

MEMORANDUM

To: Interested Regulators and Interested Parties

From: Risk-Based Capital (RBC) Model Governance (EX) Task Force
Capital Adequacy (E) Task Force

Date: April 23, 2026

Re: Exposure of Proposed Revisions to the RBC Preamble

The Risk-Based Capital (RBC) Model Governance (EX) Task Force and Capital Adequacy (E) Task Force are exposing the attached draft, RBC Preamble, for public comment, with comments requested by June 8, 2026.

The purpose of this exposure is to solicit feedback on proposed revisions to the RBC Preamble, which serves as the introductory narrative to the RBC instructions. The Preamble was adopted and added to the RBC instructions in 2019, providing historical and background information on RBC and guiding the review of referrals and proposals considered by the Capital Adequacy (E) Task Force and the RBC Working Groups. Since that time, regulators and interested parties have continued to discuss whether additional revisions are needed to better articulate the purpose, use, and limitations of RBC.

This exposure follows a broader effort, begun in 2025, to develop a more formal governance framework for future changes to RBC. The RBC Model Governance (EX) Task Force was formed to develop guiding principles for RBC, identify gaps and inconsistencies across the framework, and improve the process for evaluating and prioritizing RBC changes. As part of that work, the Task Force adopted Principles in 2025 and is coordinating with the Capital Adequacy (E) Task Force on possible revisions to the RBC Preamble.

The proposed revisions are intended to:

- Update and streamline the historical and explanatory language in the Preamble;
- Align the Preamble more closely with the Principles previously adopted by the Risk-Based Capital Model Governance (EX) Task Force, which are proposed to be included as part of the Preamble;
- Better distinguish the purpose of RBC from other possible uses of RBC information; and
- Improve the discussion of limitations and disclosure considerations associated with RBC ratios and related measures.

The Task Force invites comments, including whether the proposed language appropriately describes the purpose and use of RBC requirements, whether it improves the discussion of their limitations, and whether it is sufficiently clear and operational for regulators and interested parties. Commenters are also encouraged to identify any drafting changes that would improve consistency with the adopted RBC Principles, the RBC Model Laws, and the broader RBC framework.

Commenters are encouraged to review the notes from Task Force deliberations, which provide non-authoritative background and context for the proposed edits to the Preamble.

All responses to this request for comment should be sent by June 8, 2026, to NAIC staff (Dan Daveline at ddaveline@naic.org) and Bridgeway Analytics (RBC-MoGo@BridgewayAnalytics.com).

Risk-Based Capital Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry, and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.
2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.
3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.
4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major risk categories were identified for the life formula, which took into consideration their diversification properties through a covariance adjustment that recognizes that problems in all risk categories are unlikely to occur simultaneously: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risks (health).
5. Since then, RBC requirements have evolved, increasing in precision, utilizing data beyond what is reported in annual statements, enabling a more accurate identification of solvency risk. The life RBC formula, for example, now assesses the risk of differentiated segments of commercial real estate mortgage investments, which has become a material asset class. The property/casualty RBC formula now recognizes that catastrophe risks are significant for some companies and reflects how exposure to region-specific events, such as natural weather events, can have on solvency. The health RBC formula now removes federal pass-through premium payments, which, by their nature, do not exhibit underwriting risk, allowing for a more precise assessment of solvency risk.
6. The use of RBC requirements has also expanded. It is now used by regulators to assess the solvency risk of insurance groups in Group Capital Calculations and the U.S. Aggregation Method, addressing International Capital Standards under the International Association of Insurance Supervisors. It is also used by other stakeholders who are assessing potential regulatory action.

The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The

~~covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.~~

B. The Mission of CADTF

76. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The RBC formula largely consists of a series of risk factors that are applied to selected assets, liabilities, or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item.
87. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
- Evaluate emerging “risk” issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.
 - Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
 - Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
 - ~~Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual*, *Annual Statement Blanks*, and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.~~
 - ~~Monitor and evaluate changes to the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to address the risk.~~
 - ~~Evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC Blanks to (1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and (2) oversee the development of additional reporting formats within the existing RBC Blanks as needs are identified.~~
9. ~~The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, identifiable segments of companies, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.~~
108. ~~The RBC forecasting, and instructions, as well as RBC reports were developed and are now maintained in accordance with the CADTF mission and charges. mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital-specific regulatory requirements based on its size and risk profile.~~

CB. Purpose of Risk-Based Capital

119. The purpose of RBC requirements is to ~~help~~ identify potentially weakly capitalized companies. ~~RBC requirements in order to~~ facilitate regulatory actions designed to, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates ~~capital level trigger points~~ thresholds that enable regulatory intervention in the operations of such companies.

