Draft date: 12/5/25

2025 Fall National Meeting
Hollywood, Florida

RISK-BASED CAPITAL MODEL GOVERNANCE (EX) TASK FORCE
Wednesday, December 10, 2025
9:15 – 10:15 a.m.
Diplomat Convention Center—Grand Ballroom East—Level 2

ROLL CALL

NAIC Member	Representative	State/Territory
Judith L. French, Co-Chair	Judith L. French, Co-Chair	Ohio
Nathan Houdek, Co-Chair	Nathan Houdek, Co-Chair	Wisconsin
Doug Ommen, Co-Vice Chair	Doug Ommen, Co-Vice Chair	Iowa
Michael Wise, Co-Vice Chair	Michael Wise, Co-Vice Chair	South Carolina
Michael Conway	Michael Conway	Colorado
Josh Hershman	Josh Hershman	Connecticut
Karima M. Woods	Karima M. Woods	District of Columbia
Michael Yaworsky	Michael Yaworsky	Florida
Dean L. Cameron	Dean L. Cameron	Idaho
Robert L. Carey	Robert L. Carey	Maine
D.J. Bettencourt	D.J. Bettencourt	New Hampshire
Mike Causey	Mike Causey	North Carolina
Jon Godfread	Jon Godfread	North Dakota
Cassie Brown	Cassie Brown	Texas
Scott A. White	Scott A. White	Virginia
Patty Kuderer	Patty Kuderer	Washington

NAIC Support Staff: Dan Daveline

AGENDA

1. Consider Adoption of its Dec. 3, Oct. 23, and Summer National Meeting Minutes—*Commissioner Nathan Houdek (WI)* — Attachment One

2. Discuss Outstanding Comments on Principles —*Director Judith L. French (OH)*

3. Consider Adoption of Revised Principles —*Commissioner Nathan Houdek (WI)* — Attachment Two

4. Hear a Presentation on Work in Progress for 2026 — Attachment Three
—Amnon Levy (Bridgeway Analytics)

5. Discuss Any Other Matters Brought Before the Task Force
—Director Judith L. French (OH)

6. Adjournment

Draft: 12/4/25

Risk-Based Capital Model Governance (EX) Task Force
Virtual Meeting
December 3, 2025

The Risk-Based Capital Model Governance (EX) Task Force met Dec. 3, 2025. The following Task Force members participated: Judith L. French, Co-Chair (OH); Nathan Houdek, Co-Chair (WI); Doug Ommen, Co-Vice Chair, and Kevin Clark (IA); Michael Wise, Co-Vice Chair, represented by Geoffrey Bonham (SC); Michael Conway represented by Rolf Kaumann (CO); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Robert L. Carey (ME); Mike Causey represented by Jacqueline Obusek (NC); Jon Godfread represented by Matt Fischer (ND); D.J. Bettencourt represented by Edward Cataldo (NH); Cassie Brown, Jamie Walker, and Rachel Hemphill (TX); Scott A. White represented by Dan Bumpus (VA); and Patty Kuderer represented by Steve Drutz (WA).

1. Discussed the Revised RBC Principles

Amnon Levy (Bridgeway Analytics) provided an overview and summary (Attachment One-A) of the risk-based capital (RBC) revised principles (Attachment One-B). He reminded the Task Force of its goals, Bridgeway's role, and provided a retrospective of the process. He then reminded the group of the various concepts discussed in the context of principles for the purpose and use of RBC, starting with traditional purpose and use concepts and then moving on to other purpose and use concepts. He mentioned the work to modify these areas, as well as possible additional disclosures for the preamble, which stemmed from the joint meeting with the Capital Adequacy (E) Task Force on Oct. 23.

Levy said that, as outlined in the current preamble, the purpose of RBC is to identify weakly capitalized companies, and then regulators use RBC to take action against these companies. RBC is one of many tools within the statutory framework that provide state regulators with insight into potential risks. RBC ratios serve as an element of the state regulators' assessment of capital adequacy for insurance groups through group capital calculation (GCC) and the aggregation method (AM), which assigns meaning to values outside regulatory triggers.

He discussed how RBC conveys information regarding the solvency of regulated legal entities, as assessed by state regulatory authorities, to relevant stakeholders and the public. Rating agencies (e.g., S&P) use RBC ratios in assessing potential regulatory action, and as trigger points near, they are more likely to be reflected in financial strength ratings, all else being equal. Caution should be used when RBC is far from a regulatory trigger. Some insurers manage capital at the holding company level or through non-regulated entities, potentially adding capital when RBC drops below a reasonable level.

Levy noted that other concepts that have been discussed include 1) the need for RBC to protect policyholders without unnecessarily impeding access to insurance products that meet consumer needs; 2) protecting solvency and maintaining affordable insurance products; 3) prudent hedging, which has been cited as a motivating factor in recent generator of economic scenarios (GOES) and RBC C-3 calibrations; and 4) how the RBC framework maintains integrity, adaptability, and global competitiveness.

He discussed the differing opinions on whether and where these concepts should be situated within the governance framework. Notably, regulators have opted for parsimony in their principles, in part to avoid errors of omission that can result from including too many details, and to ensure that concepts remain relevant over time. He noted that while no objections have been raised over, for example, the concept that prudent hedging is a motivating factor in developing RBC C-3, regulators have opted to consider including the concept in model risk management standards, where an assessment of potential incentives for hedging, in this case, would be included as part of model development since the update to RBC is material. He said that in the future, this could be in addition to an impact analysis conducted through field testing.

Levy then directed the Task Force to the revised principles, specifically the purpose and use. He discussed the development of model development standards and how some drafting group members raised concerns that such standards could become onerous, making updates to RBC prohibitively cumbersome. The drafting group recommended that the Task Force use sensitivity when developing these standards.

2. Received Written Comments on the Revised RBC Principles

Director French stated her appreciation to all of the parties that provided written comments (Attachment One-C). allowed each commenter to summarize their comments (and describe whether their concerns were addressed through the revised principles.

A. ACLI

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) said the ACLI appreciates the work of the Task Force and its coordination with the Capital Adequacy (E) Task Force, noting that its members had not reviewed the revised principles. She stated, however, that its preliminary observations on the revised principles were that many of its concerns, which were included in its comment letter, were addressed in the final version. The ACLI is particularly supportive of the proposed definition of purpose and use, as well as the inclusion of these concepts into the principles. She said the notes attached to the principles were helpful and suggested including some of that language, as well as some of the language found in the slides.

B. APCIA

Jay Muska (American Property Casualty Insurance Association—APCIA) said the APCIA was generally supportive of the previous version of the principles and remains generally supportive of the current version, pending further review by its members. He noted that its comment letter focused on two issues: equal capital for equal risk and how this would be implemented in practice, with the goal of developing RBC factors to reasonably capture the risk. The APCIAs other concern is ensuring proper discussion with international regulators.

C. NAMIC

Colleen Scheele (National Association of Mutual Insurance Companies—NAMIC) said NAMIC appreciates the time, effort, and thoughtfulness invested in the project, which is evident in the final result. NAMIC does not have any major issues with the principles and is committed to continued work.

D. RRC

Lynn Manchester (Risk & Regulatory Consulting—RRC) said the RRC believes the principles have become more general with less detailed wording and are now concerned that they are overly vague. She then summarized the remainder of its comment letter.

Levy responded that some of the items noted appear to have been addressed by the changes made to the notes attached to the principles. Manchester noted that RRC's comments were in light of the notes, but stated appreciation that more work would be done on model governance.

E. UHG

James Braue (UnitedHealth Group—UHG) said UHG's comment letter agreed with the principles but identified areas for refinement, many of which were not addressed in the revised principles. However, based on the earlier presentation, these areas may be more appropriately addressed in the model governance standards that will be developed. He noted the need for regulators to conduct periodic reviews to determine whether the RBC formulas continue to meet their intended purpose.

Levy responded that this is an important point. Bridgeway Analytics has advocated for this process, and it is part of the initial draft of the model risk management standards. He emphasized the need to ensure the process also applies to the broader regulatory framework and that it is properly aligned with statutory accounting and reserving.

F. Academy

Katie Dzurec (American Academy of Actuaries—Academy) said many of the Academy's comments had been addressed, but that she will note a couple of items. First, the Academy suggested that clarification be provided regarding the definition of an identifiable segment of companies. Second, it concurred with the Task Force that RBC requires a process to capture emerging risks, and the Academy is willing to assist the NAIC in developing that process to capture those risks in a timely fashion. It can also assist in developing a process to holistically identify risks of higher priority, and it is willing to support the Task Force with those efforts. She noted that the Academy's Risk Management and Financial Reporting Council on Prudential Regulation has edits to the preamble. She also reiterated the importance of transparency and RBC information.

3. Requested Comments from Regulators on the Revised RBC Principles

Commissioner Houdek asked for comments from regulators on the revised principles. No comments or concerns were made.

