MEMORANDUM

To: Interested Regulators and Interested Parties

From: Director Judith French (OH), Co-Chair of the Risk-Based Capital Model Governance (EX) Task Force
Commissioner Nathan Houdek (WI), Co-Chair of the Risk-Based Capital Model Governance (EX) Task Force

Date: September 23, 2025

Re: Request for comments on proposed revised preliminary Risk-Based Capital principles

On July 3, 3025, the Risk-Based Capital (RBC) Model Governance (EX) Task Force (Task Force) published the *RBC Model Gov Chair Exposure*, requesting comment on preliminary principles for RBC. The exposure references the Task Force 2025 Goals and Proposed Charges (Memo), which provides background for modernizing the NAIC RBC framework. The Task Force held a public meeting on August 12, 2025, to review and accept oral comments. Since then, the Task Force has revised the preliminary principles, incorporating feedback from commenters, and has mapped out a plan to coordinate with other NAIC initiatives. The Task Force requests comments on *Proposed Preliminary Principles for Maintaining and Prioritizing Updates to RBC Requirements*. Please keep reading for important details about our request.

Context, the preliminary nature of the principles, and limitations of the request for comments.

Context and the preliminary nature of the principles. As outlined in the *Memo*, beyond developing principles, the Task Force goals include a gap analysis of RBC components, an educational campaign, and an overarching governance framework. The July exposure explained that the interdependent nature of the goals requires a work plan that alternates between refinements to the preliminary principles and other efforts (e.g., development of a gap analysis of RBC components). At this formative stage, commenters should not expect formal adoptions of principles or other components of the governance framework until they have been demonstrated to provide an appropriate level of guidance later in the process.

Limitations of the request for comments, coordination plan with other NAIC initiatives, and the purpose and use of RBC. Since 2024, the Capital Adequacy (E) Task Force agenda has included a review of and proposed revisions to the RBC Preamble that describes the purpose and use of RBC. While in its current form, the Preamble states that the purpose of RBC is to identify potentially weakly capitalized companies, *the Memo* suggested the possible repositioning of the purpose and use of RBC and developing principles that will "serve as a strategic foundation to ensure that all revisions to the RBC framework are enhancements that uphold its integrity, adaptability, and global competitiveness and further the principle of Equal Capital for Equal Risk." Posted comments from the July 3, 2025 exposure and oral comments from the August 12, 2025 meeting highlighted the varying views on whether the purpose and use of RBC should be revised to reference anything beyond the identification of weakly capitalized companies. In light of the varying views and to ensure proposed concepts are appropriately incorporated into the framework, the Task Force is coordinating with the Capital Adequacy (E) Task Force The two groups will hold a joint meeting on October 23, 2025, to review edits to the Preamble.

For now, the Task Force is narrowly requesting comments on *Proposed Preliminary Principles for Maintaining and Prioritizing Updates to RBC Requirements*.

We encourage commenters to review the Appendix, which includes *Notes from Task Force Deliberations on Each Principle*. Those notes are intended to provide context for the Task Force's chosen language for each Principle. In addition, the Task Force expects many of the concepts in the Notes to be incorporated into the broader framework.

We appreciate the comments we have received so far this year. We look forward to more robust discussion.

Proposed Preliminary Principles for Maintaining and Prioritizing Updates to RBC Requirements

1. **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.
2. **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, reflecting measurable risks that can impact solvency, including mitigating effects of risk management, except where the nature of a risk or business model warrants differences.
3. **Objectivity**. Appropriately consider factors that impact risk, including but not limited to concentration, diversification, and tail risks, thereby avoiding the promotion or inhibition of actions that are unrelated to solvency risk.
4. **Accuracy**. Precise, allowing assessment of solvency risk, while avoiding unnecessary complexity.
5. **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.
6. **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.
7. **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.
8. **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.
9. **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, material considerations.