120. ~~RBC instructions~~, RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempted by the commissioner. There are no state permitted practices to modify the RBC formula, and all insurers are required to abide by the RBC instructions.
134. Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore ~~—except as otherwise required under the provisions of, Risk-Based Capital (RBC) for Insurers Model Act (#312) or and the Risk-Based Capital (RBC) for Health Organizations Model Act (#315)—~~strictly restrict insurers and their regulators from making assertions or disclosures regarding comparisons of insurers' TAC or derived component with limited exceptions as referenced in the Model Law. the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited. Because the RBC framework has been developed with certain regulatory needs in mind, state regulators have decided to keep some elements of the calculation confidential, as well as any workout plans for companies that have triggered a regulatory action.
14. ~~RBC requirements are a regulatory tool and are not intended or appropriate as a means to rank insurers. Therefore, state laws generally prohibit insurers and their regulators from making assertions or disclosures regarding comparisons of RBC information with limited exceptions. Insurers may make assertions or disclosures of certain RBC information, consistent with applicable state law, to accommodate the interests of other stakeholders, including policyholders, investors, ratings agencies, and other regulatory authorities. Any insurer's assertion or disclosure of RBC information must be consistent with applicable state laws and should be accompanied by a disclosure statement alongside the RBC information articulating the relevant considerations when using RBC calculations outside of their stated regulatory purpose, as described in this Preamble. State laws mandate that some elements of the RBC calculation and all RBC Plans are confidential and may not be disclosed.~~

DC. Objectives of Risk-Based Capital Reports

152. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.
16. To support this role, the RBC reports identify potentially weakly capitalized companies, in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an "RBC event" and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer's risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

17. There are several RBC ~~levels~~ Levels with different ~~levels~~ degrees of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next ~~higher level~~ threshold, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action. Mandatory Control Level (MCL) requires the insurance commissioner to place the reporting entity under regulatory control.

ED. Critical Concepts of Risk-Based Capital

183. Over the years, various financial models have been developed to try to measure the “right” amount of capital that an insurance company should hold.¹ “No single formula or ratio can give a complete picture of a company’s operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur.”

194. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it may not be meaningful ~~it is neither useful nor appropriate~~ to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. ~~Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. While companies that maintain RBC ratios well above the threshold standards can be considered to have minimal solvency risk, the information content of those insurers’ RBC ratios is limited.~~ For this reason, Model #312 and Model #315 prohibit insurance companies, their agents, and others involved in the business of insurance from using the company’s RBC results to compare competitors.

20. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC requirements. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise’s ability to maintain itself as a going concern.

~~16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC blanks to 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.~~

~~17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be~~

¹ Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

~~added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.~~

F. Limited use of Risk-Based Capital

~~21. Use of RBC ratios is are intended limited to help identifying potentially weakly capitalized companies to facilitate regulatory action and oversight, and do not provide a complete, clear, or meaningful ranking of insurers. Regulators consider the insurer's overall financial situation when interpreting them. They were not developed or intended for any other use. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company. Since the information content of RBC ratios can be limited for companies that are not at risk of triggering an action level, a spectrum of factors entering into RBC calculations should be considered when using RBC ratios beyond identifying weakly capitalized companies, including:~~

- ~~• Insurers voluntarily strengthening or weakening assumptions used for reserving, resulting in a reduction or increase of an insurer's RBC ratio.~~
- ~~• RBC requirements are often developed with data that extends over a substantial period of years, with actuarial modeling often extending over long horizons. As a result, RBC requirements often represent a relatively stable, durable measure of capital adequacy that is generally not intended to fluctuate materially with short-term market movements.~~
- ~~• While RBC requirements are designed to reflect differentiated risks across components, on their own, they may be insufficient for assessing differentiated risks for purposes other than identifying weakly capitalized companies. Limitations may result from RBC components not being sufficiently granular to differentiate risks, given the immateriality as it relates to solvency risk, or a single component not reflecting a comprehensive perspective of risk, as is the case, for example, with asset risk, which may not reflect liquidity, market, or duration risks, which are captured elsewhere in the framework when applicable.~~
- ~~• RBC requirements can fluctuate without indicating a corresponding change in the insurer's financial condition. Fluctuations may be driven by changes in the RBC formula, dividends, capital infusions, reinsurance transactions, the sale or acquisition of a block of business, and a significant change in new business written.~~

~~19. RBC does not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer's RBC ratio but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer's financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.~~

~~20. Reviewing an individual insurer's RBC over time may not provide a complete, clear or meaningful picture of the insurer's change in financial condition. Items that may have an impact on RBC which make year-to-year comparisons problematic include changes in the RBC formula, dividends, capital infusions, reinsurance transactions, sale or acquisition of a block of business, and a significant change in new business written.~~

20. RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength. Reviewing an individual insurer's RBC over time may not provide a complete, clear, or meaningful picture of the insurer's change in financial condition. Items that may limit the information content include changes to the RBC formula, dividends, capital infusions, reinsurance transactions, the sale or acquisition of a block of business, or a significant change in new business written.

