

FINANCIAL CONDITION (E) COMMITTEE

Financial Condition (E) Committee March 25, 2026, Minutes

Memorandum Regarding Response on Implementation of Agenda Item 2024-06 from the Statutory Accounting Principles (E) Working Group (Attachment One)

Proposal 2025-20-CR (Wildfire Rcat Implementation) (Attachment Two)

Proposed Changes to Collateral Loan RBC for Life Insurers (Attachment Three)

Draft Pending Adoption

Draft: 3/30/26

Financial Condition (E) Committee
San Diego, California
March 25, 2026

The Financial Condition (E) Committee met in San Diego, CA, March 25, 2026. The following Committee members participated: Nathan Houdek, Chair (WI); Michael T. Caljouw, Vice-Chair (MA); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen, Kevin Clark, and Carrie Mears (IA); Vicki Schmidt represented by Steven A. Karrer (KS); Grace Arnold, Kathleen Orth, and Ben Slutsker (MN); Mike Chaney represented by David Browning (MS); Mike Causey represented by Jacqueline Obusek (NC); Kaitlin Asrow represented by Bob Kasinow (NY); Judith L. French and Tom Botsko (OH); Michael Wise represented by Diane Cooper (SC); Amanda Crawford represented by Jamie Walker (TX); Scott A. White, Doug Stolte, and Dan Bumpus (VA); Kaj Samsom (VT); and Jeff Rude (WY).

1. Adopted its 2025 Fall National Meeting Minutes

Director French made a motion, seconded by Commissioner Arnold French, to adopt the Committee's Dec. 11, 2025, minutes (*see NAIC Proceedings – Fall 2025, Financial Condition (E) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the Committee typically adopts one motion to approve its task force and working group reports, which are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items deemed to be controversial). He reminded Committee members that after the adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2025 Summer National Meeting as part of the Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the Members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately.

With respect to the task force and working group reports, Commissioner Houdek asked the Committee: 1) whether there are any items that should be discussed further; and 2) whether there are other issues not up for adoption that are currently being considered by task forces or working groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met March 22, Feb. 19, and Jan. 22 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 22 and March 16 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

Commissioner Ommen made a motion, seconded by Commissioner Caljouw, to adopt the reports of its task forces and working groups, including: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Invested Assets (E) Task Force; and Reinsurance (E) Task Force. The motion passed unanimously.

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3. Received an Update on the AI Systems Evaluation Tool

Commissioner Samsom described how, earlier in 2026, the Big Data and Artificial Intelligence (H) Working Group finalized an initial draft of the artificial intelligence (AI) systems evaluation tool. This tool represents the latest step at the NAIC to adapt its examination or related processes for insurance company use of AI. The tool gives regulators an optional resource to assist in evaluating a company's use of AI systems. He stated that the pilot of the tool officially started earlier this month, meaning that regulators were cleared to send inquiries related to the tool. The pilot group of regulators is now holding weekly calls to coordinate company selection, share insights on anticipated responses, and receive training on the tool and the related data science, compliance, and governance concepts it reflects.

Commissioner Samsom stated that a common question is who will receive the tool. He said that it is a domestic regulator decision, but the pilot regulators are generally engaging their domestic companies to ensure the use of the tool is explained and understood. It is also worth noting that where a company is part of a group, the pilot regulators are coordinating among pilot group members or reaching out to non-pilot states to ensure all domestic states are aware of the inclusion of the company in the pilot. Commissioner Samsom noted that each domestic regulator has sent inquiries to a range of companies, but the pilot group will not be releasing specifics on company selections. He did, however, offer some general insights, noting that although there is a mix, more property/casualty (P/C) and life companies have been selected for the pilot. He said it is also worth noting that most of the pilot states selected between one and 10 insurers, with two states sending inquiries to more than 10. Commissioner Samsom also noted that regulators are using the tool to support a mix of regulatory processes, including a market conduct exam, financial exam, financial analysis, and as part of a more general regulatory inquiry.

Commissioner Samsom stated that communication throughout the pilot process is key, so the pilot state regulators are collaborating and sharing information to create a feedback loop and learn from each other. Throughout the pilot, the leadership has stressed open lines of communication between participating companies and regulators. Those leaders also anticipate creating a coordinated mechanism to solicit feedback on the tool for participating companies. Commissioner Samsom concluded by noting that the Working Group recognizes the broad interest at the NAIC, so updates on this initiative will be provided at future NAIC meetings and at multiple groups, including actuarial task force meetings, the Working Group's meetings, and several committee meetings.

