

RISK-BASED CAPITAL MODEL GOVERNANCE (EX) TASK FORCE

Risk-Based Capital Model Governance (EX) Task Force August 13, 2026, Minutes

Risk-Based Capital Model Governance (EX) Task Force and Capital Adequacy (E) Task Force June 18, 2026, Minutes (Attachment One)

Comments Regarding the Proposed Revisions to the RBC Preamble (Attachment One-A)

Revised RBC Preamble (Attachment One-B)

Proposed RBC Solvency Steering Group (Attachment Two)

Presentation by Bridgeway Analytics on Most Material RBC Gaps (Attachment Three)

Draft Pending Adoption

Draft: 8/20/26

Risk-Based Capital Model Governance (EX) Task Force Columbus, Ohio August 13, 2026

The Risk-Based Capital Model Governance (EX) Task Force met Aug. 13, 2026. The following Task Force members participated: Jon Godfread, Chair (ND); Nathan Houdek, Co-Vice Chair (WI); Doug Ommen, Co-Vice Chair, and Kevin Clark (IA); Michael Yaworsky represented by Carolyn Morgan (FL); Scott Saiki represented by Lance Hirano (HI); Michael T. Caljouw represented by James A. McCarthy (MA); Mike Causey represented by Jacqueline Obusek (NC); Judith L. French represented by Tom Botsko (OH); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Amanda Crawford represented by Jessica Barta (TX); Jon Pike (UT); Scott A. White, Dan Bumpus, and Doug Stolte (VA); and Kaj Samsom (VT).

1. Heard Opening Comments

Commissioner Godfread highlighted that over the past few months, the Task Force completed an important piece of the governance foundation through the revised Risk-Based Capital (RBC) Preamble, and work has continued on the RBC educational and public messaging materials. He noted the Task Force's focus for the remainder of the year should be disciplined and practical: complete the Task Force's existing charges, establish a focused agenda for future RBC work, and determine how the governance principles developed by the Task Force should continue after it concludes its work. He suggested the agenda for the meeting reflects those priorities, noting that the purpose is not to make a final structural decision but to determine whether the Task Force is prepared to seek broader input and use that feedback to develop a recommendation for the Fall National Meeting.

Commissioner Godfread discussed a draft work plan prepared for the meeting, which outlines the decisions that still need to be made in 2026 and provides a focused stakeholder feedback for between the Summer and Fall National Meetings. He also summarized the work completed since the Spring National Meeting, including revisions to the RBC Preamble jointly with the Capital Adequacy (E) Task Force ahead of the Commissioners Conference in Georgia. Commissioner Godfread explained how the revised preamble clarifies that RBC is a regulatory solvency tool intended to identify potentially weakly capitalized insurers and support appropriate regulatory action. It is not intended to rank insurers or serve as a comprehensive measure of company strength, business strategy, liquidity, or risk management. The revised preamble also aligns with the RBC Model Governance Principles adopted in 2025, including purpose, use, materiality, objectivity, accuracy, transparency, process, and prioritization. Together, the principles and the preamble provide a stronger policy foundation for determining how future RBC work should be identified, prioritized, scoped, assigned, and returned to commissioners when a genuine policy decision is required.

Commissioner Godfread noted how the Task Force substantially completed the core work on RBC education and public messaging. Those materials are intended to explain the purpose, benefits, limitations, and role of RBC within the broader U.S. state-based solvency framework. NAIC Communications is completing the final review, design, and distribution work, with the goal of having those materials available no later than the Fall National meeting. Finally, Task Force leadership, NAIC committee support, and the drafting group have developed a more disciplined closeout plan for the remainder of the year. The consistent message from the feedback received to date is that the Task Force should complete the foundation already underway, avoid opening new technical workstreams within the Task Force, and make an orderly handoff to the bodies that will carry the work forward.

Commissioner Godfread noted that the proposed work plan is organized around four outcomes: 1) complete the RBC governance foundation, confirm the framework established through the revised RBC Preamble and the RBC

Draft Pending Adoption

Model Governance Principles, and provide a durable means of applying those principles after this Task Force concludes; 2) finalize the RBC educational and public messaging materials by completing the communications work and distribute the final materials no later than the Fall National Meeting; 3) develop a focused two-year RBC priority agenda by identifying approximately five to seven material RBC gaps or modernization projects for initiation, sequencing, or continued development during 2027 and 2028; and 4) recommend a durable commissioner-level solvency-policy steering function by establishing a clear mechanism for setting priorities, defining policy objectives, coordinating cross-cutting work, and identifying the limited points at which commissioner direction is needed, while leaving technical analysis and approvals within the existing NAIC committee structure.

Commissioner Godfreed emphasized that the two-year period is a planning, sequencing, and accountability horizon. It is not a commitment that every significant RBC project will be completed by the end of 2028. If the group completes those four outcomes and makes an orderly handoff to the Financial Condition (E) Committee and the appropriate NAIC leadership bodies, the Task Force should be positioned to conclude its work at the end of 2026.

2. Adopted its June 18 and Spring National Meeting Minutes

The Task Force met June 18 and took the following action: 1) adopted the revised RBC Preamble.

Commissioner Ommen made a motion, seconded by Director Dwyer, to adopt the Task Force's June 18 (Attachment One) and March 24 minutes (*see NAIC Proceedings – Spring 2026, Risk-Based Capital Model Governance (EX) Task Force*). The motion passed unanimously.

3. Exposed a Proposed RBC Solvency Steering Group

Commissioner Godfreed explained why a commissioner-level steering function was worth considering. He noted that the NAIC's committee structure is well designed to produce strong and highly specialized technical work. At the same time, some significant solvency issues do not fit neatly within a single task force, working group, or even a single letter committee. An issue may involve capital, invested assets, valuation, accounting, actuarial standards, reinsurance, financial analysis, and risk management at the same time. In those circumstances, the challenge is not a lack of technical expertise or commitment. The challenge is maintaining a unified view of the overall policy objective, relative priority, sequencing, dependencies, and the points at which commissioners should make a policy judgment that technical analysis alone cannot resolve. A commissioner-level steering function could complement the existing structure by identifying those broader policy questions, ensuring the appropriate groups are involved, coordinating cross-cutting assignments, and establishing defined decision points. The technical work would remain with the regulators, NAIC committee support, task forces, and working groups that possess the relevant expertise. Final authority would remain with the appropriate parent committees and the existing NAIC approval process. The objective is not to add a new layer of technical review. It is to give the organization a durable and disciplined way to manage a limited number of major solvency initiatives that cross organizational lines or require clear commissioner-level policy direction.

