponding facts to say there is a material gap. The document cites severe convective storms as a reason, but as discussed above, this is already being implemented. We request that the RBC component regarding Rcat be taken out or at minimum edited to reflect current practices, as the present language gives the impression that there is no significant work being done on this risk, which is not true.

Exposure 2

It is our understanding that the current structure of RBC oversight works as such: E Committee sets priorities for and evaluates the work of the Capital Adequacy Task Force, which oversees the work of and sets the priorities for the three RBC formula working groups. The formula working groups are populated by state regulators who know the details of the formula and are experts in their respective state. Currently, changes typically are bottom-up as opposed to top-down. This structure is a strength of the current framework as it inherently builds in the appropriate lenses through which solvency should be viewed for each line and allows for ongoing reviews by each working group to address material emerging risks and overall effectiveness of each formula. We appreciate that Exposure 2 makes it clear that this Steering Committee will not override or diminish the authority of E Committee. However, outside of RBC, what would rise to the level of a material cross-cutting solvency policy issue?

NAMIC believes Option 1: Financial Policy Steering Committee makes the most sense. We completely agree that any option should meet defined priority-setting and policy checkpoints rather than maintaining continuous presence of any type of technical work. In addition, neither option should be able to meet exclusively in regulator-only meetings for discussions. The Steering Committee must issue exposures available for industry comments, rather than sending charges and recommendations directly to letter committees. Under either structure, we believe it is important that the regulators charged with maintaining each of the formulas remain focused on the core purpose of RBC: to help regulators identify weakly capitalized companies with material solvency concerns. NAMIC suggests the Task Force use the Principles previously voted upon and adopted to determine if an issue should be looked at by the Steering Committee, paying particular attention materiality and cost-benefit.

Thank you for your consideration of our comments.

Colleen Scheele
AVP – Policy
National Association of Mutual Insurance Companies

Commissioner Jon Godfread, Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
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September 29, 2026

Re: Comment on the August 13, 2026 List of Potential Gaps and Inconsistencies (RBC-MoGo-TF, Attachment Three) - Life Reinsurance Transactions and P&C Reinsurance Transactions

Dear Commissioner Godfread:

The Cayman International Reinsurance Companies Association (CIRCA) appreciates the opportunity to comment on the Task Force's August 13, 2026 exposure of the List of Potential Gaps and Inconsistencies prepared by Bridgeway Analytics (Attachment Three). We focus on the two reinsurance-related candidate RBC components: **Life reinsurance transactions** and **P&C reinsurance transactions** both rated "Significant" effort and under consideration for the narrowed list of 5-7 priorities to be presented at the Fall National Meeting in Dallas.[1] CIRCA supports a disciplined, evidence-based process for identifying and prioritizing RBC gaps. We therefore apply the Task Force's stated assessment dimensions (model risk in the context of the broader solvency framework, and prioritization),[2] to each of the two reinsurance components, beginning with some general comments.

1. General Comments

1.1 Materiality Must be Demonstrated not Inferred from Growth in Reinsurance Activity

In its comments on the reinsurance recapture and counterparty recoverability referral[3], CIRCA notes that gross reinsurance volume and growth warrant monitoring but do not establish a capital deficiency. The Task Force's materiality dimension asks whether an RBC component limits an assessment of solvency risk for an identifiable set of companies[4] - a question that does not turn on whether an activity is new, growing, or based on jurisdictional classification. Bridgeway's materials report approximately $2.85 trillion of life reserve credit and ModCo, of which approximately $135 billion involves non-reciprocal jurisdictions.[5] Those gross balances describe activity levels, not capital at risk. Materiality should instead

[1]Bridgeway Analytics, RBC Model Governance (EX) Task Force Meeting Materials (Aug. 13, 2026) https://content.naic.org/sites/default/files/national_meeting/rbc-mgtf-agenda-materials_2.pdf.
[2]Id., at 6 (Process: RBC Principles and Assessing Gaps & Inconsistencies).
[3]Memorandum from Chair, Financial Condition (E) Committee, to Chair, Life Risk-Based Capital (E) Working Group, Re: Reinsurance Recapture and Counterparty Risk (Jul. 27, 2026).
[4]Bridgeway Analytics, at 6.
[5]Id., at 18 Appendix 1.A.A (Life Reinsurance Transactions).

be demonstrated by analyzing the solvency risk that remains after collateral, reserves, contractual protections, counterparty strength, and the broader supervisory framework are taken into account.