4. Received an Update on the Work of the Invested Assets (E) Task Force

Mears summarized the activities of the Invested Assets (E) Task Force since its formation effective Jan. 1, 2026. She noted the new Task Force's subsidiary working groups, including the Investment Designation (E) Working Group, which met immediately before the Task Force. Included in that Working Group's report was an announcement of the increase in the number of private letter ratings rationale reports that have been received, which highlights the strain being put on the resources of the Securities Valuation Office (SVO) to meet its regulatory objectives in terms of the review of both the substance and actual analysis of the information in those reports. She emphasized this activity, noting that while no action was necessary at this time, she anticipated that the Task Force would return to the Committee with ways to move forward on the resource issues.

The update also included a summary of the activities of the Credit Rating Provider (E) Working Group, which is planning to meet in late April. During this meeting, a substantive update from the NAIC's consultant on the project, PricewaterhouseCoopers (PWC), is expected.

The report also included an update on the work of the Investment Analysis (E) Working Group. The Working Group met once in regulatory-to-regulator session to establish a detailed six-month plan, which includes, among other

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things, a review of residential mortgage loans, level 3 assets, and an analysis of the new Schedule D reporting lines.

The Task Force itself spent most of its meeting receiving a presentation from Neuberger Berman on residential mortgage loans. Mears noted that the expectation is that analysis of the topic would continue, which may ultimately result in reporting back to the Committee on possible referrals to other groups for changes in reporting or disclosure. She also noted that the Task Force would continue to welcome outreach for specific topics where education and insight into other investment areas would be helpful.

Commissioner Houdek asked for clarification on two items: 1) the actual increase in private letter rationale reports; and 2) the timing of the release of the PWC report on due diligence. It was noted that, at a high level, the rationale reports increased from approximately 8,000 at the end of 2024 to more than 12,000 at the end of 2025. Mears responded that the PWC report is expected to be released for comment at the Credit Rating Provider (E) Working Group's meeting at the end of April. Commissioner Houdek added that he expected the Task Force to continue to provide updates to the Committee for the rest of 2026 as it evaluates whether the new Task Force is achieving its objectives set in 2025.

5. Received an Update from the Statutory Accounting Principles (E) Working Group on a Coinsurance/YRT Referral

Clark summarized that in connection with the referral the Statutory Accounting Principles (E) Working Group received from the Committee after the 2025 Fall National Meeting discussion regarding combination coinsurance/yearly renewable term (YRT) reinsurance agreements, the Working Group followed up on two items. The first was whether further training on permitted practices could be used to address the transition issues associated with existing contracts for this particular item. The second was to consider whether any tools were needed to accommodate states or jurisdictions that do not allow permitted practices as a matter of policy, since that was a topic of discussion at the 2025 Fall National Meeting.

To address these matters, an example permitted practice was distributed to all chief financial regulators to provide them guidance on how states could consider designing a permitted practice that allows for an orderly transition of existing contracts while addressing potential solvency concerns. Additionally, a survey was included asking whether any state needed further flexibility to be considered other than that provided through the permitted practice process. Clark noted that 47 responses were received and that all 47 states noted that no further flexibility was needed. During the Working Group's most recent meeting, it received a referral from the Committee and approved the response to the Committee (Attachment One) to inform it of the actions taken.

6. Adopted Proposal 2025-20-CR (Wildfire Rcat Implementation)

Botsko explained that proposal 2025-20-CR adds wildfire information to the current hurricane and earthquake information in the Rcat portion of the P/C risk-based capital (RBC) formula. While catastrophe risk was considered when the RBC formula was first implemented in the mid-1990s, hurricane and earthquake risk were not formally added to the P/C RBC formula until 2017. This implementation was after several years of collecting data on an informational-only basis. He noted that in the late 2010s, wildfire frequency increased significantly. In 2021, the Climate and Resiliency (EX) Task Force sent a referral to the Catastrophe Risk (E) Subgroup to expand the catastrophe perils in the P/C RBC formula, specifically including the wildfire peril. Since that time, the Subgroup has been in discussions with industry and regulators to evaluate the wildfire data reported in the RBC annual statement pages as informational-only since 2022. Botsko explained that NAIC staff recently evaluated the wildfire impact on RBC with 2024 and 2025 information.