Appendix: Notes from Task Force Deliberations on Each Principle

1. **Materiality**.
    a. Discussions highlighted that a materiality threshold aligned with a traditional concept of 'identifying weakly capitalized companies' would be too high, in the context of ongoing changes to RBC. It was pointed out that it is unlikely that any of the changes to life RBC in recent years would have resulted in regulators otherwise not identifying weakly capitalized companies. However, there was a general consensus that those changes improved the framework and were broadly desirable. The phrase 'regulator's assessment of the solvency risk' was viewed as providing a more reasonable threshold. The concept of 'r*egulator's assessment of the solvency position'* was also explored, with some regulators viewing it as alluding to a measure that can rank-order RBC ratios, which they wanted to avoid.
    b. The question of whether RBC should be updated only to address material industry-wide risk was explored in various settings prior to the formation of the Task Force. Regulators agreed on addressing this question directly by allowing for materiality to include cases where the materiality threshold can be reached for only an 'identifiable segment of companies.'
    c. The potential for components that are not material individually, but material when aggregated was also discussed and acknowledged.
2. **Equal capital for equal risk**. While regulators broadly agreed to include this concept, different stakeholders interpreted equal risk differently, which led regulators to spell out the concept with several notable areas the Drafting Group explored:
    a. Arbitrage. Often in the context of structuring assets, reinsurance blocks, and accounting permitted practices, regulators, NAIC staff, and other stakeholders have pointed to practices that change capital requirements without any significant alteration of the risks.
    b. Tail risk. Some regulators advocated having the principle read 'Equal capital for equal tail risk'. Rather than narrowly focus on tail risk, regulators agreed to broaden the concept to include 'considerations for factors that impact risk, including but not limited to concentration, diversification, and tail risks.'
    c. To avoid varying interpretations of 'equal risk', additional language was incorporated:
        i. The phrase 'except where the nature of a risk or business model warrants differences' was incorporated to qualify differences in life, property & casualty, and health business models, acknowledging the need for different RBC requirements. Discussions also pointed to more nuanced cases, such as long tail property & casualty, which highlighted the need for sensitivity of RBC requirements to varying business risks. Rcat RBC, for example, focuses on natural catastrophes and is calibrated to the 100-year return period.
        ii. Consistency in the treatment or risk across components was viewed as critical, noting that different RBC components treat taxes and discounting, for example, differently (e.g., life RBC calculations measure discounted loss net of tax loss offsets, while property & casualty do not).
    d. Measurable. Discussions pointed to the need for measurable differences in risks that can impact solvency to be considered in RBC requirements, which led to the phrase, 'reflecting measurable risks that can impact solvency…'
3. **Objectivity**. The phrase 'thereby avoiding the promotion or inhibition of actions that are unrelated to solvency risk' was introduced to ensure that RBC requirements represent an unadulterated measure of solvency risk. An example was explored where, while underserved communities are supported by social programs, there should be no such consideration in RBC since it would distort regulators' ability to assess solvency risk.
4. **Accuracy**.

a. There were several aspects to this principle that were deliberated over, notably the tension the principle has with materiality, with several examples discussed:
    i. The pre-2021 NAIC Designations have 6 categories. The factors calibrated to those categories were analytically appropriate, but regulators started observing that insurers were investing more heavily at the bottom end of each Designation range to a degree that became concerning; it was unclear whether the 6 categories were appropriately capturing the investment risk. As a result, in 2021, there was a change to include modifiers to get additional precision (~20+ sub-categories). The tension with the materiality principle can be seen if one focuses exclusively on a single Designation, say, 5.B, whose associated RBC charges on their own would not be considered material, although the full set of charges does pass the materiality threshold.
    ii. Residential mortgage loans (RMLs) have a flat RBC charge that was derived judgmentally from a historical CML framework that has since been replaced. While this was likely supported given the lack of materiality of RMLs at that time, growth in insurer holdings of RMLs may warrant a more precise, risk-sensitive framework in the future.
b. Precision was discussed in the context of both statistical accuracy and granularity.
c. The final language, 'RBC requirements should be sufficiently precise to assess solvency risk, while avoiding unnecessary complexity,' deliberately incorporates the concept of RBC being only as complex as needed to assess solvency risk.

5. **Grounded in Statutory Accounting and reserving**.
    a. There was broad agreement with having this concept as a separate principle from 'Equal capital for equal risk', given its significance. Deliberations pointed to important differences across RBC components (e.g., life reserves account for asset risk, needing life RBC to be measured net of reserves, which is not the case for property & casualty).
    b. This principle reflects that the calibration of RBC requirements will be affected by how risks are accounted for, as accounting practices determine how a risk impacts surplus. For example, two economically identical investments may warrant different RBC requirements if one were accounted at amortized cost and the other at market value.
6. **Emerging risks**. Regulators generally agreed that emerging risks should be addressed, although some thought the concept should be organized alongside RBC updates. Three aspects of the principle were discussed more extensively:
    a. Regulators agreed that 'identifiable segment of companies' should be emphasized, aligning with the emphasis in the materiality concept.
    b. The added reference to macroprudential risks makes clear that the financial system and broader macroeconomic risks may be relevant considerations when assessing emerging risks
    c. When incorporating emerging risks into RBC requirements, several considerations were explored:
        i. The degree to which the risk is currently captured in RBC requirements;
        ii. The level and growth in industry or an identifiable segment of companies' exposure to the emerging risk;
        iii. How quickly the risk (including macroprudential risk) can become material; and
        iv. The identification and measurement limitations of emerging risks, acknowledging the natural limitations associated with emerging risk data. It does not suggest that RBC requirements should or should not capture an emerging risk, as referenced in the 'Process' principle, which acknowledges that RBC '…may rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions...'
7. **Transparency**. When exploring documentation and transparency standards, notable points were made regarding the need for model documentation to include:
    a. Solvency risks included or excluded, along with their current perceived materiality;