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

SharePoint/NAIC Support Staff Hub/Committees/EX CMTE/RBCMGTG/120325 RBC Model Gov TF Minutes

Draft: 12/4/25

Risk-Based Capital Model Governance (EX) Task Force
E-Vote
December 3, 2025

The Risk-Based Capital Model Governance (EX) Task Force conducted an e-vote that concluded Dec. 3, 2025. The following Task Force members participated: Judith L. French, Co-Chair (OH); Nathan Houdek, Co-Chair (WI); Michael Wise, Co-Vice Chair (SC); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Jane Nelson (FL); Dean Cammeron represented by Eric Fletcher (ID); Mike Causey represented by Jacqueline Obusek (NC); Jon Godfread represented by Matt Fischer (ND); D.J. Bettencourt represented by Edward Cataldo (NH) and Cassie Brown represented by Jamie Walker (TX).

1. Adopted its 2026 Proposed Charges

The Task Force considered adoption of its 2026 proposed charges, which remained the same from 2025.

Director Wise made a motion, seconded by Obusek, to adopt the Task Force's 2026 proposed charges. (Attachment Two-A). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/EX CMTE/RBCMGTF/Fall National Meeting/120225 RBC Model Gov TF Email Vote.docx

Draft: 11/1/25

Risk-Based Capital Model Governance (EX) Task Force
and Capital Adequacy (E) Task Force
Virtual Meeting
October 23, 2025

The Risk-Based Capital Model Governance (EX) Task Force met Oct. 23, 2025, in joint session with the Capital Adequacy (E) Task Force. The following Risk-Based Capital Model Governance (EX) Task Force members participated: Judith L. French, Co-Chair (OH); Nathan Houdek, Co-Chair (WI); Doug Ommen, Co-Vice Chair (IA); Micheal Wise, Co-Vice Chair (SC); Rolf Kaumann (CO); Jack Broccoli (CT); Trim Bradley (FL); Eric Fletcher (ID); Jacqueline Obusek (NC); Matt Fischer (ND); Ned Cataldo (NH); Jamie Walker (TX); Stephen Thomas (VA); and Steve Drutz (WA). The following Capital Adequacy (E) Task Force members participated: Mike Yanacheak, Chair (IA); Tom Botsko, Vice Chair (OH); David Phifer (AK); Charles Hale (AL); Thomas Reedy (CA); Rolf Kaumann (CO); Wanchin Chou (CT); Trim Bradley (FL); Matt Cheung (IL); Roy Eft (IN); Tish Becker (KS); Vicki Lloyd (KY); Fred Andersen (MN); William Leung (MO); Matt Fischer (ND); Tadd Wegner (NE); David Wolf (NJ); Liz Ammerman (RI); Will Davis (SC); Jamie Walker (TX); Stephen Thomas (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Heard Introductory Remarks

Director French said part of the purpose of the meeting was to provide information to members of both Task Forces, but focusing on Risk-Based Capital Model Governance (EX) Task Force members, who may not be as familiar with the past discussions on the topics related to the Preamble of the risk-based capital (RBC) formulas. The Preamble relates specifically to the purpose and use of RBC, which the Risk-Based Capital Model Governance (EX) Task Force has discussed. The ultimate goal is to ensure that the important work of both Task Forces is consistent, and to assist in those efforts, the discussion will begin with some history of the Capital Adequacy (E) Task Force, with an overview by its chair, Yanacheak. Once that history has been provided, Task Force members, interested regulators, and interested parties will be given an opportunity to ask questions. The goal is to educate members about what is occurring within the Capital Adequacy (E) Task Force and allow those who have submitted comments to share a summary with the audience. Director French reiterated the educational goal and encouraged as much interaction as possible during the meeting.

2. Heard an Update on the RBC Preamble Issue

Yanacheak provided a history of the Preamble discussion. He said that in the late 1980s and early 1990s, by and large, U.S. insurers had to hold a flat minimum capital level that could vary by state. He gave an example of something as simple as $5 million. As anyone in financial regulation can see today, realistically, comparing multiple companies with varying risk and capital levels would be cumbersome. RBC was created knowing they needed to create a different minimum threshold for capital. The RBC instructions are quite long and extensive, usually over a couple hundred pages. The Preamble is effectively the opening statement that explains RBC at a very high level.

Yanacheak said that, regarding the proposed changes to RBC, an ad hoc group of regulators and industry members had a few meetings in 2023 to discuss various related issues. One of those was to look at making changes to the RBC Preamble following those meetings. It was clear in those meetings that there was a difference of opinion, and any further work would be best done in a more formalized public setting within the NAIC committee structure. There is no working group for this, and that is why it is now a responsibility of the Capital Adequacy (E) Task Force.

Yanacheak said the purpose of the changes being discussed concerns the potential for people to unknowingly rely on RBC for purposes for which it is not currently being maintained. More specifically, the regulators who have been involved want to be clear that RBC is being maintained as a minimum threshold, not as a tool to rank, rate, or compare companies. If companies are adequately capitalized, RBC has no value in being maintained to enable or help comparability between two companies. One of the issues brought up by the ad hoc group had to do with a statement to clarify that one should not compare a company with a 400% RBC ratio to one with a 600% RBC ratio. Some took issue with that, saying that because those two numbers are so far apart, there should be some indicative value. Others disagreed, saying that it is still not appropriate because the types of risks companies have might be very different, and RBC is only maintained by the regulators for a threshold level. At the same time, everyone recognizes that industry and many others have used RBC for purposes beyond that threshold level, and it is an indicator that is used for other items, whether for capital sufficiency to support dividend payments to a holding company and onto shareholders or for other means to be just one element in looking at the strength of a company. There were some very strong opinions on both sides.

Director French summarized that the regulators' concern seemed to be the potential for people to rely on RBC for something it was not intended for. She asked Yanacheak if he had examples. Yanacheak noted the previous example of a company with a 400% RBC ratio and another with a 600% ratio, and how many non-regulators had the opinion that the ratios were so far apart there could be some value placed on that fact. However, other regulators felt very strongly that it was not appropriate. Yanacheak reiterated that regulators are not maintaining RBC to rank companies or have specific levels for targeted supervision.

Director French responded that as a regulator, she has used it in some instances when it was necessary to decide what kind of action to take based on a particular number. She said her primary concern in all of this is maintaining the integrity of RBC for her own purposes and for other regulators. She asked Yanacheak if there had ever been any discussion about requiring some type of disclosure that says if RBC is going to be used for an unintended purpose, one must disclose the original purpose. He responded that there had been some side conversations over the last year on the idea between regulators and non-regulators.

Commissioner Ommen asked Yanacheak if they have been moving forward on this issue in regular order despite the existence of the new Risk-Based Capital Model Governance (EX) Task Force. Yanacheak answered that that was the direction he received from NAIC staff, but it was not formalized. He said NAIC staff told them they needed to continue their work until told otherwise. He said the question for the Risk-Based Capital Model Governance (EX) Task Force is whether they have reached the point where these two things meet between the two groups. Director French noted that there is a clear overlap, and she thought Commissioner Houdek wanted to speak to that issue later in the meeting.

3. Discussed Comments Received on Proposed Preamble Changes

Director French noted that she would like to hear from industry members who submitted comment letters (Attachment?). Scott Harrison (National Alliance of Life Companies—NALC) noted that he had comments but would be happy to hold them until after those submitting written comments had been given an opportunity. Director French asked Harrison to proceed.

Harrison stated that the NALC agreed with the comments submitted by the American Council of Life Insurers (ACLI). He said he had been doing this work for over 20 years as a regulator and practitioner, but is currently the chief executive officer (CEO) of NALC. He stated that he was trying to recall if there had ever been confusion in the early days of RBC. He noted that he understands the states' use of RBC well, but the reality is that over time, RBC has developed. He said the ACLI's letter does a good job of identifying examples where it has emerged as a useful benchmark. He noted that if the NAIC goes in the suggested direction of eliminating, preventing, or prohibiting the use of RBC for benchmarking purposes, people will find alternatives that may not be as uniform as RBC. He stated that he was concerned that the Task Forces may actually create more confusion.

Mariana Gomez-Vock (ACLI) summarized the ACLI members' views. Before doing so, she commended the regulators for their commitment to transparent dialogue on the Preamble as well as the efforts by the Risk-Based Capital Model Governance (EX) Task Force and Capital Adequacy (E) Task Force to coordinate their work around the purpose and use of RBC. Gomez-Vock noted that the changes are extensive with respect to the proposed Preamble revisions, and the ACLI is deeply concerned that the changes will decrease transparency. She suggested that the changes emphasize RBC's perceived limitations instead of RBC's strengths, which could hamper the NAIC's efforts to promote the strength of RBC internationally. The changes also state that the only appropriate use of RBC is to identify weakly capitalized companies and heavily criticize the use of RBC for any other purpose. If enacted, the new Preamble language would create tension between what companies must publicly disclose in annual statements, generally accepted accounting principles (GAAP) filings, and U.S. Securities and Exchange Commission (SEC) reports, and what companies are permitted to discuss on earnings calls and releases. She noted that the ACLI agrees that it is inappropriate to use RBC ratios to rank or compare insurers' financial strength, but these concerns can be addressed in a more targeted way than the current exposure allows.