The Task Force applies that discipline to other RBC components under consideration. In declining to prioritize limitations with the Health RBC formula and variation in the calibration of Life RBC investment components, Bridgeway states that stakeholders advocating those updates should provide a materiality assessment.[6] The same standard should apply to the reinsurance components: a documented materiality assessment should be the threshold every candidate RBC component must clear before it is prioritized.

1.2 Existing Oversight Should Be Considered Before a Gap Is Determined to Exist

Bridgeway's appendices describe extensive oversight of reinsurance transactions already employed in the supervisory framework.[7] That oversight should be fully considered before either RBC component is treated as a confirmed RBC gap. Any capital response should be proportionate to demonstrated residual risk, rather than extrapolated from outlier transactions or applied uniformly to transactions with materially different risk profiles.

1.3 RBC Is a Solvency Backstop, Not a Vehicle for Eliminating Every Perceived Risk

RBC should remain one component of a broader solvency framework; it should not become a substitute for active regulatory supervision. The Task Force's value lies in creating order, thresholds, and discipline for how RBC charges are set, prioritized, and re-evaluated and that principle should guide every assessment. The Task Force has not yet settled its own governance standards and Bridgeway's materials note that "additional discussion is needed to assess how the processes should be structured", including "whether the prioritization process is sound."[8] Advancing a specific remedy to a perceived risk while the governing process remains unsettled risks locking in an outcome before the framework meant to govern it is in place.

2. Application of Assessment Dimensions to the Reinsurance Candidate Components

2.1 Model Risk in the Context of the Broader Solvency Framework

As noted above, Life reinsurance is already subject to extensive, multi-layered oversight. Within the RBC calculation itself, a 0.78% counterparty charge already applies to ceded reserve credit and recoverables, with offsets for qualifying affiliated reinsurance, funds-withheld balances, and trust-supported arrangements, and a separate 6% charge applies to qualifying Workers' Compensation Carve-Out recoverables.[9]

P&C reinsurance sits within a similarly extensive oversight structure. Within the RBC

[6] Id., at 12 (Items the Drafting Group did not prioritize at this time).
[7] Id., at 16 (Statutory Accounting, the Credit for Reinsurance Model Law framework, reserving practices, financial examinations, Model #440 group supervision, ORSA, and the Group Capital Calculation).
[8] Id., at 10 (Gaps & Inconsistencies: Model Governance).
[9] Id. , at 10 (Gaps & Inconsistencies: Model Governance).

calculation, the R-3 charge already differentiates recoverables by collateralization and credit quality - the stressed net recoverable, after a 120% stress is charged at 1.6% –3.0% if collateralized and 1.6% –12.0% if uncollateralized, with exemptions for involuntary pools, federal programs, and U.S. (but not alien) affiliates.[10] That is meaningfully more risk-sensitive than the single Life counterparty charge, and the Task Force should account for that difference rather than treating the two reinsurance components the same.

2.2 Materiality

As noted above, the roughly $135 billion of life reserve credit and Modco involving non-reciprocal jurisdictions is roughly 4.7% of the total.[11] That percentage neither establishes materiality nor demonstrates a capital deficiency. Life reinsurance recoverables - the amount the existing RBC counterparty charge is designed to capture - were only about $3 billion in 2025, which Bridgeway notes do not "play a significant role for life companies as they do for P&C or health."[12] In addition, 100% collateral is already required for reserve credit taken on transactions with unauthorized reinsurers. A materiality assessment should quantify the residual, uncollateralized exposure that would remain after a reinsurer failure and recapture. Bridgeway reports P&C ceded reserve credit to non-reciprocal jurisdictions of $42 billion in 2025, growth of over 100% since 2016.[13] As with Life reinsurance, CIRCA does not dispute that this warrants monitoring, but jurisdictional classification should not be used to presume there is residual, uncollateralized solvency risk to cedents, particularly given that the R-3 charge already prices collateralization.

