

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

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

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