Gomez Vock noted that if Preamble changes are needed, the ACLI's letter includes suggested revisions to the Preamble that offer a reasonable compromise. There does seem to be tension around the purpose/use of RBC. The ACLI agrees that RBC and intervention levels are critical tools that allow supervisors to safeguard consumers. She said RBC must remain fit for that purpose. However, other uses of RBC have also emerged. First, within the regulatory community, RBC is part of a complex solvency assessment framework that includes tools like the Own Risk and Solvency Assessment (ORSA), liquidity stress testing (LST), and group capital. Within the group capital calculation (GCC) and aggregation method (AM), RBC levels above the minimum are relevant for understanding group solvency. For companies, a basic component of sound risk management involves assessing the company's own measure of capital resources, which for some companies includes RBC, in baseline and stressed conditions, which can inform decision-making. Finally, third-party stakeholders want to understand the degree of excess capital available for dividends or other capital expenditures, and RBC ratios provide a trusted, objective measure when they are compared to a company's target capital levels. Rating agencies want to know if a company is approaching intervention, which is understandable given that their products may need to reflect such risk.

Gomez-Vock clarified that the other uses of RBC should not necessarily influence how regulators evaluate risk or set capital requirements, just that publicly available RBC data is a trusted tool that provides great value to multiple stakeholders, which in and of itself is a strong endorsement of RBC's integrity and rigor. The state-based solvency framework, of which RBC is just one tool, is strong and robust, thanks to the efforts of Task Force members and many other regulators who came before. This strength should be celebrated consistently across NAIC publications. That is why the ACLI respectfully requests that the Task Forces reconsider how the Preamble or any other NAIC materials, like the RBC principles, reflect the important and appropriate role RBC plays in the U.S. solvency system.

Director French asked if there had been consideration of a disclosure requirement that would act as a disclaimer. Gomez-Vock noted that the ACLI did float the concept in its May letter but did not include specific language in that letter. She said the ACLI is open to the suggestion of a disclosure.

Peter Gould (Retired) discussed that he wrote a comment letter as a consumer and an annuity holder. He noted his former belief was that relying on the RBC ratio was a good way to gauge his insurers, but he has learned that is not the case. However, he noted his biggest concern with the proposal was decreased transparency. He indicated support for the suggested changes from the ACLI. He highlighted some of the more specific comments in his letter and suggested that the NAIC's financial overview report available to consumers should include the RBC for the current year and the preceding five years. He noted concern with the proposed language that seems to make things less transparent and questioned if this was the case in 2008, before the great financial crisis. He stated his appreciation to Rachel Hemphill (TX), who helped him understand that there is greater calibration of RBC at the lower end of the RBC range than at the higher end.

Director French asked Gould and Brendan Bridgeland (Center for Insurance Research—CIR), who is a consumer representative for the NAIC and a consumer advisor to the Interstate Insurance Product Regulation Commission (Compact), if a consumer could be confused by various information provided by the insurer, especially with something that might be more advertising. Gould responded that advertising was already disallowed when it comes to RBC. Bridgeland responded that there is always the chance that a consumer might be confused, but the answer is not to deny the information to the consumer. He discussed the various levels of experience that consumers have, and one of his roles is to help answer consumers' questions that may seem more complicated to them. He noted his experience with mergers and where consumer groups often contact him. He said he points them to different information, such as the annual statement and the five-year historical page, and explains how the regulators monitor the company. He said something used in advertising and stamped everywhere are rating agency ratings, and that they can be confusing with their own different grades. Of course, the details of those ratings are cost-prohibitive. He said it is useful for consumers to have a metric they can look at, and while the consumer does not need to see all the details, they can see if the company is above the threshold.

Director French summarized that Bridgeland seemed to suggest that it cannot be assumed that a consumer will not understand something complex, and that there should still be transparency for the consumer. He responded that this was the case because when things are not transparent, there will always be even more confusion for the consumer. He again noted his support for the ACLI's suggestions, but he said that great caution should be shown in rewriting the Preamble so that it does not downplay the value of RBC.

Cheung presented his own views on this issue, not those of the Illinois Commissioner or the department. He stated that, as an actuary, there are times when RBC is confusing. One issue he has seen is when companies explain that they are at an RBC of say 400% but that some things have changed and are now at an RBC of 420%. He thinks it is confusing for the company to say they are a stronger company with the increase, because that may not actually be the case. He noted that with respect to RBC being public, it has been long enough that it would be hard to take it away, but it may be appropriate to add some disclosure around it that talks about its limitations. He noted that as members of some of the RBC groups, they have been busy trying to clean up the structure a bit to remove some of the confusion. Yanacheak added that he could think of an example where a company may have increased its reserves, which lowers its available capital and the RBC ratio. This company is not actually weaker, but its RBC ratio has decreased. This example shows responsibility and professionalism that came from the actual analysis of the sufficiency of the reserves. Chou provided an example of a company that might have an RBC ratio in the 1,000s, but that does not mean they are stronger than another company with a lower ratio.

Ray Nelson (AHIP) stated that AHIP was appreciative of the work done and understood the concerns, and that issues related to the improper use of marketing and RBC comparisons are important. However, AHIP believes that disclosure of RBC and things like earnings presentations and earnings materials or similar uses should be allowed so long as it is not being used for marketing and comparison purposes. He noted AHIP's agreement with the ACLI's proposed changes.

4. Discussed Related Issues at the Risk-Based Capital Model Governance (EX) Task Force

Commissioner Houdek explained that he had received some questions about the rationale behind narrowing the principles and removing some of the original concepts from the July 3 version compared to the most recent version of the proposed principles from the Risk-Based Capital Model Governance (EX) Task Force. He noted that the current exposure is intended to really focus specifically on the principles for maintaining and prioritizing updates to RBC, with the principles for purpose and use of RBC to be coordinated through calls such as these with the Capital Adequacy (E) Task Force, which was why this call was held today. In addition, the most recent draft also contains modifications to the principles because certain concepts were identified and determined to be more appropriately included elsewhere in the broader governance framework, such as in the model risk management standards. Once the current exposure ends, we will take the comments received, and Bridgeway Analytics and the ad hoc group will review the comments and make recommendations to the Task Force. After that, another call will be scheduled prior to the Fall National Meeting. More information will be available in the coming weeks.

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

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/

Draft Pending Adoption

Draft: 8/15/25

Risk-Based Capital Model Governance (EX) Task Force
Minneapolis, Minnesota
August 12, 2025

The Risk-Based Capital Model Governance (EX) Task Force met in Minneapolis, MN, Aug. 12, 2025. The following Task Force members participated: Judith L. French, Co-Chair (OH); Nathan Houdek, Co-Chair (WI); Doug Ommen, Co-Vice Chair (IA); Michael Wise, Co-Vice Chair (SC); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais and Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Robert L. Carey represented by Vanessa Sullivan (ME); Mike Causey represented by Jacqueline Obusek (NC); Jon Godfread (ND); D.J. Bettencourt represented by Edward Cataldo (NH); Cassie Brown represented by Jamie Walker (TX); Scott A. White, Dan Bumpus, and Doug Stolte (VA); and Patty Kuderer and Steve Drutz (WA).

1. Adopted its Spring National Meeting Minutes

Commissioner Ommen made a motion, seconded by Director Wise, to adopt the Task Force's March 25 minutes (*see NAIC Proceedings – Spring 2025, Risk-Based Capital Model Governance (EX) Task Force*). The motion passed unanimously.

2. Heard a Summary of Significant Comments from Bridgeway Analytics

Commissioner Houdek provided background information related to the meeting. He noted that one of the Task Force's major goals for this year is to develop guiding principles that can be used to maintain risk-based capital (RBC) going forward. As part of that effort, the co-chairs and co-vice chairs exposed a set of preliminary principles and a series of questions that would help guide the Task Force's development of the principles, for a 21-day comment period that ended July 24. The NAIC engaged Bridgeway Analytics as an outside consultant to assist the Task Force with its work. Since being engaged in May, Bridgeway Analytics has reached out to industry trade groups and other stakeholders to solicit input and feedback in order to help develop the proposed draft principles that the Task Force is discussing.

Commissioner Houdek noted that due to the very granular nature of this work, the co-chairs and co-vice chairs asked a group of technical regulators to serve as a drafting group to provide further input to Bridgeway from a regulatory perspective. Bridgeway took the input provided by these various parties and developed the preliminary draft principles that were exposed. Commissioner Houdek reinforced that it was very much a preliminary draft. Commissioner Houdek noted that the Task Force's leadership felt it was important to issue an exposure to solicit public feedback and continue moving the work forward in a transparent and collaborative manner. Commissioner Houdek thanked everyone who took the time to provide comments.