b. Solvency risks addressed through other regulatory processes; and
c. Model limitations and their appropriate use. For example, new investment types often get assigned RBC factors of other investments that they most closely resemble (e.g., Bond ETFs receiving bond C-1 factors). Model documentation standards should provide guidance for articulating the degree to which those factors are appropriate.

8. Process.

a. While commenters and regulators supported the concept of model risk management standards, some regulators raised concerns over their potential to be onerous to the point of debilitating future revisions to RBC requirements. It was also pointed out that resources will be needed to maintain a repository of 'accessible articulation of methodologies and supporting rationale,' or to ensure standards are adhered to, for example. Since the requirements will be articulated and will vary, possibly greatly, depending on the nature of the RBC update, regulators agreed to revisit the practicalities once draft standards are available.
b. The benefits of the framework improving efficiency were discussed, allowing for the avoidance of reverse engineering 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 aid in understanding any model limitations, so that conclusions drawn from model results are properly informed.
c. There was general consensus that, when applicable, RBC Governance Standards follow *Actuarial Standard of Practice No. 56, Modeling (ASOP No. 56)*, which 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.*
d. The question of what constitutes a model was explored, with a general consensus of a broad interpretation of the concept. SR 11-7 describes a model as referring to: *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: an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information. Models meeting this definition might be used for analyzing business strategies, informing business decisions, identifying and measuring risks, valuing exposures, instruments or positions, conducting stress testing, assessing adequacy of capital, managing client assets, measuring compliance with internal limits, maintaining the formal control apparatus…, or meeting financial or regulatory reporting requirements and issuing public disclosures. 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.*
e. It was agreed that the standards should recognize that some RBC requirements warrant a greater degree of analytical rigor and model sophistication than others, the involvement of regulatory judgment, data limitations, and other relevant considerations.
f. Concepts discussed that were viewed as needing to be addressed within the standards included:
    i. Model development standards;
    ii. Ongoing monitoring standards; and
    iii. Change management standards that include procedures ensuring transparent communication and documentation of proposed and adopted updates, controlled implementation with considerations for retroactive applications, or gradual changes to parameters, and, when applicable, an assessment of materiality and the implications of proposed RBC updates. When discussing change management standards, regulators explored whether a model update that is generally viewed as improving accuracy should be

limited in its applicability. Regulators agreed that any model update includes model risks, with uncertainties over unintended consequences. As such, significant updates should deliberately consider their impact.

g. While many changes to RBC requirements are originated by the Task Force and its Working Groups , some proposals, with supporting information, are presented by interested parties. The process requirements may limit those proposals to interested parties with sufficient resources to comply with process requirements or require a separate compliant review before acting on the proposal.

9. **Prioritization**. Regulators generally agreed on the concept and considerations related to prioritization. However, some expressed concern that it may not be an RBC principle but instead a process consideration. Given the significance of the concept, regulators felt that a standalone principle is warranted
    a. Necessity. Certain changes are required for calculations to remain functional. For example, changes to annual statement blanks often require changes to the RBC formula. Some aspects of the formulas require annual updates by design, etc.
    b. Materiality. More material changes should be prioritized over less material changes.
    c. Time and resource intensity. Some changes may require significant dedication of time and resources, while others may not. This should be balanced along with the necessity, materiality, and other material considerations in determining the appropriate prioritization of changes. For example, a change that is less material but requires little time or effort to make may warrant addressing prior to a more material, long-term project.
    d. Other material considerations.

All comments on this proposed preliminary Risk-Based Capital principles should be sent by COB October 23 to NAIC staff (Dan Daveline at ddaveline@naic.org) and Bridgeway Analytics (RBC-MoGo@BridgewayAnalytics.com).