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Botsko stated that the 2024 data showed that two companies worsened in their RBC action level, while the 2025 data showed no shifts in action levels. While there are impacts on RBC, the impact on the action levels is minimal. More importantly, the reflection of this risk in the RBC formula is important for the reflection of catastrophe risk. It is worth noting that the Subgroup is currently evaluating severe convective storms as another potential catastrophic risk peril to be considered using the same procedure as wildfires. This information has been collected since 2024, and it is expected that the Subgroup will move forward with this peril in the next two years. Botsko noted that this proposal was exposed through the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophic Risk (E) Subgroup for a public comment that ended Jan. 11, 2026. No comments were received. The Working Group, Subgroup, and Capital Adequacy (E) Task Force adopted this proposal March 24.

Commissioner White made a motion, seconded by Commissioner Caljouw, to adopt proposal 2025-20-CR (Wildcat Rcat Implementation) (Attachment Two). The motion passed unanimously.

7. Received an Update on Proposed Changes to Collateral Loan RBC for Life Insurers

Slutsker began his summary of this issue (Attachment Three) with the point that when considering collateral loans, it is helpful to think about loans that are secured by admissible assets. For example, in a mortgage, if the loan cannot be paid, the collateral normally collected is the home. However, in the case of collateral loans, other types of assets, such as bonds, shares of stock, or mortgage loans, are all collected as collateral. Therefore, the basic concern is that these loans are receiving a flat capital charge equal to 6.8% of the asset value, but in some of these cases, the collateral backing these loans can be fairly risky assets themselves. A good portion of these may be sourced from an affiliate or have no observable market value and may otherwise receive a 30% or 45% capital charge, or much larger than the 6.8% currently received. So, instead of holding the assets directly for RBC, they are held in a loan structure and receive a more favorable RBC charge.

Slutsker stated that the proposal is to use a look-through approach, meaning the charges are based on the risk of the collateral rather than the loan itself. Slutsker noted that additional background on this issue is that this project started before 2024, when an RBC proposal from the American Council of Life Insurers (ACLI) used a look-through approach for collateral loans backed by mortgage loans, in which case a favorable RBC impact proposal was adopted. At that time, however, there was general agreement that, as a next step, the look-through approach should be applied more broadly to all types of collateral loans, which led to the current situation. Since then, there has been ongoing work, and there is general agreement on two items. The first is to use a look-through approach with a percentage reduction to reflect what is called overcollateralization, or the fact that the value of the collateral exceeds the loan amount itself. The second is to make this proposed change effective for year-end 2027 to allow more companies to prepare.

Slutsker stated that two proposals have been developed to address this item. One is a constant percentage reduction for the look-through approach, and the other, which was just exposed, is from the ACLI and proposes a varying percentage reduction based on different levels of overcollateralization for each asset. The advantage of the first proposal is that it does not require verifying the fair value of the assets that cannot be observed in the market. The advantage of the second proposal is that the risk change better captures the overcollateralization.

Commissioner Houdek thanked Slutsker for the summary and update and noted that since the Committee is not taking any action, this was for awareness only.

Commissioner Samsom asked whether this topic included loans where the collateral is solar installations. Slutsker responded that it did not and noted that the most common collateral is a limited partnership investment secured by admitted assets. Clark clarified that this project should not be confused with the project regarding collateralized loan obligations (CLOs), which are an entirely different asset class.

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Director French asked for clarification on the timing of this topic. Slutsker noted that Life Risk-Based Capital (E) Working Group has agreed via a straw poll to an effective 2027 date, which would allow plenty of time to work through the final details before adoption is needed in early 2027. He said, however, that he expected the discussions to be concluded by the end of 2026. Karrer stated that Kansas appreciated the Working Group's position on the timing, which considered comments received from various parties, including Kansas's.

Having no further business, the Financial Condition (E) Committee adjourned.

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MEMORANDUM

TO: Commissioner Nathan Houdek, (WI), Chair of the Financial Condition (E) Committee
Commissioner Michael T. Caljouw, (MA), Vice Chair of the Financial Condition (E) Committee

FROM: Kevin Clark (IA), Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman (OH), Vice Chair of the Statutory Accounting Principles (E) Working Group

DATE: March 23, 2026

RE: Response on Implementation of Agenda Item 2024-06

This memorandum is in response to the January 12, 2026, referral from the Financial Condition (E) Committee regarding implementation of agenda item *2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts* (2024-06). The referral directed the Statutory Accounting Principles (E) Working Group to take steps to consider: 1) further education of how permitted practices may be used to address transition issues for 2024-06, and 2) if any tools were needed to accommodate states or jurisdictions that do not allow permitted practices as a matter of policy.