Amnon Levy (Bridgeway Analytics) provided a background on Bridgeway Analytics' work and a summary (Attachment One) of some of the more significant themes from the 16 comment letters the Task Force received (Attachment Two). Levy summarized some background on Bridgeway Analytics' work, including goals and intended work products. He noted that his presentation summarized comments with themes advocating for refining the substance of the preliminary proposed principles and themes from deliberations with regulators. The intent is to frame the key differences in views to pave the path toward a consensus. This presentation should be reviewed alongside an attached document that outlines the broader set of comments, including those advocating refinement of language. Levy noted that the drafting group includes chairs and co-chairs of the Capital Adequacy (E) Task Force and its working groups. Levy emphasized that Bridgeway Analytics was hired to facilitate gathering and synthesizing stakeholder suggestions and feedback, along with its own objective assessments, to help the

Draft Pending Adoption

Task Force achieve its goals and reach a consensus. He noted that while principles will serve as a foundational north star for assessing and changing RBC components, the overall governance framework will likely consist of additional components, including:

- **Quantitative guidelines** (such as statistical safety level), which will articulate aspirational quantitative benchmarks and allow for quantitative comparability across RBC calculations (e.g., statistical safety level). The guidelines serve as benchmarks, not hard requirements. Deviations are expected but should be documented and justified.
    - Notably, to avoid confusion over how the principles are applied across different insurer types and policy categories (e.g., natural catastrophes), this presentation positions quantitative guidelines as segmented at a level of granularity that permits identifying potentially weakly capitalized companies while protecting the policyholders' benefits without restricting insurers' prudent risk-taking (e.g., investments supporting long-duration life and annuities).
- **Model governance standards**, which will provide a process for adjustments to RBC calculations, incorporating regular reviews of RBC outcomes. This ensures that future adjustments are made in alignment with guiding principles and supporting guidelines.
- **Case studies**, which will provide additional guidance. Many RBC components will require additional guidance when assessing their characteristics and the materiality of a principle being violated. Since constructing quantitative thresholds is not often practical, Bridgeway Analytics proposes building out a series of case studies to provide further guidance.

Levy pointed out the proposed preliminary principles on the sixth slide, comments on which will be explored in detail. He highlighted that all commenters uniformly agree with the spirit of RBC's purpose of identifying potentially weakly capitalized companies. It is part of the state legal framework, providing regulators with legal permission and/or requirements to intervene at the company level. He noted that while commenters uniformly agreed that RBC ratios should represent an unadulterated measure of solvency, roughly 60% objected to including a secondary mandate or consideration such as consumer needs, which the memorandum references as an aspiration. The concern from regulators, property/casualty (P/C) stakeholders, and some life stakeholders was the potential distraction from the primary purpose of having RBC represent an unadulterated measure and the potential for subjectivity when assessing consumer needs. Some P/C stakeholders also raised concerns over references to group capital calculations (GCCs). Levy noted that advocates and non-objectors (the remainder) pointed to the memorandum's aspirational language for principles to serve as a strategic foundation to ensure that all revisions to the RBC framework are enhancements that uphold its integrity, adaptability, and global competitiveness, and further the principle of equal capital for equal risk.

Levy stated that Bridgeway Analytics expects this key difference in views to be an area that commenters will present, and Task Force members might consider exploring if and where these concepts should be articulated in the future. Related to this, deliberations with the regulator drafting group pointed to the ideas that:

- Introducing secondary mandates can result in scope creep and unintended consequences and be sprawling; for example, the NAIC's mission includes considerations that would be challenging to incorporate into RBC.
- Secondary considerations (e.g., product availability) are viewed as more naturally fitting into other parts of the solvency framework and as an outcome of a well-designed solvency framework, consistent with President Godfread's presentation during the Opening Session.
- It was acknowledged that secondary factors have been discussed in the context of RBC. For example, while measurement is the focus, prudent hedging has been cited as a motivating factor in recent generator of economic scenarios (GOES) and C-3 calibrations. The general agreement is that RBC should not restrict insurers' prudent risk-taking.

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Levy noted that the eighth slide asks where the RBC ratio provides insights beyond its value at regulatory triggers and what precision level the RBC ratio should aspire to. Several commenters said RBC ratios should be accurate, beyond regulatory triggers, rather than only at trigger points. They added that RBC ratios should aspire to represent a measure of financial strength that can rank order companies, noting that: 1) GCC directly repurposes RBC as a key financial indicator at the holding-company level, reinforcing the role of RBC ratios in assessing resilience; and 2) rating agencies can find RBC ratios useful in assessing potential regulatory action, as is the case with Moody's, for example. Levy said Bridgeway Analytics understands that rating agencies rely heavily on judgment and context and generally do not incorporate RBC mechanistically. Nevertheless, Bridgeway Analytics understands that the closer RBC gets to requiring regulatory action, the more likely it is to impact the financial strength rating. Notably, agency ratings of surplus notes held by insurers are used to determine designations and RBC.

Deliberations with the regulator drafting group pointed to:

- The need for caution when RBC is far from a regulatory trigger. Notably, while insurers generally retain their capital, some insurers manage capital at the holding company level or some other entity outside of the regulated insurance entities. These groups can keep the capital at a reasonable level, possibly adding capital when RBC drops below that reasonable level.
- While RBC is designed as a minimum capital threshold, RBC ratios beyond regulatory triggers are used in GCC, and as such, it assigns meaning to values outside regulatory triggers.

Commenters posed several provocative questions regarding the first principle. The National Association of Mutual Insurance Companies (NAMIC) asked what the vision is for the RBC formula at the end of this process. The American Property Casualty Insurance Association (APCIA) asked if the objective of this project is to require insurers to hold capital above the current intervention levels in line with the International Association of Insurance Supervisors (IAIS) insurance capital standard (ICS).

Levy noted that several commenters advocated for governance standards to cover the overarching regulatory framework, rather than focus narrowly on RBC, which transcends the mandate of this initiative. In addition, deliberations with regulators pointed to the benefits of a governance framework and process for streamlining changes to RBC across company types, particularly for investments. For context, there are significant and deliberate differences in the RBC frameworks across companies (e.g., treatment of reserves or taxes). A naive application of changes to RBC for life will generally not be appropriate for P/C. Those differences are inefficiently revisited with new proposals. To the degree that governance guidelines can document and possibly streamline these issues, it would allow future changes to be more efficient and ensure that those differences are not repeatedly reevaluated.

A. Washington

Drutz provided the highlights from Washington's comments. He noted that Washington believes item 1A in the exposure document, which covers the acknowledgement of the RBC calculation's impact on product availability, should be removed. Drutz said Washington believes the need for granularity is covered elsewhere in the document. Drutz stated that Washington does not understand how one would acknowledge the impact and does not believe that a desired outcome for specific product availability should influence the risk charge.

Regarding item 1B, Drutz said that Washington believes the title for insurance groups and global competitiveness should be changed to better match the description that follows. Drutz noted that the title "insurance groups and global recognition" might better describe RBC's use as a part of the GCC.

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Regarding item 3 on consistency with statutory accounting, Drutz said that Washington believes adding the phrase "whenever possible" to the description would better describe the reality that not all information used in the RBC report can be pulled from the annual statement. Drutz noted that Washington believes adding the phrase "as such, regulators and industry should work together to try and minimize instances when values used in the RBC formula are not reported in the annual statement," would help incentivize movement toward minimizing those instances where the information utilized is not available in the annual statement.

Regarding item 4, Drutz said that Washington believes adding a subheader labeled "E" that would consider how the risk is currently accounted for in the RBC formula would help evaluate emerging risks and when they might need to be addressed in the formula.

B. Virginia

Bumpus said he would start with a couple of overarching thoughts before getting into some specifics from Virginia's comments. First, regarding the principles themselves, Bumpus said that Virginia found the July 3 release to be too "in the weeds" and did not cover the breadth of the RBC framework. Bumpus said Virginia would like to see a clear identification of high-level principles in the next draft, followed by a limited amount of interpretive guidance. He said that going forward, Virginia would ask Task Force leadership to engage the membership of the Task Force before future exposures. Bumpus noted that two principles Virginia would like to see in the next release are clear identification that there is one and only one purpose for RBC in order to identify weekly capitalized insurance companies, and that the RBC calculations must follow the principle of equal capital for equal risk, which includes the consideration of tail risk.

Bumpus said Virginia's second point is that any steps the Task Force takes to change the RBC framework must be true enhancements to the framework. It is important to remember that RBC is a foundational component of the U.S. system, it serves regulators well, and that the U.S. is the largest and most robust insurance market in the world. One specific point Virginia made is that there is no place in the principles for secondary considerations, acknowledgements, or the balancing of competing interests against solvency. They fall outside the purpose of the RBC framework. They also interfere with the implementation of the principle of equal capital for equal risk, which includes consideration of tail risk. Bumpus said Virginia agrees with commenters who oppose the RBC framework turning into a capital adequacy tool focused on outcomes other than company solvency and regulatory intervention. He said RBC sets a minimum level of capital for an insurance company. It does not assess the appropriate level of capital for an insurance company to successfully meet its business objectives. He said the RBC framework must remain flexible. It needs to empower state regulators to recognize where meaningful differences exist across and within asset classes to take those differences into account and determine the appropriate RBC treatment.

Bumpus said that regulators must be able to continue to use their expert judgment to allow them to act before an ideal data set exists and can be analyzed, and this would include the use of interim solutions or circumstances warrant. Regarding flexibility, Bumpus said Virginia pushes back on commenters seeking to establish rigid materiality thresholds for risks to be included within the framework. He said one lesson from the great financial crisis is that regulators need flexibility to address emerging risks, including potential systemic risks posed by a small number of companies or insurance groups that may not yet be pervasive across the entire industry. Bumpus noted that Virginia stands by the rest of its comments and welcomes any questions.