Commissioner Godfreed explained that an alternative structure was a stand-alone Financial Condition (E) Committee-based steering subcommittee or formal process as a viable alternative. That approach could provide close coordination with the technical groups and reduce the risk of duplicative meetings or referrals. Commissioner Godfreed explained that he believed the stand-alone Financial Policy Steering Committee concept deserves serious consideration, but that he did not want to prejudge the exposure process or the Task Force's final recommendation. The Task Force should fairly evaluate both approaches and ask stakeholders to help us test their respective strengths, risks, and practical implications. He discussed that the intent to prevent the steering

Draft Pending Adoption

function from becoming a parallel technical process or a standing review of the Financial Condition (E) Committee work. The principal guardrails are objective elevation standards. Only significant matters would be eligible for elevation, such as a change to RBC architecture, a material policy choice that technical analysis cannot resolve, a cross-discipline dependency requiring coordinated direction, or a framework-wide principle. Controversy alone is not enough. Public attention, disagreement, or controversy by itself would not justify elevation. Technical work remains with the technical groups. The steering body would not conduct technical analysis, develop factors, approve technical specifications outside the existing process, or substitute its judgment for the assigned technical groups. Existing committee authority is preserved. The steering body would not replace, override, or diminish the authority of the Financial Condition (E) Committee or the Life and Annuity (A) Committee, or their subsidiary groups.

Commissioner Godfreed explained that routine work remains outside the process. Routine factor updates, recalibrations, corrections, and model maintenance would not be elevated. Commissioner checkpoints are limited and defined. A matter would be returned to commissioners only at a checkpoint identified in the charge, which is typically scoping, pre-exposure when an unresolved material policy choice remains, or pre-adoption when necessary. Not every initiative would require every checkpoint. Active work remains in its existing process. Work already assigned and in active development, including private credit and offshore or nonreciprocal-jurisdiction reinsurance work, would remain within the appropriate Financial Condition (E) Committee processes.

Commissioner Godfreed noted that these limitations were important. A steering function will be useful only if it improves coordination and policy clarity without slowing routine work or duplicating the authority of existing committees. Commissioner Godfreed suggested exposure of the two different ideas and seeking focused feedback on the Financial Policy Steering Committee concept and the Financial Condition (E) Committee-based alternative, including: organizational placement and reporting; membership and officer participation; scope and materiality thresholds; commissioner checkpoints; transparency and regulator-only discussion; integration with existing charges and parent committees; and safeguards against duplication and delay. Commissioner Godfreed emphasized that the intent is that any steering body would operate through the existing NAIC charge, referral, exposure, and approval process. It could recommend priorities and coordinated referrals, but the appropriate parent committee would adopt or modify the charge, assign the work, oversee the technical process, and retain final authority. Commissioner Godfreed asked the Task Force if the proposed structure appropriately defines the limited need for commissioner-level steering without intruding on technical work, as well as whether the proposed elevation standards and limitations were sufficiently clear. He also asked if the proposed structure fairly presented the potential benefits and risks of a stand-alone Financial Policy Steering Committee and a Financial Condition (E) Committee-based alternative or whether there were any additional stakeholders or implementation issues that should specifically be addressed. No comments were provided on the questions.

Director Dwyer made a motion, seconded by Commissioner Ommen, to expose the proposed RBC Solvency Steering Group Structures (Attachment Two) for a 30-day public comment period ending Sept. 13. The motion passed unanimously.

4. Heard from Bridgeway Analytics on Most Material RBC Gaps for Further Consideration

Amnon Levy (Bridgeway Analytics) provided a summary of the work completed and an initial list of the most material RBC gaps (Attachment Three) for further consideration. He explained the role of Bridgeway Analytics as a party to synthesize viewpoints, including their own where relevant, and support a process in which the policy decisions are ultimately for regulators to make. He explained that his summary was not to recommend a change to an RBC component. Consistent with the proposed work plan, the objective is to provide a focused inventory for comment. The effort is formative, with further analysis and stakeholder feedback needed and planned as the Task Force looks to develop a focused two-year RBC priority agenda by the Fall National Meeting.

Draft Pending Adoption

Levy explained the direction given to Bridgeway Analytics from the Chair of the Task Force and the proposed prioritization process. Levy said the Task Force received comments on RBC gaps and inconsistencies, which were summarized at the Spring National Meeting, and Bridgeway conducted a detailed review of the life investments' RBC components. Regarding model governance, Bridgeway reviewed the governance frameworks used by the NAIC, the American Academy of Actuaries (Academy), the Federal Reserve, and other rulemaking bodies. He noted that Bridgeway compiled a formative model risk management document, using the RBC principles as its foundation, and received informal feedback from industry stakeholders. While the drafting group and Task Force continue to explore process and governance, efforts to establish formal model governance standards are currently on hold, as regulators have expressed differing views on the form and depth of such standards.

Levy explained that regarding the process for compiling the list of potential changes, Bridgeway Analytics began with approximately 20 candidate RBC components drawn from prior Task Force work, comment letters, regulators, and Bridgeway's review of life investment RBC components. One limitation is that many comments focused on governance, process, and the need for a disciplined prioritization framework, rather than providing detailed assessments of individual RBC components. Given the open-ended nature and timing of the earlier request, that result is understandable. Each candidate RBC gap and inconsistency was assessed for model risk, which represents the limitations of an RBC component's ability to represent the risks it is intended to represent and its materiality in assessing solvency risk, and the degree to which the practice is already addressed elsewhere in the regulatory framework. Each was assessed for effort, including the data, technical analysis, and stakeholder resources required to assess and potentially update the component. As articulated in the work plan, priorities should focus on material solvency concerns, distinguishing major policy or modernization projects from routine factor updates, technical maintenance, and identifying material dependencies involving capital, investments, accounting, valuation, reinsurance, financial analysis, or multiple lines of business. Candidate RBC components are evaluated separately for life, property/casualty (P/C), and health RBC against RBC principles.

Levy said that the first question is materiality: does the component meaningfully limit an assessment of solvency risk for an identifiable set of companies? The second is alignment with statutory accounting and reserving. The third is whether an emerging business practice or macroprudential trend has become material enough. The fourth is the principle of equal capital for equal risk: whether the RBC charge reflects the underlying risk at an appropriate safety level and time horizon. The effort is significant, and level-setting on the materiality of RBC gaps and inconsistencies across the disparate frameworks is challenging and imprecise but necessary. The Task Force will need to apply regulatory judgment, considering materiality, timing, resource intensity, coordination with other groups, and whether another part of the solvency framework is better suited to address a concern.

Levy also highlighted current initiatives already in progress, which the proposed work plan does not override. The list of candidate RBC components may overlap, possibly representing a broader variant of a current initiative, creating ambiguity about what constitutes an existing initiative versus a new one. This is understandable and should not distract from the overall effort. For life RBC, current initiatives include RBC covariance and the portfolio adjustment function, the structured securities project, collateralized loan obligation (CLO) factor refinements, C-3 harmonization and generator of economic scenarios (GOES), and longevity risk. For P/C RBC, work includes climate-related catastrophe risk and the R-4 and R-5 concentration factors. For health RBC, major efforts include H-2 underwriting risk, managed care credit, stop-loss, and long-term care (LTC).

Levy spent a considerable amount of time reviewing the initial list as included on two of the slides. Each of those slides provides a detailed summary, with an appendix that further explains each gap. Levy also discussed a separate slide that discussed model governance. For that, the drafting group explored processes similar to those of the Steering Committee, but through the lens of the issues members experience, such as the benefits of formalizing coordination across various task forces and working groups. While a referral process currently exists,

Draft Pending Adoption

members pointed to challenges in coordination. The drafting group also explored how initial RBC charges are established, how emerging asset classes and business practices enter the prioritization process, and when existing charges should be reevaluated, which are all key points made in comment letters. These questions are related to, but not identical to, the proposed commissioner-level steering function. The former concerns the life cycle and governance of RBC components; the latter concerns the elevation, coordination, and policy direction of significant cross-cutting initiatives. Considering their technical nature, the drafting group explored whether developing these processes was better suited for the Financial Condition (E) Committee and its Task Forces and Working Groups. Levy noted that regulators have expressed differing views on the form and depth of governance standards, and additional discussion is needed to assess how the processes should be structured.