G. 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.
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, acknowledging 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.

Notes from Task Force Deliberations (not to be included in the Preamble): These meeting notes provide non-authoritative background and context for the proposed edits to the Preamble; they are not binding interpretations of the Principles or the Preamble. References to discussions or regulators do not reflect those of the entire Task Force since the Principles were developed over many sessions, often with different members of Task Force present.

Notes on the Preamble:

- **The Scope of the Preamble.**
 - Regulators felt the Preamble should provide a narrative on the purpose and use of RBC. The scope should not be expanded to include references to the Principles for Maintaining and Prioritizing Updates to RBC, which would be redundant.
 - The language within the Preamble should be consistent with the Principles for the Purpose and Use of RBC.
 - The language must be consistent with Model Laws 312 and 315, since they are codified in state laws.
- **Paragraph 5.** Regulators felt that it was desirable to include historical context for RBC, as well as to provide context for how RBC requirements have evolved in terms of precision and application since their initial development.
- **Paragraph 7.** Consolidates text from Paragraphs 16 and 17, which describe CADTF's charges.
- **Paragraph 11.**
 - There was an acknowledged nuance that Model Laws 312 and 315 restrict insurers from making assertions or disclosures regarding comparisons of insurers' TAC or derived components, such as RBC ratios, to rank insurers. Regulators pointed out the potential for the Model Laws to be interpreted more restrictively, limiting any assertions or disclosures of insurers' TAC or derived statistics, and that some states adopted language that is more restrictive than the Model Law. For example, [Washington D.C. §31–3451.08](#), is relatively clear in that any assertions or disclosures of insurers' TAC or derived statistics are prohibited, with limited exceptions. To address this issue, the paragraph was framed in the context of state laws.
 - The question of whether guidelines should be provided on the level of disclosure and language was explored. Cases that were discussed that may warrant different levels of disclosure:
 - Responding to a question about RBC on an earnings call, which narrowly referenced only the RBC ratio in the context of its stated purpose of regulatory intervention, with information that is not subjective and public (e.g., the RBC ratio is 440%, which is 140 pp above the threshold that triggers potential regulatory intervention).
 - Statements that include subjective assessments (e.g., RBC ratio is 440%, which is significantly above our 400% target, and 140pp above the threshold that triggers potential regulatory intervention). The 400% target is subjective and suggestive, especially when reinforced with the word significant.
 - When RBC ratios are reported in written material alongside, say, Financial Strength Ratings, or is reported outside the context of potential regulatory intervention, such as reporting of GCC.
 - Regulators opted to remain silent on the matter for now, agreeing that further discussion is needed, particularly in light of the potential conflict with Model Laws and state statutes.
 - Concern was raised over whether the Preamble is the best place for added disclosure requirements, and the authority, in earnest, that it would provide state regulators to take action on companies violating the disclosure requirements. Regulators felt that the Model Law is a more appropriate location, but that the change would be unnecessarily cumbersome and would not ensure that state

laws would be modified accordingly. To avoid the possible conflict, regulators considered replacing the word ‘must’ with ‘should’.

- Other edits included simplifying the language in Paragraph 11, which referred to and paraphrased the Model Law, which has been adopted into state law in various forms. Given the length and detail in the Model Law, the regulators felt that a reference to the Model Law streamlines the flow.
- The question of whether regulators have the right to refute any RBC ratios that they view as not representative of potential regulatory action outside of the regulatory trigger points was explored.
- **Paragraph 14.** Regulators pointed out that the concept of financial strength was not defined. To avoid potential confusion, the chosen language generalizes the concepts and avoids the introduction of new terminology.
- **Paragraphs 18-21.**
 - Regulators consolidated paragraphs 18-21, attempting to retain key concepts and streamline the articulation of the various considerations.
 - Regulators agreed that the following sentence, in its current form, is overly restrictive given its acknowledged broader use (e.g., AM): *Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors.*

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.