C. Connecticut

Broccoli indicated that Connecticut agrees with Virginia's comments but wanted to add that as part of the project's gap analysis, the Task Force should study how certain intercompany transactions, affiliated reinsurance agreements permitted practices, and offshore reinsurance agreements may impact RBC and whether there is adequate disclosure on these transactions to ensure transparency for regulators and other readers of the financial statements. The primary purpose of RBC is to provide an early warning of potentially troubled companies so that regulators can take appropriate regulatory action and attempt to correct the problem and avoid any solvency issues. RBC, therefore, is designed to represent the minimum level of capital required to support the insurer's operation, and it is not designed to measure the appropriate level of capital required to achieve a company's goals.

D. RAA

Jeff Alton (Reinsurance Association of America—RAA) said the RAA's comments would focus on three areas where the RAA's view diverges from other commenters: 1) RBC's purpose and scope; 2) the principle of equal capital for equal risk calibration; and 3) governance approach. He also gave a reminder of the P/C RBC formula's strong track record since its establishment in 1994.

Alton noted that the RAA maintains that RBC must remain a minimum capital adequacy standard, a threshold solvency test designed to trigger regulatory attention when capital position indicates potential impairment. This is exactly why RBC was conceived and codified in the U.S. statutory framework. By contrast, some commenters propose broadening RBC's role to consider product availability and international comparability. While these are valid industry concerns, they are market objectives, not solvency oversight functions, and embedding them in RBC risks blurs RBC's statutory intent and diverts it from its core purpose.

Alton said the RAA supports equal capital for equal risk in principle, but stresses proportionality, legal entity focuses, and solvency relevance anchored in statutory accounting. The RAA believes recalibration shall only occur when disparities are material and solvency outcomes. In the P/C RBC formula, different lines of business have distinct risk profiles, and the current system is built to accommodate those differences. Some commenters advocate for uniform statistical safety standards, but the RAA disagrees. Adding a fixed confidence level and more frequent calibration across all risks may enhance mathematical comparability; however, those additions risk transforming RBC into an economic capital-like framework, inconsistent with statutory design.

Alton noted that the RAA favors proportional governance, rigorous oversight for modeled, assumption-heavy components, and lighter oversight for transparent, risk-based charges. This aligns with decades of statutory RBC practice, which is rules-based, formula-driven, and transparent to both regulators and insurers. In contrast, some commenters advocate applying full model governance to all RBC components, mirroring a European Union (EU) Solvency II-style regime. This would add complexity and cost without necessarily improving RBC performance as a statutory solvency tool.

Alton noted that since its inception in 1994, the P/C RBC formula has been tested by major market and loss events and has performed admirably. He said it has adapted effectively to lessons learned, whether due to cat losses, changes in liability trends, financial market swings, or evolving underwriting practices. In each case, refinements have been targeted proportionate to lessons learned, preserving RBC's role as a credible early warning tool without over-engineering it. This measured adaptability should guide governance decisions going forward. It avoids over-engineering the framework into an economic capital model and resists objectives, such as product availability, which fall out of RBC's statutory mandate. The RAA urges the Task Force to anchor its model governance work on this proportionate, risk-sensitive, statutory-aligned approach.

E. Transamerica

Bill Schwegler (Transamerica) limited Transamerica's oral comments to three areas of substantive differentiation. First, Transamerica believes it is important to acknowledge the legitimate interest that nonregulatory stakeholders have in RBC information. These stakeholders include public policyholders, as RBC is not solely a tool for regulators to use behind closed doors. Transamerica recommends including language that acknowledges these nonregulatory interests within a broader principle about the purposes of RBC. Second, Transamerica highlights the tension that emerges when measurements of risk are linked to statutory accounting, which employs a mixture of accounting bases. The result of this linkage is that pressure is put on statutory accounting treatment due to its significant effects on required capital. Schwegler noted Transamerica is not sure this represents an optimal outcome or is consistent with the notion of equal capital for equal risk. Third, in the realm of governance, Transamerica suggests a subprinciple about historical documentation. Every RBC factor calculation and statement line has a history, and from time to time, it is necessary to revisit that history. At present, this can be incredibly challenging simply because the information, which may be decades old, is not readily available. Transamerica encourages the Task Force to make documentation part of the governance framework around RBC.

F. ACLI

Carrie Haughawout (American Council of Life Insurers—ACLI) said there has been some discussion of beginning some of the technical work on the items that will guide the gap analysis, and the ACLI believes it is necessary to finalize these candidate principles before moving on to the technical guidance. This ensures that the principles will have gone through the normal NAIC process and will be used to inform the gap analysis and the guiding work. The ACLI supports the creation of consistent principles for future changes to the RBC formula, which is just one of the many tools that work together to promote solvency in the U.S. As work proceeds, the ACLI encourages the Task Force to maintain a broad collective viewpoint that evaluates interconnections and ensures an integrated solvency framework.

Haughawout said there has been some concern, as noted here today, regarding language around the secondary purpose of RBC. The ACLI wants to be clear about its comments in this space. The ACLI believes the RBC charges should remain risk-based. The ACLI's comment includes alternative language that clarifies this important point while acknowledging the need to continue to strike the right balance to protect policyholders without unnecessarily impeding access to products, especially long-term products. Acknowledging this balance in the principles regulators already strike between protecting policyholders with strong and stable insurance markets is appropriate for a broad and foundational principle on RBC. As also noted here today, the U.S. solvency framework is one of the best in the world in offering long-term products, and regulators have achieved that without sacrificing rigor or policyholder protection. Other authorities have adopted solvency systems that are volatile and punitive toward long-term products, which has led to a market decline in long-term products in those regions. The ACLI would therefore encourage the Task Force to include ACLI-suggested language about balancing policyholder protection without unnecessarily impeding access to the products in those final principles.

Mariana Gomez-Vock (ACLI) stated that the ACLI's members also support the concept of equal capital for equal risk. The ACLI's comment letter submitted clarifying amendments to promote a shared understanding of equal capital for equal risk. The ACLI's definition reflects a consensus position by ACLI members, and she encouraged the Task Force to consider its adoption. The suggested amendment emphasizes the need to consider tail risk and consistency across asset classes to ensure that risk charges align with the associated risks and are calibrated with enough granularity to capture material differences and risks across asset types.

G. MetLife

Francisco Paez (MetLife) highlighted four points from MetLife's comment letter. First, RBC has successfully worked for over 30 years by following the focused objective of identifying weekly capitalized companies and should continue to do so. U.S. RBC supports the largest and most innovative insurance market on the planet with an enviable record of stability. Considerations of product stability that meet consumer needs, closing the retirement gap, or capital market strength cannot interfere with the objective of RBC. Paez asked how a consumer who purchases that product would be helped if a company becomes insolvent.

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Paez said the second point is that, because the single purpose of RBC should remain to help identify weakly capitalized companies, the evaluation of emerging risks should be done at the individual insurance company level. He said that even when that requires the use of interim solutions, the NAIC has successfully done so many times over the years. A lesson from the great financial crisis is that unchecked risk accumulation at individual companies can lead to unhealthy competitive dynamics that could quickly transform initially idiosyncratic risk into a systemic event.

Paez said MetLife's third point is that it is critical to clarify that the concept of equal capital for equal risk here refers by definition to tail risk. RBC is designed to capture potential unexpected losses as measured by tail losses. This goes beyond the expected losses captured by reserves. Importantly, credit ratings are not specifically designed to uniformly measure this type of risk across asset classes and are, therefore, not the ideal universal attribute to identify equal risk. For example, S&P Global Ratings developed its own methodology to determine RBC adequacy, which can assign capital factors nearly four times higher for certain subordinated tranches of securitizations versus corporate bonds of the same S&P rating.

Paez said MetLife strongly encourages the NAIC to preserve its independent definition of RBC, which best serves its objective of protecting policyholders. While some see this as a myth, the NAIC, as the regulatory body for the largest and most active insurance industry in the world, has the sole discretion to define what the minimum regulatory capital for the companies under its supervision should mean, as it has successfully done over the last 30 years.

H. <u>RRC</u>

Tricia Matson (Risk & Regulatory Consulting—RRC) and Ed Toy (RRC) focused their verbal remarks on areas where they have diverging views from other commenters. Matson noted that RRC agrees with the concept that the RBC framework is intended to be a regulatory tool and not to meet other uses, as noted in the exposure. She stated that RRC believes that developing a robust tool for regulators to use as part of their supervisory process is one of the NAIC's critical responsibilities. She said RRC also believes that trying to develop a tool to meet the needs of multiple stakeholders, such as rating agencies and companies' internal risk management programs, is unrealistic. RRC also advocates for equivalent treatment of risks in terms of both the safety level and the time horizon, but acknowledges that the specific risk under evaluation may impact the consideration of the time horizon. RRC also advocates for consideration of tail risk, including fat tails. In other words, a risk should not be excluded simply because it manifests beyond the defined safety level. Using averages in the tail rather than a point estimate of the safety level would address this.