Having no further business, the Risk-Based Capital Model Governance (EX) Task Force adjourned.

Draft: 7/7/26

Risk-Based Capital Model Governance (EX) Task Force
and Capital Adequacy (E) Task Force
Virtual Meeting
June 18, 2026

The Risk-Based Capital Model Governance (EX) Task Force met June 18, 2026, in joint session with the Capital Adequacy (E) Task Force. The following Risk-Based Capital Model Governance (EX) Task Force members participated: Jon Godfread, Chair (ND); Doug Ommen, Co-Vice Chair, and Mike Yanacheak (IA); Nathan Houdek, Co-Vice Chair, and Amy Malm (WI); Michael Yaworsky represented by Jane Nelson (FL); Michael T. Caljouw represented by John Turchi (MA); Mike Causey (NC); Judith L. French (OH); Michael Wise represented by Hinal Patel (SC); Amanda Crawford (TX); Jon Pike (UT); and Scott A. White represented by Dan Bumpus (VA). The following Capital Adequacy (E) Task Force members participated: Grace Arnold, Chair, represented by Ben Slutsker (MN); Judith L. French, Vice Chair (OH); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann (CO); Joshua Hershman represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen and Mike Yanacheak (IA); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark (KY); Timothy J. Temple represented by Tom Travis (LA); Michael T. Caljouw represented by John Turchi (MA); Angela L. Nelson represented by William Leung (MO); Jon Godfread (ND); Eric Dunning represented by Andrea Johnson and Tadd Wegner (NE); Susan Ochs represented by David Wolf (NJ); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Michael Wise represented by Hinal Patel (SC); Amanda Crawford represented by Jamie Walker (TX); Scott A. White represented by Dan Bumpus (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek and Amy Malm (WI).

1. Heard a Background on the Exposed Revised RBC Preamble

Commissioner Godfread provided background on the proposed revisions to the risk-based capital (RBC) preamble. He noted that the RBC preamble was added to the instructions in 2019 to provide historical context and explain the purpose and limitations of RBC. He said regulators and interested parties have continued to discuss whether updates are needed to better reflect current RBC usage and governance expectations.

Commissioner Godfread stated that RBC remains an important regulatory tool for solvency oversight across the life, health, and property/casualty (P/C) lines of insurance, while recognizing that each line has distinct risks and business considerations. He emphasized that RBC is intended to identify potentially weakly capitalized companies and to support appropriate regulatory action and is not intended to rank insurers or serve as a comprehensive measure of financial strength, business strategy, liquidity, or risk management. He said the proposed revisions are intended to clarify the purpose, limitations, and appropriate context for RBC; address disclosure considerations; and align the preamble with the RBC model governance principles adopted at the end of 2025. In addition, the meeting's objective is to determine whether the revised preamble is ready for inclusion in the 2026 RBC instructions or whether further consideration should be deferred.

2. Considered Additional Comments on Possible Compromised Language

Amnon Levy (Bridgeway Analytics) stated that the revised draft moves the RBC preamble in the right direction by better explaining the purpose, use, history, limitations, and role of RBC within the broader solvency framework. He noted that state insurance regulators generally agreed with the recommendations of the American Council of Life Insurers (ACLI) and the Reinsurance Association of America (RAA) and other parts of comment letters

(Attachment One-A), including removing references to precision, clarifying the confidentiality of company-specific RBC calculations, and adding contextual language when RBC information is disclosed outside its stated regulatory purpose. They also incorporated selected edits to various business models and streamlined language, while declining proposed additions that were duplicative, too narrow, or outside the scope of the adopted principles.

3. Adopted the Revised Preamble

Representatives from the RAA, ACLI, the American Academy of Actuaries (Academy), and consumer representatives expressed support for the revised RBC preamble and appreciation for the collaborative drafting process. They noted that the revisions reflect careful consideration of stakeholder comments, improved clarity, and provided appropriate transparency regarding accepted and rejected edits.

Commissioner Godfread summarized that the revised draft reaffirms the primary purpose of RBC and thanked the drafting group for balancing stakeholder input. He noted that certain comments were incorporated to improve clarity and balance, while other proposed edits were not accepted because they were duplicative, overly narrow, too detailed, or could create unintended implications. He further stated that the final revised preamble incorporates RBC principles as a guiding framework for future changes, including purpose, use, materiality, objectivity, accuracy, transparency, process, prioritization, regulatory judgment, and practical implementation.

Commissioner Houdek made a motion, seconded by Bumpus, to adopt the revised preamble (Attachment One-B) by the Risk-Based Capital Model Governance (EX) Task Force. The motion passed unanimously.

Malm made a motion, seconded by Eft, to adopt the revised preamble by the Capital Adequacy (E) Task Force. The motion passed unanimously.

Having no further business, the Risk-Based Capital Model Governance (EX) Task Force and Capital Adequacy (E) Task Force adjourned.

CAT Ventures LLC

Jin S. Chun, CFA, FRM | Managing Partner

June 3, 2026

Dan Daveline
Director, Financial Regulatory Services
National Association of Insurance Commissioners
ddaveline@naic.org

Re: Comment on Proposed Revisions to the Risk-Based Capital Preamble (RBC Model Governance (E) Task Force)

Mr. Daveline,

I write to comment on the proposed revisions to the Risk-Based Capital Preamble exposed by the RBC Model Governance (E) Task Force. The Preamble is the right place to articulate what RBC is, how it is used, and where its boundaries lie, and the revisions move that articulation forward. The observations below respond to the three questions the Task Force posed — on purpose, use, and limitations — and are framed against the eleven guiding principles the Task Force adopted in December 2025.

I am an investment practitioner focused on capital efficiency in insurance portfolios. The comments are offered from that vantage point and are intended to be useful to the Task Force's drafting, not to advance any particular methodology.

1. On the Purpose of RBC

The revised Preamble appropriately frames RBC as a regulatory tool for identifying weakly capitalized insurers, not as a measure of an insurer's full economic risk or as a target capital level. Preserving that distinction is the most important function the Preamble performs. The principle of Equal Capital for Equal Risk (Principle 1) is well served by language that keeps RBC's purpose narrow and its triggers objective.

One refinement worth considering: the purpose section can state plainly that RBC is a point-in-time minimum-capital screen rather than a forward-looking solvency projection. That framing reinforces the Objectivity and Process principles and reduces the risk that RBC outputs are read as comprehensive risk assessments by parties outside the regulatory process.

2. On the Use of RBC

The Preamble correctly emphasizes that RBC is one input within a broader solvency framework that includes ORSA, the Financial Analysis and Examination process, and actuarial opinion. The Use section is strengthened by stating that no single RBC ratio should be read in isolation from those companion processes.