2.3 Grounded in Statutory Accounting and Reserving

For Life reinsurance, the 0.78% counterparty charge in the RBC calculation is applied to amounts already determined under SSAP No. 61R[14] and, where applicable, principle-based reserve methodology under the Valuation Manual. To the extent the Task Force identifies a gap, it should specify whether the concern lies with the RBC charge itself or with the underlying reserve or accounting practice, since revising one without considering corollary impacts to the other could introduce new inconsistencies rather than resolve existing ones.

For P&C reinsurance, the R-3 charge is calculated from amounts determined under SSAP No. 62R (ceded reserve credit equals ceded recoverables less recoverables on paid losses and loss adjustment expense).[15] CIRCA is not aware of an identified misalignment between the RBC treatment and the underlying Statutory Accounting; to the extent the Task Force believes one exists, it should be specified.

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[10] Id., at 21 Appendix 1.A.B (P&C Reinsurance Transactions).

[11] Id., Appendix 1.A.A at 18.

[12] Id. , Appendix 1.A.A at 18.

[13] Id., Appendix 1.A.B at 22, 24.

[14] Id., Appendix 1.A.A at 18.

[15] Id., Appendix 1.A.B at 21, 24.

2.4 Emerging Risk

The growth in Life reinsurance arrangements with non-reciprocal jurisdictions is worth continued monitoring, as is the recent introduction of Actuarial Guideline LV, which Bridgeway notes gives regulators a tool to review transactions although presently limited to the reserve side rather than a quantitative analysis of the total assets supporting a transaction.[16] CIRCA agrees that additional visibility could be useful, and supports the parallel consideration of additional disclosure under Model #285 as one avenue for obtaining it.

For P&C reinsurance, Bridgeway states that retrocession data for non-reciprocal jurisdictions is not readily available and that further assessment of insurance-linked securities structures, including sidecars, and their associated regulatory safeguards is needed.[17] The Drafting Group also flagged loss-sensitive, swing-rated excess-of-loss arrangements - particularly those involving captives and risk retention groups, as a concern distinct from growth in non-reciprocal cessions generally.[18] CIRCA agrees these nontraditional structures deserve scrutiny, but a sound materiality and effort assessment cannot be completed until the data-collection gap is addressed.

2.5 Equal Capital for Equal Risk

Bridgeway observes that the Life RBC reinsurance counterparty charge is a single, coarse rate, unlike the P&C formula, which differentiates by counterparty credit quality and collateral.[19] Under the equal-capital-for-equal-risk assessment dimension, the question is whether the RBC component reflects measurable risk to solvency once the mitigating effects of risk management, including collateralization, are taken into account not merely whether it is coarse relative to another line of business. If the Task Force pursues this candidate RBC component, any revision should reflect the actual credit and collateral characteristics of a transaction rather than jurisdiction alone. Reciprocal jurisdiction status, qualified jurisdiction status, and the authorization and financial condition of an individual reinsurer are distinct concepts that should not be conflated in a revised charge structure. Recent reinsurer failures in reciprocal jurisdictions further illustrate why jurisdictional classification alone is an inadequate proxy for recapture or counterparty risk. Reinsurance concerns can arise from the financial condition of the counterparty, transaction structure, asset quality, concentration, valuation, liquidity, governance and collateral arrangements, irrespective of jurisdictional designation. A risk based framework should therefore measure the underlying residual risk rather than use jurisdictional classification as a substitute for that analysis.

For P&C reinsurance transactions, because the R-3 charge already varies by collateralization and credit quality, the calibration question is narrower than for Life reinsurance: whether the current collateralized/uncollateralized bands and the 120% stress appropriately capture the risk of the specific nontraditional and non-reciprocal structures described above, rather than whether a differentiated structure is needed at all.

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[16] Id., Appendix 1.A.A at 20.

[17] Id., Appendix 1.A.B, at 27.

[18] Id., Appendix 1.A.B, at 28.