On January 26, 2026, NAIC Staff sent two items to the Chief Financial Regulators in all 56 member jurisdictions with reference to the referral from the E Committee:

1. An example permitted practice that included illustration and guiding notes for how states may consider a permitted practice for the transition of existing Co/YRT agreements.
2. A survey asking each member whether they need additional transition flexibility to be considered other than that provided through the permitted practice process.

NAIC Staff received responses from 47 members. All 47 responses stated that no additional flexibility other than that provided through the permitted practice process was needed.

These steps were discussed at the Spring National Meeting of the Statutory Accounting Principles (E) Working Group on March 23, 2026. As we have not identified any members needing further consideration of transition guidance, the Working Group concluded that no further steps are needed at this time and directed this update to be sent to the E Committee. Absent any further direction from the E Committee, the Working Group will consider this matter complete.

Please contact Robin Marcotte rmarcotte@naic.org for questions regarding this response.

Cc: Robin Marcotte, Julie Gann, Jake Stultz, Jason Farr, Dan Daveline

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Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input checked="" type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>11/12/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u></p> <p>NAME: <u>Wanchin Chou</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Connecticut Department of Insurance</u></p> <p>ADDRESS: <u>153 Market St., Hartford CT 06103</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item #<u>2025-20-CR</u> Year <u>2026</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input checked="" type="checkbox"/> TASK FORCE (TF) <u>3/24/2026</u></p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>3/23/2026</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) <u>3/23/2026</u></p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>11/12/2025</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) <u>11/12/2025</u></p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|--|--|
| <input type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Building on the precedent set by the 2021 wildfire review, an ad hoc group was re-established and began a new evaluation cycle on March 18, guided by the Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling for All Practice Areas. This comprehensive process included high-level analysis, confidential assessments, and detailed impact studies. In addition to the original three vendors—Moody Risk Management Solutions (RMS), Verisk Extreme Event Solutions, and KCC—CoreLogic joined as a new participant for this review cycle. Starting in early June and July, the group collaborated with all four vendors to conduct a second round of impact analysis using consistent exposure inputs. On September 25, the group reconvened to address feedback from the impact analysis presentations. A comparative review of the initial 2022 assessment and the current evaluation revealed that model outputs have become increasingly consistent. As a result, the Subgroup now has greater confidence in the models and their suitability for risk management applications.

This proposal formally recommends adding wildfire peril to the Rcat component, reflecting the enhanced reliability and applicability of the catastrophe models.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

**CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027BI, PR027BII, PR027BIII, PR027BIV PR027C, PR027CI, PR027CII, PR027CIII, PR027CIV, PR027D, PR027,
PR027INT, AND PR027INTA**

The catastrophe risk charge for earthquake (PR027A), hurricane (PR027B), wildfire (~~PR027C~~) and convective storms for informational purposes only (~~PR027C~~ and PR027D) risks is calculated by multiplying the RBC factors by the corresponding modeled losses and reinsurance recoverables. The risk applies on a net basis with a corresponding contingent credit risk charge for certain categories of reinsurers. Data must be provided for the worst year in 50, 100, 250, and 500; however, only the worst year in 100 will be used in the calculation of the catastrophe risk charge. While projected losses modeled on an Aggregate Exceedance Probability basis is preferred, companies are permitted to report on an Occurrence Exceedance Probability basis if that is consistent with the company's internal risk management process.

The projected losses can be modeled using the following NAIC approved third-party commercial vendor catastrophe models: AIR, CoreLogic, ~~RMS, KCC~~ for earthquake, ~~and hurricane, and wildfire~~ only, ~~RMS, KCC~~, the ARA HurLoss Model (hurricane ~~only~~), or the Florida Public Model for hurricane ~~only~~, as well as catastrophe models that are internally developed by the insurer or that are the result of adjustments made by the insurer to vendor models to represent the own view of catastrophe risk (hereinafter "own models").

However, an insurer seeking to use an own model must first obtain written permission to do so by the domestic or lead state insurance regulator. In the situation where the model output is used to determine the catastrophe risk capital requirement for a single entity, the regulator granting permission to use the own model is the domestic state. In the situation where the model output is used to determine the catastrophe risk capital requirement for a group, the grantor is the lead state regulator. In the situation where the insurer seeking permission is a non-U.S. insurer, the grantor shall be the lead state regulator. Under all scenarios, the regulator that is granting permission should inform other domestic states that have a catastrophe risk exposure and share the results of the review.