2.1 Asset-Risk Granularity

As a limitation worth acknowledging rather than a change to propose: the asset-risk factors within RBC reflect category-level rather than issuer-level risk drivers. Two issuers within the same asset category and rating band carry the same charge even where their underlying risk characteristics differ materially. This is a

reasonable and intentional design choice in service of objectivity and administrability. Noting it in the Preamble's discussion of use would help readers understand the level of resolution at which RBC operates.

3. On the Limitations of RBC

The Limitations section is the most valuable addition in the revised Preamble. Articulating what RBC is not is as important as articulating what it is. Three points may sharpen it.

First, on the treatment of risks not yet fully reflected in the formula. As new risk categories become material over time — whether through evolving investment products, emergent loss types, or newly recognized risk drivers — the framework's commitment to Equal Capital for Equal Risk (Principle 1) will be most robust where new inputs are integrated as granularity refinements within existing factor structures rather than as parallel charge categories. Parallel categories raise the risk of double-counting and category drift; refinement within existing structures preserves comparability and keeps the formula coherent as it absorbs new information. The Preamble need not anticipate any specific future category to state this architectural preference.

Second, on model risk. As the framework intersects with new analytical inputs, the Model Risk Management principle (Principle 9) is best served by Preamble language acknowledging that some risks may manifest differently across economic and underwriting environments and therefore may not be fully captured by static point-in-time measurements. Maintaining discipline on this distinction will matter as the inputs to RBC grow more varied.

Third, on correlation and diversification. As with any factor-based framework, RBC necessarily relies on simplifying assumptions regarding correlation and diversification effects across risk categories. This limitation does not diminish its utility as a regulatory screening tool, but it reinforces the importance of companion supervisory processes when evaluating enterprise-wide risk.

4. Consistency with the Adopted Principles

Read against the December 2025 principles, the revisions are broadly consistent. Four principles bear most directly on the points above:

Equal Capital for Equal Risk (Principle 1). Best preserved by keeping RBC's purpose narrow and by integrating future risk information within existing factor structures, as noted in Sections 2.1 and 3.

Materiality (Principle 4). Governance and operational failures tend to manifest as material loss events rather than as steady-state risk. The Preamble's materiality language is sound; it could note that material risks are not always continuously observable and may express themselves episodically. This is consistent with RBC's role as a screen rather than a continuous monitor.

Objectivity (Principle 6). The category-level resolution of asset-risk factors is itself a product of the objectivity principle. Acknowledging that resolution, as in Section 2.1, does not weaken objectivity; it documents it.

Model Risk Management (Principle 9). Supported by Preamble language that distinguishes point-estimate from probabilistic characterizations of risk, as noted in Section 3.

5. Closing

¹Chun, J. S. (2026). Antifragile Capital Efficiency: A Multiplicative Diagnostic for Capital Behavior Under Stress. Working paper, SSRN.

The revisions strengthen the Preamble, particularly the Limitations section. The suggestions above are offered to sharpen the articulation of use and limitations, not to expand RBC's scope, which the Task Force has rightly kept disciplined.

In adjacent research conducted with industry and academic partners, I have examined how factor-level analytics interact with regulatory capital frameworks. I would be glad to provide perspective on specific technical questions as the Task Force's work proceeds, including any coordination with the Invested Assets (E) Task Force as it takes up new and evolving investment products. I would welcome the chance to review future exposures as the Task Force's work continues.

Regards,

Jin S. Chun, CFA, FRM
Managing Partner, CAT Ventures LLC
Research collaborations with MacroRisk Analytics (Pasadena, CA)

cc: Bridgeway Analytics (RBC Model Governance engagement); Commissioner Nathan Houdek, Co-Chair; Director Judith L. French, Co-Chair



June 8, 2026

Commissioner Jon Godfread
Chair, Risk-Based Capital Model Governance (EX) Task Force
North Dakota Insurance Department
Em: jongodfread@nd.gov

Commissioner Doug Ommen
Co-Vice Chair, Risk-Based Capital Model Governance (EX) Task Force
Iowa Insurance Division
Em: doug.ommen@iid.iowa.gov

Commissioner Nathan Houdek
Co-Vice Chair, Risk-Based Capital Model Governance (EX) Task Force
Wisconsin Office of the Commissioner of Insurance
Em: nathan.houdek@wisconsin.gov

National Association of Insurance Commissioners

Re: Comments on Proposed Revisions to the RBC Preamble

Dear Chair Godfread, Commissioners Ommen and Houdek:

On behalf of the Reinsurance Association of America (RAA) and its member companies, we appreciate the opportunity to comment on the proposed revisions to the RBC Preamble exposed by the Risk-Based Capital Model Governance (EX) Task Force and the Capital Adequacy (E) Task Force.

The RAA supports efforts to improve the clarity, transparency, and governance surrounding the Risk-Based Capital framework. We agree that the Preamble should clearly articulate RBC's purpose, use, limitations, and guiding principles. We also support the objective of ensuring that future RBC changes are evaluated through a disciplined and transparent governance process. At the same time, we believe several aspects of the proposed revisions would benefit from further refinement to better align with the longstanding purpose of RBC as a minimum capital standard and regulatory early warning tool.

Paragraph 5 – Evolution of RBC

We are concerned that the revised language describing RBC as becoming increasingly "precise" and providing "more accurate identification of solvency risk" may unintentionally overstate the capabilities and intended purpose of the framework.

RBC was designed as a broad regulatory tool to identify potentially weakly capitalized companies and establish thresholds for regulatory intervention. It was not designed to provide a precise measurement of insurer solvency, function as an economic capital model, or differentiate among well-capitalized companies. Throughout the proposed revisions, the Task Force appropriately emphasizes that RBC is a threshold-based solvency monitoring tool with inherent limitations. References suggesting increasing

precision appear inconsistent with the Preamble's broader description of RBC as a threshold-based regulatory solvency monitoring tool.

Accordingly, we recommend replacing references to "precision," "precise assessment," and "more accurate identification" with terminology that better reflects the nature of the framework. Terms such as "broader," "more comprehensive," "more holistic," or "enhanced consideration of material solvency risks" would be more consistent with RBC's role as a practical regulatory solvency screening mechanism rather than a highly calibrated measure of risk.

Paragraph 14 – Disclosure of RBC Information

We appreciate the Task Force's effort to recognize that RBC information may be used by stakeholders beyond insurance regulators. However, we believe the exposed language is unclear and could lead to unintended interpretations regarding when RBC disclosures are permissible and when additional disclosure statements may be required. As drafted, it could create uncertainty for routine disclosures made by publicly traded insurers and reinsurers in SEC filings, earnings releases, investor presentations, earnings calls, debt covenant reporting, and communications with rating agencies.

As reflected in the Task Force's deliberative notes, regulators acknowledged potential conflicts between the proposed language, existing state statutes, and common market practices. While the Preamble can provide useful context regarding RBC's purpose and limitations, it should not create new disclosure expectations that are not clearly established in the RBC Model Laws or applicable state statutes. Doing so could lead to inconsistent interpretations among jurisdictions and create practical challenges for insurers complying with both state insurance laws and federal securities law requirements.