I. <u>Academy</u>

Katie Dzurec (American Academy of Actuaries—Academy) provided actuarial perspectives across life, health, and P/C. She highlighted that the Academy supports using a balanced and transparent process for updating the RBC framework that considers all asset and liability risks holistically and allows for appropriate stakeholder input. She also indicated that the availability and credibility of data will vary by risk factor, and the Academy encourages as much consistency in approach as possible. The Academy recommends leveraging the model risk governance frameworks currently available, which include the Actuarial Standard of Practice (ASOP) 56 on modeling. She noted that the Academy recognizes that there is room for considering the balance between protecting solvency and maintaining affordable insurance products.

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J. Athene

Mike Consedine (Athene) commended the Task Force for taking up RBC modernization at a moment when U.S. consumers and markets need both safety and innovation more than ever. He noted that the work was being watched closely by regulators and policymakers across the globe. He hypothetically asked what RBC is and what it should become. He asked if it is a blunt alarm that rings when a company is already in trouble or a transparent metric that balances solvency while leaving capital available to finance new jobs, products, and retirement security. Consedine said he would argue that the NAIC has already answered that question when it framed RBC as an early warning threshold, as it did not build a zero-failure mandate, but rather a system that also includes robust state guarantee funds. That architecture lets U.S. insurers hold sufficient capital for unexpected losses and still deploy surplus capital into growth and needed products. In contrast, Europe chose a different path with Solvency II, which has a prescriptive 99.5 Value at Risk (VaR) standard, the absence of guarantee funds, and the explicit goal of eliminating insolvency, which has tightened capital so much in Europe that EU officials and regulators now can see the constraints. So much so, they are innovating and seeking the kind of flexibility present in the U.S. system. Therefore, in Europe, officials and regulators have already acknowledged the direct connection between solvency capital models and the availability of products.

Consedine said the question before the NAIC is not about seeking a new growth principle nor dilution of prudential safeguards; it is about the NAIC explicitly preserving an existing principle, one that balances policyholder protection and availability of capital finance to finance products for consumers and jobs. He said America faces a widening retirement crisis. For almost a decade, the NAIC has prioritized addressing these protection gaps. Capital flows to authorities that align risk and capital most efficiently. Europe has now recognized that and is reevaluating Solvency II capital requirements to allow for the increased flow of capital. The U.S.'s opportunity is simpler: evolve RBC to adapt to today's markets by reaffirming RBC's founding, which provides strong protection and productive capital. Consedine said this Task Force will keep the U.S. at the forefront of safety and consumer value.

K. APCIA

Jay Muska (American Property Casualty Insurance Association—APCIA) noted that the APCIA has struggled to understand how some of the principles relate to RBC. The current structure of the formula seems to work well, with a lack of deficiencies in the overall ratio for P/C companies, particularly with the way catastrophe risk was brought into the formula in a thoughtful way. He discussed that the three RBC formulas have different underlying accounting that needs to be considered, and the three formulas are different. This is probably why there are three different views. The APCIA is concerned about the differences in views on life investment risk issues. The APCIA noted that it is concerned that these changes are being forced upon the P/C sector, which does not carry the same degree of investment risk as life insurance companies. He said that oftentimes, a decision is made that the formulas should be consistent on the investment side, which often ends up being a cost to the P/C companies. Muska said that the APCIA supports the three different formulas for three purposes that should be embedded in the principles. The APCIA noted that it agreed with many of the states providing written comments, as well as with the RAA. Muska cautioned against the suggestion of granularity and consistency because, with the IAIS ICS, the standard formula was calibrated to the same problem; however, in the end, when everything was accumulated, a great deal of subjectivity was added in total in order to get the total requirement to a more reasonable requirement.

L. NAMIC

Colleen Scheele (National Association of Mutual Insurance Companies—NAMIC) stated that NAMIC supports the RAA's and APCIA's comments and offered three different points. She noted that while NAMIC supports the Task Force's overall goal, NAMIC is confused about what these principles are trying to accomplish in their scope. She asked whether these principles document what RBC is today or if they are trying to improve RBC. She also asked

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whether they are designed to assist with how changes procedurally flow through to the three separate formulas, or if they are looking to expand the tool. When looking at existing literature on RBCs, such as the preamble, it is NAMIC's opinion that these principles do not currently fit seamlessly into that existing framework. The RBC formula represents the minimum level of capital an insurer must hold to deliver on their promises to policyholders, not a competitive market tool or an economic capital model. NAMIC believes that the three respective RBC formulas are the gold standard worldwide. NAMICs caution against any offers to amend RBC for its main purpose, which has served the U.S. well since its inception.

NAMIC cautions against the impulse to use RBC for any secondary considerations. RBC should be risk-based. It is inappropriate for measuring the availability of products, such as homeowners insurance or global competitiveness, to factor into an RBC calculation. The RBC formula should be rooted in transparent, credible data, sound, actuarial practices, and, when needed, expert judgment that can reflect both historical experiences and forward-looking risk assessments while considering the nuances of each line of business. Product availability and global competitiveness are byproducts of the current gold standard system, not drivers to be built into it.

Scheele said that any proposed principles for RBC should keep the legal entity focused, which is a bedrock of the U.S. solvency system. The U.S. focuses regulatory attention on individual legal entities from legal entity accounting and capital standpoints. Since the focus of U.S. regulation is the protection of policyholders, the U.S. has always believed that capital must be held at the level of the company that is writing the insurance policy in order to protect those customers entering into a contract with that company. The U.S. regulatory framework is premised on legal entity solvency, not group solvency, and, as in NAMIC's opinion, maintaining that idea is essential to the U.S. solvency system. Scheele thanked the Task Force for the extensive time spent on this project and for listening to comments with open ears.

M. UHG

Molly Zito (UnitedHealth Group—UHG) stated that UHG believes that the preliminary RBC governance principles as exposed are reasonable, but that much will depend on how the principles are implemented. UHG thinks that the evaluation of risk should be objective and based on data and that the RBC formulas should be consistent with statutory accounting principles (SAPs). Since SAPs are the current measure of ensuring network, RBC and SAPs should not embody competing views of solvency. Finally, UHG believes that the actual performance of the RBC formulas should be evaluated periodically to ensure they meet their intended purpose.

N. ACC

Joe Engelhard (Alternative Credit —ACC) thanked the Task Force for launching this important effort to strengthen the governance, transparency, and consistency of the RBC framework. He said he would focus on three comments. First is a component of principle two. Namely, RBC should recognize differences in accounting reserve requirements and other offsets. He said the U.S. RBC framework is below this overall solvency framework, is unique, and relies heavily on very conservative statutory reserves, which already provide substantial first-layer policyholder protection. Engelhard said that when considering RBC, the ACC thinks it is especially important that the Task Force takes that into account. He said there have been a few references already. Engelhard noted that the implementation of the ICS has had some negative impacts, so when determining any changes to RBC, that should be taken into account.

Engelhard said that secondly, principle three says that RBC charges should be derived from statutory accounting values. This is a principle that the ACC agrees with, but the principle drafted does not sufficiently address some especially important disparities in capital treatment caused by different legal forms. The ACC's comment letter recommends extending this principle so that if two investments had the same underlying assets and the same type of economic risk, the charges should be the same regardless of legal form, whether it is held directly in a bond or joint venture, unless there is empirical evidence to the contrary. So, the ACC recommends that principle three better support this overarching goal of equal capital for equal risk regardless of legal form. The ACC supports all the other comments for transparent, data-driven processes to ensure capital charges match actual risk. There are some historical precedents, some of which have been highlighted already, that overly conservative charges will have an extremely negative impact. Solvency II failed to accurately measure economic risk, particularly with interest rates, and it decimated the entire long-term guaranteed product industry, resulting in products that pushed all the risk onto the policyholders. Therefore, it seems logical that the outcome should be avoided anytime RBC is evaluated.

O. Peter Gould

Peter Gould (Retired) introduced himself as a retiree and annuity contract owner. He noted that he hoped the result of this project would not be a static measure that becomes ineffective, but a dynamic measure with a framework and process to keep it relevant and effective as a useful tool for all stakeholders now and in the future. Protecting products should not be a consideration. Life insurance and annuities are long-tailed contracts. They have existed in the U.S. for over two centuries, yet the products are still sold on a caveat basis, and it is impossible to get an accurate picture of an insurer's financial picture.

Gould noted that with respect to the exposed memorandum, the purpose of RBC is to identify potentially weekly capitalized companies. For consumers and those who advise them, this is one of many key metrics when evaluating and ensuring before making a purchase, as well as ongoing monitoring and policy management. In the memorandum, there are references to transparency, which should be an overarching priority so that the RBC calculations, as reported in the methodology for calculating RBC, including future proposed changes to the methodology, and the data underpinning the calculations, are easily available to all stakeholders. The NAIC's website has a searchable consumer information overview financial report system, and he proposed that RBC be added.