To obtain permission to use the own model, the insurer must provide the domestic or lead state insurance regulator with written evidence of each of the following:

1. The nature, scale, and complexity of the insurer's catastrophe risk make it reasonable for the insurer to use its own model.
2. The own model is used for catastrophe risk management, capital assessment, and the capital allocation process.
3. The insurer has validated the own model(s) for each of the perils included in the RBC catastrophe risk charge. The insurer is including both U.S. and non-U.S. exposures in the calculation of the RBC charge.
4. The insurer has individuals with experience in developing, testing and validating internal models or engages third parties with such experience.
5. The own model was developed using reasonable data and assumptions.
6. The insurer must provide supporting model documentation and/or the differences from the vendor models if modified from the vendor models, supporting that the model was developed using reasonable data and assumptions. The insurer must provide a copy of the latest validation report and the insurer is solely responsible for the relevant cost. The validation report must provide a description of the scope, content, results and limitations of the validation, the individual qualifications of validation team and the date of the validation. Both the model documentation and the model validation report must be provided at a minimum once every five years, or whenever the lead or domestic state calls an examination; whenever there is a material change in the model; or whenever there is a material change in the insurer's exposure to catastrophe exposure.
7. The results of the own model for each relevant peril should be compared with the results produced by at least one of the following models: AIR, CoreLogic, ~~RMS, and KCC~~ for earthquake, ~~and hurricane and wildfire~~ only, ~~RMS, KCC~~, ARA HurLoss (hurricane ~~only~~), or the Florida Public Model for hurricane ~~only~~. The insurer must provide the comparison and an explanation of the drivers of differences between the results produced by the internal model vs. results produced by the selected prescribed model. Evidence that the own model produces reasonable results must be provided at a minimum once every

five years, or whenever the lead or domestic state calls an examination; whenever there is a material change in the model; or whenever there is a material change in the insurer's exposure to catastrophe exposure.

8. If the own model has been approved or accepted by the non-U.S. lead supervisor for use in the determination of regulatory capital, the insurer must submit evidence, if available, from the non-US lead supervisor of the most recent approval/acceptance including the description of scope, content, results and limitations of the approval/acceptance process and dates of any planned future approval/acceptance, if known. The name and the contact information of a contact person at the non-US lead supervisor should also be provided for questions on the approval/acceptance process.

If the lead or domestic state determines that permission to use the own model cannot be granted, the insurer shall be required to determine the RBC Catastrophe Risk Charge through the use of one of the third-party commercial vendor models (AIR, CoreLogic, RMS, and KCC for earthquake, ~~and~~ hurricane, ~~and~~ wildfire only, ~~RMS, KCC,~~ ARA HurLoss (hurricane ~~only~~)), or the Florida Public Model for hurricane only, as advised by the lead state or domestic state.

If the lead or domestic state determines that permission to use the own model can be granted to determine the RBC Catastrophe Risk Charge, the model will be subject to additional review through the ongoing examination process. If, as a result of the examination, the lead or domestic state determines that permission to use the own model should be revoked, the insurer may be required to resubmit the risk-based capital filing and any past filings so impacted where own model was used, as directed by the lead state or domestic state.

If the insurer obtains permission to use the own model, it cannot revert back to using third-party commercial vendor models to determine the RBC Catastrophe Risk Charge in subsequent reporting periods, unless this is agreed with the lead or domestic state that granted permission.

The contingent credit risk charge should be calculated in a manner consistent with the way the company internally evaluates and manages its modeled net catastrophe risk.

Note that no tax effect offsets or reinstatement premiums should be included in the modeled losses. Further note that the catastrophe risk charge is for earthquake, ~~and~~ hurricane, ~~and~~ wildfire risks only.

As per the footnote on this page, modeled losses to be entered PR027A, PR027B PR027C and PR027D in Lines (1) through (4) are to be calculated using one of the **third-party commercial vendor** models – AIR, CoreLogic, RMS, and KCC for earthquake, ~~and~~ hurricane, ~~and~~ wildfire only, ~~RMS, KCC,~~ ARA HurLoss (hurricane ~~only~~); or the Florida Public Model (~~for~~ hurricane only) **or the insurer's own catastrophe model**; and using the insurance company's own insured property exposure information as inputs to the model. The insurance company may elect to use the modeled results from any one of the models, or any combination of results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions but will be expected to use the same exposure data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. Any exceptions must be explained in the required *Attestation Re: Catastrophe Modeling Used in RBC Catastrophe Risk Charges* within this RBC Report.