Accordingly, we recommend replacing Paragraph 14 with the following:

RBC requirements are a regulatory tool and are not intended or appropriate to rank insurers. Therefore, state laws generally prohibit insurers and their regulators from making assertions or disclosures regarding comparisons of RBC information, subject to 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, lenders, and other regulatory authorities. Such disclosures, when limited to communicating RBC information and its regulatory significance, are consistent with the regulatory purpose of RBC. Any insurer's assertion or disclosure of RBC information must be consistent with applicable state laws. When RBC information is used outside of its regulatory purpose of identifying potentially weakly capitalized insurers and facilitating regulatory monitoring, intervention, and corrective action, such disclosure should be accompanied by a statement explaining the limitations of RBC and that it should be considered together with other relevant capital, liquidity, reserving, and risk management information regarding the company. State laws mandate that some elements of the RBC calculation and all RBC Plans are confidential and may not be disclosed.

We believe this approach provides greater clarity, avoids unintended conflicts with existing disclosure practices, and better balances RBC's regulatory purpose with the practical realities of public company reporting and stakeholder communications.

Equal Capital for Equal Risk

The RAA appreciates the Task Force's prior clarification that the principle of "equal capital for equal risk" is not intended to establish a single statistical confidence level or uniform calibration standard across all RBC formulas and risk categories.

As noted in our previous comment letters and testimony, a statistical safety level is fundamentally a calibration choice. Moving toward a uniform confidence level across all risks would represent a significant policy shift and could materially increase capital requirements within a framework that has functioned effectively for decades as a minimum capital standard and early warning tool.

Capital is not free. Higher minimum capital requirements increase the capital insurers and reinsurers must hold against their business, which carries real economic costs and can influence capacity, pricing, and risk appetite. Differences in methodology across sectors often reflect legitimate differences in liability structures, duration profiles, business models, and historical drivers of insurer distress. In the P&C sector, underwriting and reserve risk have historically been the primary drivers of insolvency, while life sector insolvencies have more frequently been associated with asset-liability mismatches and investment-related risks. These differences should not automatically be interpreted as inconsistencies requiring alignment.

While we appreciate the inclusion of language recognizing that different business models may warrant alternative treatments, the current reference to "consistent statistical safety levels and time horizons" remains susceptible to an interpretation that favors convergence toward a common calibration standard. To avoid this unintended interpretation, we recommend revising Principle 4 as follows:

Equal capital for equal risk. RBC requirements should be guided by the principle of equal capital for equal risk, with statistical safety levels and time horizons appropriate for the underlying risk and regulatory purpose, unless there are substantial differences in the nature of the risk in the context of the business model (e.g., life, health, vs. property & casualty) to warrant alternative treatments. RBC requirements should reflect measurable risks that can impact solvency, including the mitigating effects of risk management.

We believe this revision better reflects the longstanding purpose of RBC, preserves appropriate flexibility across sectors, and reinforces the Task Force's prior statements that the principle is not intended to establish a single confidence level or calibration standard across the RBC framework.

Accuracy

We also recommend reconsidering Principle 6, which currently states that RBC requirements should be "sufficiently precise to assess solvency risk." Given the broader discussion throughout the Preamble regarding the purpose and limitations of RBC, the reference to precision may unintentionally imply a level of calibration and predictive capability that is inconsistent with RBC's role as a threshold-based regulatory solvency monitoring tool.

Accordingly, we recommend revising Principle 6 as follows:

Accuracy. RBC requirements should be sufficiently robust to assess solvency risk while avoiding unnecessary complexity and recognizing the role of RBC as a threshold-based regulatory solvency monitoring tool.

This revision would better align Principle 6 with the Preamble's emphasis that RBC is intended to identify potentially weakly capitalized companies and facilitate regulatory intervention rather than function as a highly calibrated measure of relative financial strength.

Section G – Principles for RBC Requirements

We support inclusion of the adopted RBC principles within the Preamble. However, we recommend reconsidering the phrase "guiding North Star" in the introductory language.

The term may imply a degree of prescriptiveness or singular direction that is inconsistent with the judgment-based and principles-based nature of RBC governance. We recommend replacing "guiding North Star" with language such as "guiding framework," "foundational framework," or "governing principles" for maintaining and updating RBC requirements.

As discussed above, we believe the proposed revisions to Principle 4 would provide greater clarity regarding the intended application of the equal capital for equal risk principle while preserving appropriate flexibility across sectors and business models.

Conclusion

The RAA appreciates the significant effort that the Task Force and Capital Adequacy (E) Task Force have devoted to improving the RBC governance framework. We support the objective of providing greater clarity regarding RBC's purpose, limitations, and governance while preserving its longstanding role as a minimum capital standard and regulatory early warning tool.

We also encourage the Task Force to carefully consider whether any future changes affecting insurer disclosure obligations are most appropriately addressed through revisions to the RBC Model Laws rather than through interpretive language in the Preamble. Given the diversity of state law adoption and the interaction with federal securities law requirements, clarity regarding the source and enforceability of disclosure expectations will be important.

We appreciate your leadership on this important initiative and welcome continued dialogue as this work progresses.

Sincerely,



Jeff Alton
SVP – Accounting, Finance & Risk
Reinsurance Association of America



www.namic.org



317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268
202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

June 8, 2026

VIA ELECTRONIC SUBMISSION

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

RE: Request for Comments on the Risk-Based Capital (RBC) Model Governance (EX) Task Force's RBC Preamble Proposal

Dear Commissioners Godfread and Arnold,

Thank you for the opportunity to comment on the RBC Preamble proposal (Proposal). We commend each Task Force for its thoughtful and diligent work in refining this important document. The foundational principles you have established, along with the ongoing enhancements to the U.S. Risk-Based Capital framework, continue to position it as the gold standard for insurance solvency regulation worldwide. These efforts represent the next evolution of those standards, building on a proven foundation while ensuring the framework remains effective and adaptable for years to come.

The proposed Preamble represents a meaningful improvement over prior versions. It provides relevant background material, integrates the adopted Principles more explicitly, improves the focus on RBC as a regulatory solvency tool, and expands the discussion of limitations in constructive ways. We appreciate how it reinforces the bottom-up approach to how RBC changes are incorporated and supports continued effectiveness of the existing processes.

As we've stated in prior comments, NAMIC members strongly support maintaining RBC focus on material risks most relevant to each line of business. We believe each RBC formula should continue to address the risks that matter most for life, P/C, and health insurers, respecting the important differences in their nature, scale, and complexity. Materiality must remain the key filter: changes should be pursued only when they address genuine gaps that would meaningfully alter a regulator's view of solvency. We are encouraged that the Proposal captures much of this perspective and suggest only targeted refinements that further strengthen it.

Description of Purpose and Use

The Proposal does a good job articulating the core purpose of RBC requirements. For example, Paragraph 11 appropriately states that the purpose is to identify potentially weakly capitalized companies to ensure policyholders receive the benefits promised, directly mirroring Principle 1. Further, Paragraphs 12-14 and Section D rightly limit use to regulatory monitoring and action, emphasize confidentiality, and restrict



inappropriate ranking or comparisons. The expanded discussion in Section F on limited use is particularly helpful, and Principle 2 is well reflected in the guidance that other uses must not distort or redefine the primary solvency purpose.