[19] Id., Appendix 1.A, at 17.

2.6 Effort and Prioritization

Bridgeway rates the effort for both Life and P&C reinsurance transactions as "Significant," a rating CIRCA does not dispute. Under the prioritization criteria of necessity, materiality, time, and resource intensity, that significant resource commitment should be weighed against a demonstrated, quantified necessity - not against the gross scale of the underlying business. An updated framework would require, at minimum, a methodology for differentiating counterparty and collateral risk, quantification of residual exposure net of collateral, and coordination with the Valuation Manual and Actuarial Guideline LV. The Life component also overlaps substantially, in both subject matter and underlying data, with the reinsurance recapture RBC factor already under consideration by the Life Risk-Based Capital (E) Working Group pursuant to the Financial Condition (E) Committee's referral; the Task Force should coordinate with that Working Group's timeline and analysis so the two efforts do not proceed on inconsistent assumptions or produce duplicative capital treatment of the same transactions.

For P&C reinsurance, because basic data on retrocession and ILS/sidecar activity involving non-reciprocal jurisdictions is not currently available, a meaningful review would require a data-collection phase before quantitative model work could begin. We recommend the Task Force treat data collection and definitional scoping - identifying which nontraditional structures and cedent segments are actually of concern - as a distinct, sequenced first step, rather than scoring the full modeling effort against an incomplete evidence base.

3. Recommendations

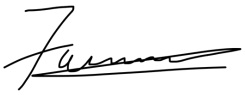
CIRCA's central request is that Life reinsurance transactions and P&C reinsurance transactions remain in the study phase - and not advance to the narrowed 5-7 item list for the Fall National Meeting - unless and until a materiality assessment demonstrates a meaningful model risk deficiency and explains why RBC, rather than another supervisory tool, is the appropriate response. Identification of a perceived supervisory concern should not itself be treated as identification of a n RBC gap.

CIRCA respectfully asks that the Task Force take the following actions:

1. Require a documented materiality assessment for both reinsurance components, applying the same standard used for other candidate components, that nets out the existing regulatory and RBC safeguards and is performed at both the market and individual-cedent level.
2. Distinguish the risk attributable to an individual reinsurer's credit quality, collateral, transaction structure, and cedent concentration, from jurisdictional classification. Any capital response should be proportionate to the risk demonstrated, not to the weakest transaction in the population.
3. Sequence prerequisite work ahead of any effort or calibration scoring: for P&C close the data-collection gap on retrocession and ILS/sidecar activity, for Life coordinate with the Life Risk-Based Capital (E) Working Group on the reinsurance recapture referral, to avoid duplicative capital treatment of the same transactions.
4. Complete the Task Force's governance framework for setting, prioritizing, and re-evaluating RBC charges before advancing a specific reinsurance remedy.

CIRCA appreciates the Task Force's efforts to bring discipline and transparency to this process and welcomes the opportunity to provide additional data or analysis as these items are developed further.

Respectfully submitted,



Faramarz Romer
Chairman of the Board
Cayman International Reinsurance Companies Association

September 29, 2026

Via email to: ddaveline@naic.org

Jon Godfread, Commissioner
North Dakota Insurance Department
Chair, Risk-Based Capital Model Governance (EX) Task Force, National Association of Insurance Commissioners
600 East Boulevard Avenue, 5th Floor
Bismarck, ND 58505

Re: Comments on August 13 Exposures — Commissioner-Level Governance Options and List of Potential RBC Gaps and Inconsistencies

Dear Commissioner Godfread:

Lincoln Financial appreciates the opportunity to comment on the two exposures released by the Risk-Based Capital Model Governance (EX) Task Force on August 13. We commend the Task Force for its work to date, including a revised RBC Preamble, adoption of the RBC Model Governance Principles, and progress on educational materials highlighting the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.

The Task Force's phased approach—first strengthening RBC governance, establishing a strategic framework for future revisions, and highlighting the strengths and benefits of the RBC framework, then turning to a prioritized agenda of potential RBC gaps—has provided a constructive framework for stakeholder input.

With that context, we offer the following comments on both the governance options and the list of potential gaps and inconsistencies.