Gould noted that the annual statutory statements, counterparty risks, and regulatory exceptions are some of the gaps he identified. Other gaps Gould identified are reinsurance, captive reinsurance, and offshore and ceding reinsurance to the parent or ceding down to a subsidiary. All of these techniques employ the sanctioned alchemy of the model credit for reinsurance rules, regardless of the viability of the transaction or the strength of a reinsurer. Gould said the liabilities matter. He said that even if the 2017 covered agreement rules limit regulators' prescriptive options, there is no reason to limit transparency. In the case of RBC, counterparty risk should either be incorporated into the calculus or clearly disclosed separately. He also noted the potential for the misclassification of assets to avoid RBC charges and financial engineering of junk-grade assets to avoid RBC charges when there is minimal change in actual economic risks.

Gould suggested annual statements, real-time reporting, or near real-time reporting, so insurers are unable to shuffle assets to increase RBC on the snapshot reporting date, and not the other 364 days of the year. He said low-quality assets escape RBC charges. Regulatory arbitrage shopping for the most lenient domicile, and finally granting of regulatory exceptions (e.g., exempting captives from cash flow testing), accepting excess of loss (XOL) agreements, parental guarantees, and contingent letters of credit as assets. Per the memorandum, one of the goals is to develop an education and public messaging campaign to highlight the RBC's framework's benefits and strengths as an important part of the U.S. state-based insurance regulatory system. If one plans to install the virtues of RBC, then it is incumbent on them to disclose the shortfalls and limitations of RBC.

Lastly, Gould noted that the Capital Adequacy (E) Task Force is currently considering a preamble amendment that is diametrically opposed to this Task Force's work.

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3. Discussed Next Steps

Commissioner Houdek stated his appreciation for all the commenters taking the time to submit comments and share overviews. He said Bridgeway Analytics will continue to work with all the interested parties, the previously mentioned ad hoc group, and Task Force members. He said that the Task Force should expect another exposure in the coming weeks, once Bridgeway has pulled together the input from all stakeholders, in order to ensure that all Task Force members have an opportunity to provide input on the next set of guiding principles.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/EX CMTE/RBCMGTF/081225 RBC Model Gov TF Minutes.docx

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

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

1. **Purpose**. The purpose of RBC requirements is to identify potentially weakly capitalized companies.
2. **Use**. RBC requirements are primarily used to facilitate regulatory action with respect to ~~against~~ weakly capitalized companies. RBC requirements may be used for other purposes, but these uses must not distort or redefine the purpose of RBC requirements.
    - A commenter pointed out that the regulators aren't necessarily taking an action against the insurer.

~~2.~~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.

~~3.~~4. **Equal capital for equal risk**.
- **Option 1.** 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~~ly enough~~ 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.
- **Option 2 (**ACPIA, NAIMIC, and RAA). 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 risks. These statistical safety levels and time horizons should not necessarily be uniform across all RBC requirements, particularly where substantial differences in the nature of risks or business models (for example, life versus property and casualty, health) warrant distinct treatments. RBC requirements should reflect measurable risks that can affect solvency, including the mitigating effects of sound risk management practices.
- The edits were requested to arguably make clearer that RBC requirements should be applied within lines of business, not across them, and that is not a uniform treatment that is applied without considering the underlying risk.

~~4.~~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.

~~5.~~6. **Accuracy**. Sufficiently precise to assess solvency risk, while avoiding unnecessary complexity.

~~6.~~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.

~~7.~~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.

~~8.~~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.

~~9.~~10. **Process.** Maintaining and updating RBC requirements must adhere to model risk management standards, relying on data-driven methodologies with assessments of model performance and model validation when possible, the need to rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions.

~~10.~~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.

Appendix: Notes from Task Force Deliberations on Principles

These meeting notes provide non-authoritative background and context for the Principles; they are not binding interpretations of the Principles. 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.

Location. Regulators felt that Principles should reside in RBC Instructions, and Notes should reside in meeting notes that will be considered for adoption.

1. Purpose and 2. Use

- **Secondary considerations**. Stakeholders had different viewpoints on whether considerations beyond identifying weakly capitalized companies should be introduced as a purpose of RBC requirements, with some advocating for considerations of concepts such as global competitiveness and product availability that meet consumer needs. Regulators chose principles that align with the traditional positioning of the purpose and use of RBC, while acknowledging that these concepts ~~should~~ might be considered elsewhere in the framework. Discussions suggested the possibility of incorporating the concepts into model risk management standards, which might require an assessment of incentives resulting from material changes to RBC requirements. The following formative language was explored:

  An Assessment of Incentives. *RBC requirements, by design, differentiate capital charges according to the risk profile of business activities, whether those activities involve policy offerings, investment strategies, or other risk exposures. Material regulatory requirements can influence insurers' behavior, affecting product design, investment strategies, reinsurance strategies, and competitive dynamics. These effects may be desirable and deliberately considered in model development as an acceptance criterion (for example, remove disincentives to prudent hedging in life RBC C-3).*

  Therefore, material RBC model updates should include a qualitative, and where practical, a quantitative assessment of reasonably foreseeable and material resulting incentives, along with their implications. The assessment should be proportionate to the materiality of the incentive. Reasonably foreseeable and material resulting incentives can include:
  - ***Risk management****, including prudent hedging.*
  - ***Product design and policyholder impact****, including potential effects on pricing, product availability, or distribution.*
  - ***Market and competitive effects****, including disproportionate impacts across identifiable insurer segments.*
  - ***Alignment with NAIC Policy Objectives****, beyond maintaining solvency protection, such as promoting fair competition and supporting access to insurance.*
  - ***Broader systemic and operational considerations****, including changes in asset allocation, reinsurance strategies, or cross-sector risk exposures.*
- **Parsimony.** Regulators chose to limit principles to their core concepts, deliberately avoiding the following non-contentious concepts, acknowledging they naturally fit elsewhere in the framework:
  - Component of a Robust Regulatory Framework. RBC is one of many tools within the statutory framework that collectively protect policyholders and provide state regulators with insight into potential risks. RBC requirements are designed and calibrated to account for and complement the full spectrum of supervisory tools and resources.

- Various uses beyond state regulators. Rating agencies use it to assess potential regulatory action, which impacts the ratings (e.g., surplus notes), the SEC requires detailed reporting, the IAIS requires transparency for AM, and consumers and consumer groups use it.
- Language. Regulators felt it was unnecessary to include references to 'legal entities' or to add references to 'state law', which some have advocated for, noting that the concepts are implicit within the 'company' and 'regulatory action'.

- **Regulatory and other uses.**
  - The second sentence deliberately excludes referencing regulators, acknowledging the broader use of RBC beyond the regulatory community.
  - While coordinating with potential revisions to the Preamble, which at the time of writing these notes was not complete, language was explored around limitations with use. There was a broad consensus that RBC ratios are not intended or appropriate to rank insurers, and that state laws generally prohibit insurers and their regulators from making assertions or disclosures of certain RBC information. It was also acknowledged that certain assertions or disclosures accommodate the interests of other stakeholders, including policyholders, investors, ratings agencies, and other regulatory authorities. Regulators explored language that acknowledges these observations, and to the degree allowable by state laws, when making assertions or disclosures of RBC information, insurers should disclose their limitations.

3. **Materiality**.

- Discussions highlighted that a materiality threshold aligned with a traditional concept of 'identifying weakly capitalized companies' would be too high, in the context of ongoing changes to RBC. It was pointed out that it is unlikely that any of the changes to life RBC in recent years would have resulted in regulators otherwise not identifying weakly capitalized companies. However, there was a general consensus that those changes improved the framework and were broadly desirable. The phrase 'regulator's assessment of the solvency risk' was viewed as providing a more reasonable threshold. The concept of 'r*egulator's assessment of the solvency position'* was also explored, with some regulators viewing it as alluding to a measure that can rank-order RBC ratios, which they wanted to avoid.
- The question of whether RBC should be updated only to address material industry-wide risk was explored in various settings prior to the formation of the Task Force. Regulators agreed on addressing this question directly by allowing for materiality to include cases where the materiality threshold can be reached for only an 'identifiable segment of companies.'
- The potential for components that are not material individually, but material when aggregated, was also discussed and acknowledged.
- Regulators deliberately avoided including the concept of a measurable risk within materiality since parameters of many RBC requirements rely heavily on professional judgment.
- No edits were incorporated from comments received. Notably, there was a deliberate decision to avoid the term measurable since many parameters of RBC requirements rely heavily on professional judgment. There was also a deliberate decision to keep the principle at a high level.

4. **Equal capital for equal risk**. While regulators broadly agreed to include this concept, different stakeholders interpreted equal risk differently, which led regulators to spell out the concept with several notable areas the Drafting Group explored:

- Arbitrage. In the context of structuring assets, reinsurance blocks, and accounting permitted practices, regulators, NAIC staff, and other stakeholders have highlighted activities that can change capital requirements without a corresponding change in risk. Regulators discussed cases where there can be a perception of this occurring without violating the principle of equal capital for equal risk. For example, differences in accounting methodologies that affect the carrying value of an asset can change the risk of loss, even if the underlying source of cash flows is identical. If an accounting methodology systematically results in lower carrying values than another, then the total exposure at risk of loss will be less. All other variables being equal, this would justify a lower capital charge than if the asset were held at a higher carrying value due to accounting treatment. This is reflected in Principle #5 - Grounded in Statutory Accounting and Reserving.