The Preamble also thoughtfully distinguishes RBC from other regulatory tools (such as examinations, reporting, and statutory accounting) while appropriately acknowledging expanded applications like Group Capital and Aggregation. This clarity helps protect the framework from misinterpretation by external stakeholders.

To enhance consistency and operational effectiveness for working groups and commissioners, we suggest a few targeted improvements:

- In Paragraph 9, the materiality discussion is good. We recommend tying it more explicitly to Principle 3: “due consideration will be given to the materiality of the risk to the industry, based on how an update to RBC could meaningfully impact the regulator’s assessment of the solvency risk for all or identifiable segments of companies...”
- Amend Paragraph 11 to read: “RBC requirements are primarily used to facilitate regulatory actions...”
- Add the following to Paragraph 12 after the first sentence: “These reports appropriately consider only the factors that impact solvency risk to further the regulators’ ability to assess solvency risk.”
- In Paragraph 18, add to the end of the first sentence: “and take into account that the formulas appropriately reflect the differences in business models”

These adjustments would give insurance commissioners greater visibility into proposed RBC changes through the established governance process, without the need to create new working groups or task forces. They would also reinforce that each formula should tailor its approach to the material risks of its line of business.

Discussion of Limitations

The expanded discussion of limitations is a notable strength of the Proposal. It effectively discourages over-reliance on RBC for purposes beyond solvency monitoring, supports the use of calibration and catastrophe modeling, and reinforces that the current bottom-up processes function well without requiring constant overhaul.

Section F provides a helpful spectrum of caveats regarding voluntary assumption changes, long-horizon stability, insufficient granularity for non-solvency uses, and normal fluctuations. Sections E and F appropriately acknowledge that RBC is not a complete picture of financial strength and that ratios have limited information content for already strong companies. We suggest one additional enhancement to Paragraph 12: add at the end, “Confidentiality and model limitations support the “early-warning” role without turning RBC into a comprehensive risk model for other stakeholders.” This would further protect the framework’s effectiveness.



Clarity, Operationality, and Alignment with Principles

NAMIC members are pleased with the improved clarity, streamlined language, and logical organization of the Preamble. The updates to Section B promote greater uniformity across solvency tools while preserving necessary flexibility. Action levels, disclosure rules, and confidentiality protections are clear and helpful. To further align with the adopted Principles, particularly Equal Capital for Equal Risk with appropriate distinctions, Materiality, Accuracy/avoiding unnecessary complexity, and Prioritization, we offer the following recommendations:

- Add a paragraph to Section C or Section E: “The formulas appropriately tailor risk recognition to line-specific business models. For property/casualty insurers, this includes particular emphasis on material risk such as reserve inadequacy and premium risk, which have proven effective for early warning. Uniformity across lines is not required where substantial differences in risk nature warrant differentiated treatment.”
- Enhance Paragraph 9 with: “Updates shall be governed by Principles of Materiality and Prioritization. Changes are appropriate only where they address genuine, material solvency gaps with clear benefit, avoiding unnecessary complexity or burden.”
- In Section F, Paragraph 21 (third bullet, second sentence), add after the first clause: “or where further granularity would not improve solvency assessment relative to the added complexity.”
- Add to the introduction of Section G: “These principles are foundational to interpretation and maintenance of the Preamble itself.”

Conclusion

The proposal is a net positive and represents a valuable step forward. With the targeted adjustments outlined above, the Preamble will more strongly operationalize the Principles, provide regulators with clearer guardrails, and safeguard the proven, focused RBC framework against dilution or low-value changes. These refinements will support continued, measured evolution through the existing bottom-up process, focus on genuine material risks while respecting the distinct needs of different lines of business.

We appreciate the Task Force’s leadership and collaborative approach. We stand ready to provide any additional input or participate in further discussions as helpful.

Jonathan Rodgers
Policy Vice President - Solvency
National Association of Mutual Insurance Companies



June 8, 2026

Commissioner Jon Godfreed (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 Proposed Revisions to the RBC Preamble

Dear Commissioners Godfreed, 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) on the [Exposure of Proposed Revisions to the RBC Preamble](#) (Exposure). The Academy supports both the incorporation of the recently adopted Principles, and the Task Force’s conducting periodic reviews to assess alignment, effectiveness, and ongoing applicability. We reiterate that the Preamble, with inclusion of the Principles, strengthens the purpose and understanding of RBC. With respect to the proposed changes, subject matter experts with unique actuarial perspectives and expertise across health, life, property/casualty, and financial reporting and risk management, have reviewed the latest Exposure, and we offer the following comments.

Section B.

In Section B, The Mission of the Capital Adequacy (E) Task Force (CADTF), subsection 7, there seems to be inconsistent use of tense. The Academy suggests [underlined language added]:

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. *It pursued that objective through the RBC formula, which* 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 each item.

Section C.

With respect to Section C, Purpose of Risk-Based Capital, the Academy notes a concern with the final sentence of subsection 13, “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.” [emphasis added]

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.

If the term “some elements” refers to elements that are not available in the Annual Statements as described in Section 5, our concern is that this could be interpreted too broadly. If this broad interpretation is applied in the future, underlying RBC formulas and methodology could be kept confidential, as opposed to just having the detailed application of those formulas and methodology to a particular insurer being confidential. While the RBC filings of insurers should be kept confidential, except for total adjusted capital (TAC) and authorized control level (ACL) risk-based capital, we want to ensure that the transparency of the methodology and the resulting TAC and ACL are maintained now and in the future.

We also suggest adding “Requirements” to the title of section C to read, “Purposes of Risk-Based Capital Requirements” as the section has been amended with inclusion of “requirements.”

Section D.

In Section D, Objectives of Risk-Based Capital Reports, we suggest editing the first sentence in subsection 17, “degrees of anticipated additional regulatory oversight following the reporting of an RBC event” to read, “degrees of required additional regulatory oversight...” to underscore that an RBC event **requires** enhanced oversight.

Section F.

In Section F, Limited Use of Risk-Based Capital, the Academy notes that removal of general statements about inappropriate uses of RBC are in line with previous Academy comments, and we support the changes to this version of the Preamble.

The Academy notes, however, that this section may cause confusion. As drafted, the first part of subsection 21 explicitly states the intended use of RBC ratios and the second portion goes on to identify uses other than identifying potentially weakly capitalized companies, which seems to weaken the assertion that the purpose of RBC ratios is to identify potentially weakly capitalized companies. The Academy also notes that the list of considerations is not (and could not be) complete to be sufficiently precise. As such, the Academy recommends removing the section that begins “Since the information content of RBC factors entering into RBC calculations should be considered....”

If the section is not deleted, the Academy suggests the following edits:

RBC ratios are intended to help identify potentially weakly capitalized companies and 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. Nevertheless, to the extent RBC ratios are considered for purposes beyond identifying potentially weakly capitalized companies, their usefulness may ~~Since the information content of RBC ratios can be limited for companies that are not at risk of triggering an action level, and a spectrum of factors underlying entering into RBC calculations should therefore be considered when using RBC ratios beyond identifying weakly capitalized companies,~~ including, but not limited to

Section G.