I. Commissioner-Level Governance Options

We support the establishment of a commissioner-level steering function for RBC and related cross-cutting solvency-policy matters. Of the two structures presented for comment, we favor **Option 1, the Financial Policy Steering Committee**. We appreciate the Task Force's focus on ensuring that RBC governance continues to benefit from broader

commissioner engagement, visible membership support, and a policy perspective outside the ordinary technical process.

II. Risk-Based Capital List of Gaps and Inconsistencies

Among the items identified in the list of potential gaps and inconsistencies, Lincoln recommends the Task Force acknowledge **Life RBC covariance** as an issue warranting a holistic review and eventual updating. At a high level, the issue is whether the current covariance framework, which has not been holistically updated in decades, continues to appropriately reflect how risks interact across today's life insurer balance sheets. The exposure appropriately captures the justification and importance of this work, noting that current Life RBC covariance assumptions are coarse, generally set at 100% or 0%, and do not adequately recognize diversification or concentration risk across a broad and increasingly varied set of asset classes.

The NAIC Life Risk-Based Capital Working Group has devoted meaningful effort to this issue, including an exposure of the American Academy of Actuaries' *Correlation in Life Risk Based Capital* proposal and consideration of stakeholder feedback throughout 2024 and 2025. While views differ on the specific proposal, the resulting analysis and Life RBC Working Group discussions provide a useful starting point for any future evaluation of the covariance framework. Lincoln believes additional analysis, development, and stakeholder engagement are necessary before pursuing implementation.

We recognize that a comprehensive review of the covariance framework would be a meaningful undertaking. However, the significance of that work should not be a reason to defer the issue or to avoid taking it up at all. Rather, we believe the NAIC should treat Life RBC covariance as an important longer-term modernization objective—one that can be addressed thoughtfully, with appropriate analytical support and stakeholder engagement, while acknowledging that the current framework is long overdue for review.

Several considerations support recognizing this as an issue for review and updating:

- **Significantly outdated.** The current covariance formula has not been subject to a holistic review since the RBC framework was adopted and implemented in the 1990s. Given the amount of time that has passed, the evolution of the balance sheets it is meant to capture, and advances in best practices for these calculations, the covariance formula is due for the kind of periodic maintenance review appropriate for a foundational component of the RBC framework.
- **The current formula may overstate or understate risk.** As the exposure document itself recognizes, Life RBC covariance assumptions are generally set at either 100% or 0%, a simplified approach that may not adequately reflect real-world risk relationships. Because the current formula was not designed with today's risk

landscape in mind, certain risks may be overstated, understated, or combined in ways that do not accurately represent a company's overall risk profile. Updating the framework to incorporate more refined assumptions would better align RBC outcomes with underlying risk exposures and improve the accuracy of the overall measure of insurer risk.

- **The formula predates significant changes to underlying RBC components.** Several risk components have been added or materially revised since the covariance structure was developed. As a result, the formula may no longer appropriately reflect how these components interact across a modern life insurer's balance sheet.
- **Enhanced credibility and defensibility of RBC.** A modernized covariance structure supported by updated analysis could provide regulators and other stakeholders with greater confidence that RBC ratios appropriately reflect aggregate company risk and that the diversification benefits embedded in the formula are supported by current data and methodology.
- **Alignment with RBC Model Governance Principles.** Updating the covariance framework would advance several of the principles articulated through the NAIC's RBC model governance initiative, particularly the principles of *Equal Capital for Equal Risk* and *Objectivity*, by evaluating whether the current framework continues to appropriately reflect the risks captured elsewhere in the RBC formula.

We appreciate the Task Force's consideration of these comments and look forward to continued engagement as this work progresses.

