

TO: Nathan Houdek (WI), Chair of the Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair of the Financial Condition (E) Committee
Cassie Brown (TX), Co-Vice Chair of the Financial Condition (E) Committee

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

DATE: July 31, 2024

RE: Request for a New Working Group

The Capital Adequacy (E) Task Force, along with the RBC working groups, are requesting a new working group be appointed to review non-investment related factors that affect the RBC formula. When necessary, other groups will be contacted for their expertise. This new working group, the Risk-Based Capital Risk Research (E) Working Group, would be charged with performing a comprehensive review of the RBC framework for all business types, which could include: 1) identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) Model Act* (#312); 2) assessing the impact and effectiveness of potential changes that would contribute to the identification of weakly capitalized companies (i.e., those companies at action level); and 3) documenting the modifications made over time to the formulas, including, but not limited to an analysis of the costs in:

- Study and development.
- Implementation (internal and external).
- Assimilation.
- Verification.

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

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

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

As the proposals are discussed and adopted by this new group, they will move up to the Task Force for further discussion. The Task Force will then decide if this should be discussed and adopted at the Task Force level or be sent down to the individual RBC working groups. Each proposal will have different circumstances and will be handled accordingly.

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

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

Please contact Eva Yeung, NAIC staff support for the Capital Adequacy (E) Task Force, at with any questions.

Cc: Dan Daveline; Eva Yeung; Maggie Chang; Kazeem Okosun Derek Noe; Dave Fleming; Julie Gann