With respect to Section G, the Academy supports embedding RBC principles within the Preamble, and we offer two suggestions with respect to the Principles. The language included in the second sentence in

Principle 2 “Use” seems to weaken the first Principle. Referring to other purposes weakens the purpose statements. As suggested in Section F, we recommend deleting the sentence, “RBC requirements may be used for other purposes, but the uses must not distort or redefine the purpose of RBC requirements.”

Finally, in Principle 6, “Accuracy,” the Academy suggests the following edit:

Sufficiently precise to ~~assess solvency risk~~ determine regulatory action thresholds, while avoiding unnecessary complexity.

We look forward to the continued collaborative dialogue with you and other stakeholders as you continue your work on this project. 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
Chairperson, Cross-Practice RBC Task Force
American Academy of Actuaries



[Colin Masterson](#)

Sr. Policy Analyst
202-624-2463

June 8, 2026

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

Ben Slutsker
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: April 2026 RBC MoGo/CADTF RBC Preamble Exposure

Dear Chairs Godfread and Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the proposed edits to the RBC Preamble. ACLI would also like to thank regulators, NAIC staff, and Bridgeway Analytics for their work on this effort over the last several years, especially their dedication to transparent dialogue and communication with stakeholders.

The Preamble should reflect how appropriate uses of RBC information further the goals of prudential transparency, regulatory effectiveness, and consumer protection. The latest exposure appropriately captures these objectives and reflects the important role RBC plays in the domestic and international solvency systems.

We support the inclusion of the RBC MoGo-adopted Principles for RBC Requirements into the Preamble. Additionally, ACLI appreciates incorporation of many of the redline edits proposed in our October 20, 2025 comment letter. The changes to Section C.13 (formerly B.11), Section E.19 (formerly D.14), Section F.21 (formerly E.18), and the former Section E.20 reflect our view that RBC is a vital component of the larger policyholder protection framework, which benefits from public disclosure, transparency and understanding.

Suggested edits for consideration:

ACLI supports the disclosure concept discussed in **Section C.14** and we have shared language that may help insurers create appropriate and useful disclosures to accompany permissible public disclosures of RBC information. We do this by noting that the disclosure should include appropriate contextual information, describe the purpose of RBC as a regulatory tool, and note the limitations of RBC when used for other purposes. ACLI also recommends including language that recognizes disclosures may vary depending on the situation and adding a note that the Preamble doesn't create or require any additional

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

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.

disclosures independent of the disclosures described in C.14. Regulators may also want to consider removing the last sentence because it is captured very well in Section C13.

- **Section C14.** *"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 public assertion or disclosure of RBC information must be consistent with applicable state laws. When RBC-related information is disclosed, insurers should provide appropriate contextual information, as applicable, describing RBC's purpose as a regulatory tool and its limitations in other uses. The nature and extent of any such contextual information should be determined by the disclosing party based on the facts and circumstances and applicable legal requirements. This Preamble does not establish independent disclosure requirements or prohibitions. 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.*

We also recommend a clarification to the second and fourth bullets in the new **Section F.21** to improve consistency. The second bullet implies that RBC is relatively stable while the fourth states that fluctuations in RBC do not necessarily indicate changes in financial condition. These statements could appear to contradict each other and present information that is not accurate in all circumstances which conflicts with the exposure's goal of "updating and streamlining" the explanatory language. To address this concern, we suggest the following edits:

- **Section F.21...** *"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 ~~ratios~~ requirements often represent a relatively stable, durable measure of capital adequacy ~~that is generally not intended to fluctuate materially with short-term market movements.~~"*
- *"RBC requirements ~~can~~ may fluctuate without necessarily 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.~~"*

Additionally, we suggest the following editorial changes:

- Section B.7 "consisted": The RBC formula still consists of these things so using the past tense may not be appropriate.
- Section F.21- first sentence: We think both "help" and "potentially" are softening the influence of RBC too much. We recommend removing "help" and leaving "potentially".

Once again, ACLI would like to thank everyone involved in the effort to develop both the updated RBC Preamble as well as the RBC Principles. The exposed revisions were thoughtful and reflective of the RBC Model Governance Task Force and Capital Adequacy Task Force's commitment to a deliberative and transparent process. It is our hope that the changes proposed will help ensure the long-term health and

viability of a U.S. life insurance market built on consumer protection and a risk-based regulatory framework.

Sincerely,

Colin Masterson

cc: Dan Daveline, NAIC; Bridgeway Analytics



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 (Task Force) 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.~~

Note: Drafting group members agreed with RAA that referencing the increased precision of RBC is unnecessary.

BRIDGEWAY ANALYTICS

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. It is also used by other stakeholders who are assessing potential regulatory action.

B. The Mission of the Task Force

7. The mission of the Task Force was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. It pursued that objective through the RBC formula, which largely consisted 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.

Note: Drafting Group members agreed with the Academy that the sentence is improved with their edit.

8. To carry out its mission, the Task Force 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 Task Force 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 Task Force 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.

BRIDGEWAY ANALYTICS

Note: NAMIC advocated for this version of the paragraph: *The [Task Force] 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,~~ based on how an update to RBC could meaningfully impact the regulator's assessment of the solvency risk for all or identifiable segments of companies, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels. Updates shall be governed by Principles of Materiality and Prioritization. Changes are appropriate only where they address genuine, material solvency gaps with clear benefit, avoiding unnecessary complexity or burden.*" Drafting Group members felt that the proposed language did not add substance and introduced details that may result in errors of omission.

10. The RBC forecasting, and instructions, as well as RBC reports were developed and are now maintained in accordance with the [Task Force](#) mission and charges.

C. Purpose of Risk-Based Capital Requirements

Note: The Drafting Group members agree with the Academy that Requirements should be added to the section header.

11. The purpose of RBC requirements is to identify potentially weakly capitalized companies. RBC requirements 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 thresholds that enable regulatory intervention in the operations of such companies.

Note: NAMIC advocated adding the following: *"RBC requirements are primarily used to facilitate regulatory actions"*. The Drafting Group members felt the proposed edit repeats the current second sentence and is unnecessary.

12. 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.

Note: NAMIC advocated this version of the paragraph: *"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. These reports appropriately consider only the factors that impact solvency risk to further the regulators' ability to assess solvency risk. 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. Confidentiality and model limitations support the "early-warning" role without turning RBC into a comprehensive risk model for other stakeholders."* The Drafting Group members felt that the first edit did not add substance. Members felt that second suggested edit is narrowing, resulting in a risk of omitting concepts.

BRIDGEWAY ANALYTICS

13. 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, *Risk-Based Capital (RBC) for Insurers Model Act* (#312) 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. ~~Because~~ The RBC framework has been developed with certain regulatory needs in mind. ~~While methodologies and calculations are transparent, state regulators keep company-specific calculations confidential~~, as well as any workout plans for companies that have triggered a regulatory action.

Note: Drafting Group members agreed with the Academy that it is helpful to distinguish between the generic methodologies, which are transparent, and the company-specific calculations, which are confidential. The Drafting Group also discussed why the company-specific calculations are confidential. Two points were made: (1) the potential for revealing confidential business activities with more granular disclosure, and (2) the direct expense of providing those details when made public. To avoid confusion, the first 'calculations' in the sentence was removed after the meeting.