Sincerely,

Roman Gabriel
Senior Vice President, Head of Government Relations
Lincoln Financial

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September 29, 2029

Jon Godfread, North Dakota Insurance Commissioner
Chair of Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: ddaveline@naic.org; RBC-MoGo@BridgewayAnalytics.com

Re: Possible Structures and List of Potential RBC Gaps and Inconsistencies

Dear Commissioner Godfread,

Athene Holding Ltd. (Athene) appreciates the opportunity to comment on the Risk-Based Capital (RBC) Model Governance (EX) Task Force's two exposures: the two options for a commissioner-level governance structure and the list of priority gaps and inconsistencies in the RBC framework. We commend the Task Force for the disciplined, transparent process it has followed since its creation, including the adoption of the RBC Model Governance Principles in December 2025, the revised RBC Preamble, and the structured approach to developing a two-year priority agenda.

We also want to acknowledge, at the outset, the foresight that produced this effort. Two years ago, the NAIC recognized that the sector, and life in particular, was undergoing a profound transformation, and that senior regulators needed to be directly engaged in designing the architecture of RBC and the broader solvency toolkit, rather than leaving that architecture to be assembled piecemeal through purely technical channels. The objective the NAIC set was the right one: to balance insurer solvency and consumer protection against the legitimate need for innovation and for capital to continue flowing into the market that funds Americans' retirement security. That initiative has placed the NAIC at the forefront of regulatory bodies globally that have adapted to a changing market in a thoughtful and balanced way.

That transformation, however, is not static; it continues to evolve. Both the evolution itself and the work the NAIC has already completed, including AG 55 and the enhancements to NRSRO and rating-agency governance, have brought into sharper focus a set of potential gaps in the system. These include continued offshore and onshore arbitrage, questionable asset valuation practices, and instances of irrational market pricing, among others. Congress, the financial press, and market participants are observing the same developments and raising appropriate questions.

As the Task Force takes this next important step of setting priorities, we respectfully recommend that it apply a single initial lens to each candidate item: **will making this a priority address: (a) a material gap or mismatch in the system that will significantly**

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enhance consumer protection and, (b) market solvency while promoting equal capital for equal risk? If the answer is yes, the item warrants further consideration; if the answer is no, it should be set aside, however technically interesting it may be. We have organized our comments on the high-priority items below around precisely that question.

Commissioner-Level Governance Options

Athene supports the Task Force's effort to establish a durable commissioner-level governance function for RBC and solvency policy. The common charges outlined in the exposure (i.e. maintaining a rolling two-year agenda, defining policy objectives before substantial technical work begins, coordinating cross-discipline workstreams, and returning matters to commissioners at defined checkpoints) reflect the right balance between senior policy direction and technical execution. The proposed elevation standard, which focuses the steering body's role on matters involving RBC architecture, material policy choices, cross-discipline dependencies, or framework-wide principles, is well-designed to prevent the function from becoming a bottleneck for routine technical work.

While both exposed options for a governance structure could deliver the intended benefits if implemented with the safeguards described in the exposure, we believe a commissioner-led Financial Policy Steering Committee, outside of the ordinary E Committee structure, would be best positioned to provide coordinated, overarching leadership and direction; continue the important Task Force workstreams; address the material cross-cutting policy issues related to RBC; and combat fragmentation.

Whichever structure the Task Force ultimately supports, it should ensure sustained commissioner engagement and efficient coordination with the existing technical groups.

List of RBC Gaps and Inconsistencies

I. Scope of Our Comments

Our letter addresses the exposed items related to the life RBC formula. Throughout, we focused on anchoring our comments to the RBC Principles adopted by the Task Force in 2025.

II. High-Priority Items

A. Life Reinsurance Transactions

Measured against the lens above, this item plainly qualifies: it presents a material solvency mismatch, it directly implicates the policyholders whose obligations are ceded away, and the sums involved are large and growing.

Athene therefore supports the Task Force's identification of life reinsurance transactions as a high-priority item, particularly as the current reinsurance framework likely does not

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sufficiently test total solvency protection when liabilities are ceded to reinsurers located in non-reciprocal jurisdictions. Given that reserve credit and modified coinsurance arrangements attributable to non-reciprocal jurisdictions have reached roughly $135 billion, we agree this is material and support the reinsurance related work already underway, including AG-55 reviews, the development of risk charges at the Life RBC Working Group, the enhancements to the financial analysis and financial examiners handbooks, and updates to the Disclosure of Material Transactions Model Act. We have submitted a comment letter supporting and providing feedback on the Life RBC Working Group's initial proposal that would impose a recapture risk charge on business ceded to reinsurers located in non-reciprocal jurisdictions.