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C
(For Informational Purposes Only)

Wildfire	Reference	<u>Modeled Losses</u>			
		(1) Direct and Assumed	(2) Net	(3)† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				
(5) Worst Year in 1000 (For Informational Purposes Only)	Company Records				
				(5) <u>Y/N</u>	
(6) Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?					
		<u>Reference</u>	<u>Amount</u>	<u>Factor</u>	<u>RBC Requirement (C(6) * Factor)</u>
(7) Net Wildfire Risk		L(2) C(2)	0	1.000	0
(8) Contingent Credit Risk for Wildfire Risk		L(2)(C(3) - C(4))	0	0.018	0
(9) Total Wildfire Catastrophe Risk (AEP Basis)		If L(6) C(5) = "N", L(9) C(6) = L(7) C(7)+ L(8) C(7), otherwise "0"	0	1.000	0
(10) Total Wildfire Catastrophe Risk (OEP Basis)		If L(6) C(5) = "Y", L(10) C(6) = L(7) C(7)+ L(8) C(7), otherwise "0"	0	1.000	0
(11) Total Wildfire Catastrophe Risk		L(9) C(7) + L(10) C(7)	0		0
<u>Disclosure in lieu of model-based reporting:</u>				(8)	(9)
(12) For a company qualifying for the exemption under PR027INT C (10), complete 12a through 12c below:				<u>Direct and Assumed</u>	<u>Net</u>
a. Provide the company's gross and net 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.					
b. Provide details on how the company estimated the amounts shown in 12a.					
c. Provide a narrative disclosure about how the company manages its wildfire risk.					

Lines (1)-(5): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, ~~or~~ KCC, Corelogic; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

CALCULATION OF CATASTROPHE RISK CHARGE PR027

	<u>Reference</u>	<u>(1)</u> <u>RBC Amount</u>
(1) Total Earthquake Catastrophe Risk	PR027A L(10) C(7)	<u>0</u>
(2) Total Hurricane Catastrophe Risk	PR027B L(11) C(7)	<u>0</u>
(3) Total Wildfire Catastrophe Risk	PR027C L(11)C(7)	<u>0</u>
(4) Total Convective Storms Catastrophe Risk	PR027D L(10)C(7)	<u>0</u>
(5) Total Catastrophe Risk (Reat)	$\text{SQRT}(L(1)^2 + L(2)^2 + L(3)^2)$	<u>0</u>
(5a) Total Catastrophe Risk (Reat For Informational Purposes Only)	$\text{SQRT}(L(1)^2 + L(2)^2 + L(3)^2 + L(4)^2)$	<u>0</u>

Lines 3, 4, and 5a are for informational purposes only

Collateral Loans – Proposed RBC Treatment

(2025-16-L MOD Collateral Loans)

- **Collateral loans** are loans that are collateralized by any type of admissible invested asset. This proposal is an extension of an ACLI proposal adopted in 2024 that allows “look-through RBC” for collateral loans secured by mortgages.
 - Look-through RBC means applying the RBC of the underlying collateral to the loan it secures.
 - The proposal would extend the look-through RBC approach to other types of collateral loans.
- **Regulatory concern** is that assets with high RBC charges are placed within a loan structure to receive more favorable RBC treatment than its risk warrants.
 - Collateral loans currently receive a charge equal to 6.8% of asset value.
 - In many cases, the collateral backing these loans would otherwise receive a 30% or 45% charge.
 - More than 50% of the loans in scope consist of collateral comprised of affiliated investments and are highly concentrated in a small number of companies.
 - While most fixed income investments have objective risk assessments (e.g. credit ratings) to determine capital requirements, this does not exist for collateral loans.
- **Current proposal** is to use a “look-through approach”
 - Collateral loans will receive a charge based on the underlying collateral backing the loan, extending the 2024 ACLI proposed approach for mortgage-backed collateral loans to other types of collateral loans.
 - Latest proposal includes a reduction to these charges to give credit for collateral in excess of the loan value
 - Discussion on whether to adopt effective for 12/31/2026 or 12/31/2027.