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, lenders, and other regulatory authorities. Any insurer's assertion or disclosure of RBC information must be consistent with applicable state laws. ~~While this Preamble does not establish independent disclosure requirements or prohibitions, when RBC-related information is disclosed outside its stated regulatory purpose and in the context of this paragraph, insurers should, as applicable, provide appropriate contextual information alongside it, describing RBC's purpose as a regulatory tool and its limitations for other uses. The nature and extent of any such contextual information should be determined by the disclosing party based on the facts and circumstances and applicable legal requirements, 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.~~

Note:

- Drafting Group members appreciated the desire for more guidance on disclosure. Members felt that a variant of the ACLI proposed language is appropriate. The revisions to the ACLI language include placing the context alongside the disclosure of RBC, and the additional reference to the context of the paragraph.
- Drafting Group members did not feel the 'public' qualifier was appropriate since the underlying concerns can manifest in private disclosures of RBC information.
- Drafting Group members felt that adding a reference to lenders, suggested by RAA, improves the list
- Drafting Group members felt that RAA edits were overly detailed, introducing the risk of omission. RAA advocated for the following paragraph: "*RBC requirements are a regulatory tool and are not intended or appropriate to rank insurers. Therefore, state laws generally prohibit insurers and their regulators from making assertions or disclosures regarding comparisons of RBC information, subject to limited exceptions.*"

BRIDGEWAY ANALYTICS

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, lenders, and other regulatory authorities. Such disclosures, when limited to communicating RBC information and its regulatory significance, are consistent with the regulatory purpose of RBC. Any insurer's assertion or disclosure of RBC information must be consistent with applicable state laws. When RBC information is used outside of its regulatory purpose of identifying potentially weakly capitalized insurers and facilitating regulatory monitoring, intervention, and corrective action, such disclosure should be accompanied by a statement explaining the limitations of RBC and that it should be considered together with other relevant capital, liquidity, reserving, and risk management information regarding the company. State laws mandate that some elements of the RBC calculation and all RBC Plans are confidential and may not be disclosed."

D. Objectives of Risk-Based Capital Reports

15. 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 with different degrees of anticipated **required** 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 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.

Note: Drafting Group members agreed that the sentence is improved by adding 'required'.

E. Critical Concepts of Risk-Based Capital

18. 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

¹ Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 27, 1991.

BRIDGEWAY ANALYTICS

corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur.”

19. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it may not be meaningful to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. 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, while appropriately accounting for differences in business models as reflected in each of the formulas. 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.

Note: Drafting Group members, for the most part, agreed with NAMIC's suggestion to add additional language referencing different business models, with some noting that the concept is already referenced elsewhere. NAMIC’s proposal was originally targeted for Paragraph 18, although Drafting Group members felt the edit was more appropriate for paragraph 20.

Note: NAMIC advocated for a New Paragraph: “*The formulas appropriately tailor risk recognition to line-specific business models. For property/casualty insurers, this includes particular emphasis on material risk such as reserve inadequacy and premium risk, which have proven effective for early warning. Uniformity across lines is not required where substantial differences in risk nature warrant differentiated treatment.*” Drafting Group members felt the proposed edits covered concepts already in the Preamble and thus were unnecessary.

F. Limited use of Risk-Based Capital

21. RBC ratios are intended to help identify 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. Nevertheless, to the extent RBC ratios are considered for purposes beyond identifying potentially weakly capitalized companies, their usefulness may ~~Since the information content of RBC ratios can~~ be limited for companies that are not at risk of triggering an action level. ~~A~~^a spectrum of factors entering into RBC calculations should be considered when using RBC ratios beyond identifying weakly capitalized companies, including, **but not limited to:**

Note: Drafting Group members agreed with the Academy’s proposed edits but felt the sentence should be split for readability.

- Insurers voluntarily strengthening or weakening assumptions used for reserving, resulting in a reduction or increase of an insurer's RBC ratio.

BRIDGEWAY ANALYTICS

- 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 ~~ratios requirements~~ often represent a relatively stable, durable measure of capital ~~adequacy that is generally not intended to fluctuate materially with short-term market movements.~~

Note: Drafting Group members felt agreed with the ACLI's proposed edits.

- 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.

Note: NAMIC advocated adding the following to the end of the last sentence: '*or where further granularity would not improve solvency assessment relative to the added complexity*'. Drafting group members felt the paragraph already reflects the concept of the edit in the first part of the sentence (i.e., the sentence references "...not sufficiently granular to differentiate risks, given the immateriality as it relates to solvency risk").

- RBC requirements ~~may 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.

Note: Drafting Group members agreed with the ACLI and replaced 'can' with 'may' in the first sentence. However, members decided not to remove the last sentence, as the ACLI had advocated.

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.

Note: Drafting Group members agreed that a simplified version of the sentence is desirable, as RAA advocated. They chose not to incorporate an additional sentence at the end, opting for parsimony: "These principles are foundational to interpretation and maintenance of the Preamble itself." As advocated by NAMIC.

1. **Purpose.** The purpose of RBC requirements is to identify potentially weakly capitalized companies.

BRIDGEWAY ANALYTICS

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.

Note: The Academy advocated for removing the last sentence. Drafting Group members felt that since the Principles were vetted and adopted by the EX-Committee, they should not be considered for revisions.

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.

Note: CAT Ventures advocated incorporating added language: *"material risks are not always continuously observable and may express themselves episodically. This is consistent with RBC's role as a screen rather than a continuous monitor."* Drafting Group members felt that since the Principles were vetted and adopted by the EX-Committee, they should not be considered for revisions.

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.

Note: RAA advocated a revised version of the principle: ***Equal capital for equal risk.** RBC requirements should be guided by the principle of equal capital for equal risk, with statistical safety levels and time horizons appropriate for the underlying risk and regulatory purpose, unless there are substantial differences in the nature of the risk in the context of the business model (e.g., life, health, vs. property & casualty) to warrant alternative treatments. RBC requirements should reflect measurable risks that can impact solvency, including the mitigating effects of risk management.* Drafting Group members felt that since the Principles were vetted and adopted by the EX-Committee, they should not be considered for revisions.

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.

Note:

- RAA advocated for a revised version of the principle: *"Accuracy. RBC requirements should be sufficiently robust to assess solvency risk while avoiding unnecessary complexity and recognizing the role of RBC as a threshold-based regulatory solvency monitoring tool."*
- The Academy advocated for a revised version of the principle: *"Accuracy. Sufficiently precise to assess solvency risk, determine solvency thresholds, while avoiding unnecessary complexity."*

BRIDGEWAY ANALYTICS

- Drafting Group members felt that since the Principles were vetted and adopted by the EX-Committee, they should not be considered for revisions.
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 (now Paragraph 8).** Consolidates text from Paragraphs 16 and 17, which describe CADTF's charges.
- **Paragraph 11 (now Paragraph 14).**
 - 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.

BRIDGEWAY ANALYTICS

- 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 (now Paragraph 19).** 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 (now Paragraph 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.

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.

2026 SUMMER NATIONAL MEETING

NAIC

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

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

1

2026 SUMMER NATIONAL MEETING			
NAIC			
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 (9 th - and 10 th -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
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS			
2			

2026 SUMMER NATIONAL MEETING		NAIC	
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
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS		3	

2026 SUMMER NATIONAL MEETING
NAIC

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.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
4

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.