We would extend the Task Force's focus beyond offshore cessions to permitted practices and onshore captive formations, which raise closely related concerns and are increasingly the subject of external scrutiny. The strength and credibility of the state-based system rest on solvency standards that are applied uniformly across it. That uniformity is what produces consistent regulation and a level playing field, and, ultimately, what ensures that the promises companies make to consumers are kept. On the occasions when the state-based system has drawn the scrutiny of Congress, it has most often been because that foundational principle was not observed.

The NAIC and its members should therefore be deeply concerned about states granting permitted and prescribed accounting practices and approving captive and affiliated reinsurance structures, on terms that are material, not uniformly available across the market, and often without any or sufficient public disclosure. The result is a growing unlevel playing field, in which otherwise comparable insurers face materially different capital and reserving outcomes depending on their state of domicile, and, in some cases, a genuine erosion of total solvency protection.

Left unaddressed, this dynamic invites precisely the regulatory race to the bottom that a national RBC framework is meant to prevent. We therefore encourage the Task Force to treat onshore captive and permitted-practice arbitrage as part of the same workstream as offshore reinsurance, so that the framework tests total solvency protection consistently, regardless of where, or through what structure, liabilities ultimately come to rest.

B. Residential Mortgage Loan Classification and Calibration

This item satisfies the same threshold. A charge that was never calibrated to residential data, and that applies a single flat factor regardless of underlying risk, is a genuine mismatch between capital and economic risk; correcting it sharpens solvency measurement and, in turn, consumer protection.

We therefore support recalibrating the residential mortgage loan (RML) charge on the basis of underlying economics, consistent with the principle of ECER. As the May 26, 2026

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Investment Analysis Working Group referral acknowledged, the current flat factor of 68 basis points was anchored to commercial mortgage factors that predate the current framework and was never calibrated to residential data. A flat charge applied across the entire category (without stratification by loan characteristics or underlying risk drivers) provides no basis to determine whether the charge is appropriate for any particular segment.

We believe that the Statutory Accounting Principles (E) Working Group's initiative to develop a statutory accounting definition of an RML should be completed before the capital factor is recalibrated, because the accounting classification will determine which charge applies. Today, the definitional foundation is thin: *SSAP No. 37 – Mortgage Loans*, which is Level 1 authority in the statutory hierarchy, carries no definition of an RML; the Annual Statement Instructions (Level 3) define residential only by property type and dwelling-unit count. The Life RBC formula itself has no independent definition.

As a starting point, we support establishing an authoritative definition in *SSAP No. 37* anchored to the one-to-four family property concept in *12 CFR § 1266.1*. The definition should turn on the underlying property and should not reclassify economically similar exposures on the basis of factors such as loan size, property count, occupancy, or other variables unrelated to credit risk. The recalibrated factor should be applied to a stable, well-defined population.

C. CMBS and RMBS Intrinsic Price Treatment

This item, too, meets the standard: the intrinsic price methodology produces capital outcomes that diverge materially from the treatment of economically comparable fixed-income exposures, and that divergence is exactly the kind of mismatch the priority agenda should target.

As a result, Athene supports the Task Force's inclusion of CMBS and RMBS on the priority list. In our March 12, 2026 comment letter, we provided a detailed diagnostic of the intrinsic price methodology used for CMBS and RMBS and its departure from the corporate bond framework that governs the broader C-1 charge. Those differences remain significant: 1) the intrinsic price approach calculates loss based on deterministic scenarios calibrated annually, rather than historical, through-cycle data; 2) it determines RBC factors based on an asset-level rather than portfolio-level assessment; 3) it does not consider reinvestment or correlation; and 4) it offers limited transparency on scenario calibration and probabilities.

Each of these features produces outcomes that diverge from the treatment of comparable fixed-income exposures, and we continue to believe they should be evaluated against Principle 4 (ECER) and Principle 9 (Transparency) in particular. We urge the Task Force to

ensure that this item receives dedicated attention in the two-year priority agenda and as part of the Structured Securities Project.

III. Deferral of Life RBC Covariance

We recommend that the Task Force defer work on revising Life RBC covariance at this time. Covariance is the aggregation layer above the individual risk components. It cannot be calibrated sensibly until the charges it aggregates are correctly measured at the portfolio level. In particular, the refinement of the portfolio adjustment factor (PAF) to a portfolio-level construct should be resolved first, since the recently adopted CLO framework assesses each tranche on a standalone basis without measuring its interaction with the insurer's other corporate credit exposures, whether held directly or through other structures containing the same obligors. Correlated and duplicated credit exposure belongs within C-1, and that work should be completed before covariance is revised; otherwise, the aggregation would be recalibrated against a C-1 charge that is itself subject to change and would need to be redone.

Additionally, the asset concentration factor is currently applied within C-1 only after the asset-by-asset factors and before covariance, doubling the pre-tax RBC factor on the insurer's ten largest asset exposures aggregated by issuer, subject to a 45% pre-tax maximum. Covariance is then applied afterward to the resulting C-1 amount. Until the individual risk charges and portfolio-level adjustments are stable, recalibrating the covariance layer would be premature.

IV. Structured Securities Project - ABS Charges

We note that the structured securities project with the Academy to develop charges for various types of ABS is <u>not</u> included on the exposed list, which we understand reflects the view that this work is already in progress at the RBC Investment Risk and Evaluation (E) Working Group. Now that the Working Group has completed the CLO phase of its mandate, a key question is how it will leverage the Academy's analytical framework to address other ABS asset classes. We flag this item for the record to ensure it is not lost between the two bodies. We expect the Working Group's forthcoming structured securities project plan to provide a clear roadmap for extending the principled approach developed for CLOs to the broader ABS universe to the extent possible, and we encourage the Task Force to maintain visibility into that work as part of its coordination role and as part of this broader initiative to address RBC gaps and inconsistencies.

V. Remaining Exposed Items

We recommend deferring the review of C-3 for non-single-premium products until the related work for C3 Phase I and Phase 2 is completed. The remaining items on the exposed list in the life RBC formula (i.e., life RBC factor-designation grid mismatch and life investment valuation-basis mismatch) are legitimate areas for continued monitoring,

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future review and, where appropriate, refinement, but do not require elevation to the two-year priority agenda at this time or ahead of the ongoing Structured Securities Project.

VI. Executing the Priority Agenda Consistent with the RBC Principles

As the Task Force finalizes its two-year priority agenda and transitions work to the appropriate technical groups, we encourage it to ensure that execution remains anchored to the RBC Model Governance Principles adopted in December 2025. In particular, Principle 4 (ECER) should serve as the primary analytical lens for evaluating each gap item, ensuring that comparable economic risks receive consistent treatment across asset classes in their statistical safety levels and time horizons. Principle 3 (Materiality) should guide sequencing and resource allocation, so that the most consequential items (i.e. those that could meaningfully impact the regulator's assessment of solvency risk) receive attention first. And Principles 9 and 10 (Transparency and Process) should govern how the work is conducted, with clear documentation of methodologies, data-driven calibration, and open communication at each stage.

A disciplined commitment to these Principles will strengthen the credibility of the modernization effort and build confidence among regulators, industry participants, and policyholders that the resulting framework is analytically sound, consistently applied, and focused on what matters most to solvency oversight.

VII. Conclusion and Offer of Continued Engagement

Athene supports the Task Force's ongoing efforts to build a disciplined, principles-based framework for identifying and addressing RBC gaps and inconsistencies. Anchoring the priority agenda to materiality, modeling consistency, and ECER will help ensure that modernization efforts are focused where they matter most to solvency oversight and sequenced in a way that avoids redundancies and produces durable results.

We appreciate the opportunity to provide these comments and would welcome the chance to discuss any of these topics as the Task Force finalizes its two-year priority agenda.

Respectfully submitted,

Michael Consedine
Executive Vice President and Global Head of Government and Regulatory Affairs
Athene Holding Ltd.