- Tail risk. Some regulators advocated having the principle read 'Equal capital for equal tail risk'. Rather than narrowly focus on tail risk, regulators agreed to broaden the concept to include 'considerations for factors that impact risk, including but not limited to concentration, diversification, and tail risks.'
- To avoid varying interpretations of 'equal risk', additional language was incorporated:
    - The phrase 'unless there are substantial enough differences in the nature of the risk in the context of the business model (e.g., life vs property & casualty) to warrant alternative treatments' was incorporated to qualify differences in life, property & casualty, and health business models, acknowledging the need for different RBC requirements. Discussions also pointed to more nuanced cases, such as long tail property & casualty, which highlighted the need for sensitivity of RBC requirements to varying business risks. Rcat RBC, for example, focuses on natural catastrophes and is calibrated to the 100-year return period.
    - Consistency in the treatment or risk across components, for any single business model, was viewed as critical. Differences in RBC components across business lines were also viewed as critical. For example, RBC requirements account for taxes and discounting, for example, differently (e.g., life RBC calculations measure discounted loss net of tax loss offsets, while property & casualty do not). The language 'the nature of the risk in the context of the business model (e.g., life vs property & casualty)' was chosen to be broad and not limited to only risks of reported assets and liabilities, but the business model, with added emphasis that life and property & casualty business model risks are substantially different.
    - Measurable. Discussions pointed to the need for measurable differences in risks that can impact solvency to be considered in RBC requirements, which led to the phrase, 'reflecting measurable risks that can impact solvency…'

5. **Objectivity**. The phrase 'thereby avoiding the promotion or inhibition of objectives that are unrelated to assessing solvency risk.' was introduced to ensure that RBC requirements represent an unadulterated measure of solvency risk. An example was explored where, while underserved communities are supported by social programs, there should be no such consideration in RBC since it would distort regulators' ability to assess solvency risk.
6. **Accuracy**.

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

- The final language, 'Sufficiently precise to assess solvency risk, while avoiding unnecessary complexity.,' and deliberately incorporate the concept of RBC being only as complex as needed to assess solvency risk.

7. **Grounded in Statutory Accounting and reserving**.

- There was broad agreement with having this concept as a separate principle from 'Equal capital for equal risk', given its significance. Deliberations pointed to important differences across RBC components (e.g., life reserves account for asset risk, needing life RBC to be measured net of reserves, which is not the case for property & casualty).
- This principle reflects that the calibration of RBC requirements will be affected by how risks are accounted for, as accounting practices determine how a risk impacts surplus. For example, two economically identical investments may warrant different RBC requirements if one were accounted at amortized cost and the other at market value.

8. **Emerging risks**. Regulators generally agreed that emerging risks should be addressed, although some thought the concept should be organized alongside RBC updates. Three aspects of the principle were discussed more extensively:

- Regulators agreed that 'identifiable segment of companies' should be emphasized, aligning with the emphasis in the materiality concept.
- The added reference to macroprudential risks makes clear that the financial system and broader macroeconomic risks may be relevant considerations when assessing emerging risks
- When incorporating emerging risks into RBC requirements, several considerations were explored:
  - The degree to which the risk is currently captured in RBC requirements;
  - The level and growth in industry or an identifiable segment of companies' exposure to the emerging risk;
  - How quickly the risk (including macroprudential risk) can become material; and
  - The identification and measurement limitations of emerging risks, acknowledging the natural limitations associated with emerging risk data. It does not suggest that RBC requirements should or should not capture an emerging risk, as referenced in the 'Process' principle, which acknowledges that RBC '…may rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions...'

9. **Transparency**. When exploring documentation and transparency standards, notable points were made regarding the need for model documentation to include:

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

10. **Process.**

- While commenters and regulators supported the concept of model risk management standards, some regulators raised concerns over their potential to be onerous to the point of debilitating future revisions to RBC requirements. It was also pointed out that resources will be needed to maintain a repository of 'accessible articulation of methodologies and supporting rationale,' or to ensure standards are adhered to, for example. Since the requirements will be articulated and will vary, possibly greatly, depending on the nature of the RBC update, regulators agreed to revisit the practicalities once draft standards are available.
- The benefits of the framework improving efficiency were discussed, allowing for the avoidance of reverse engineering the rationale behind poorly documented models. Documented processes and procedures will enable model developers and reviewers to implement changes more quickly. The transparency of the

framework should aid in understanding any model limitations, so that conclusions drawn from model results are properly informed.

- There was general consensus that, when applicable, RBC Governance Standards follow [*Actuarial Standard of Practice No. 56, Modeling (ASOP No. 56)*], which defines **Model Risk** as: *The risk of adverse consequences resulting from reliance on a model that does not adequately represent that which is being modeled, or the risk of misuse or misinterpretation.*
- The question of what constitutes a model was explored, with a general consensus of a broad interpretation of the concept. SR 11-7 describes a model as referring to: *a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model consists of three components: an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information. Models meeting this definition might be used for analyzing business strategies, informing business decisions, identifying and measuring risks, valuing exposures, instruments or positions, conducting stress testing, assessing adequacy of capital, managing client assets, measuring compliance with internal limits, maintaining the formal control apparatus…, or meeting financial or regulatory reporting requirements and issuing public disclosures. The definition of model also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature.*
    - It was agreed that the standards should recognize that some RBC requirements warrant a greater degree of analytical rigor and model sophistication than others, the involvement of regulatory judgment, data limitations, and other relevant considerations.
    - Concepts discussed that were viewed as needing to be addressed within the standards included:
        - Model development standards;
        - Ongoing monitoring standards; and
        - Change management standards that include procedures ensuring transparent communication and documentation of proposed and adopted updates, controlled implementation with considerations for retroactive applications, or gradual changes to parameters, and, when applicable, an assessment of materiality and the implications of proposed RBC updates. When discussing change management standards, regulators explored whether a model update that is generally viewed as improving accuracy should be limited in its applicability. Regulators agreed that any model update includes model risks, with uncertainties over unintended consequences. As such, significant updates should deliberately consider their impact.
- While many changes to RBC requirements are originated by the Task Force and its Working Groups, some proposals, with supporting information, are presented by interested parties. The process requirements may limit proposals to interested parties with sufficient resources to comply with process requirements or require a separate compliant review before acting on the proposal.

11. Prioritization.

- Regulators generally agreed on the concept and considerations related to prioritization. However, some expressed concern that it may not be an RBC principle but instead a process consideration. Given the significance of the concept, regulators felt that a standalone principle is warranted :
    - Necessity. Certain changes are required for calculations to remain functional. For example, changes to annual statement blanks often require changes to the RBC formula. Some aspects of the formulas require annual updates by design, etc.
    - Materiality. More material changes should be prioritized over less material changes.
    - Time and resource intensity. Some changes may require significant dedication of time and resources, while others may not. This should be balanced along with the necessity, materiality, and

other material considerations in determining the appropriate prioritization of changes. For example, a change that is less material but requires little time or effort to make may warrant addressing prior to a more material, long-term project.

- Other material considerations.

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.

Attachment Three

BRIDGEWAY ANALYTICS

Supporting the investment and regulatory community to navigate increasingly complex capital markets

RBC Model Governance (EX) Task Force

The next steps for developing a governance framework

December 10, 2025

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Agenda: The next steps for developing a governance framework

- **RBC Preamble edits**
- **A process for analyzing retrospective and future RBC adjustments**
- **Gap analysis, initially focusing on life RBC**
- **2026 planning and coordinating with the American Academy of Actuaries**
- **Education and public messaging campaign to highlight the RBC framework's benefits and strengths**

BRIDGEWAY ANALYTICS

Proposed RBC Preamble edits (1/2)

Current state

- The Task Force has an informal consensus on conceptual revisions to the Preamble.

The next steps

- Before adoption, several regulators pointed to the benefits of streamlining some of the language (e.g., there are 5 references to weakly capitalized companies).
- Regulators opted to remain silent on specific guidance on the level of disclosure, for now, agreeing that further discussion is needed alongside the potential conflict with Model Laws and state statutes.

Substantive proposed revision #1. Introduction of a new concept on disclosure:

- RBC requirements are a regulatory tool and are not intended or appropriate as a means to rank insurers. Therefore, state laws generally prohibit insurers and their regulators from making assertions or disclosures regarding comparisons of RBC information with limited exceptions. Insurers may make assertions or disclosures of certain RBC information, consistent with applicable state law, to accommodate the interests of other stakeholders, including policyholders, investors, ratings agencies, and other regulatory authorities. **Any insurer's assertion or disclosure of RBC information must be consistent with applicable state laws and should be accompanied by a disclosure statement alongside the RBC information articulating the relevant considerations when using RBC calculations outside of their stated regulatory purpose, as described in this Preamble**. State laws mandate that some elements of the RBC calculation and all RBC Plans are confidential and may not be disclosed.

Proposed RBC Preamble edits (2/2)

Substantive proposed revision #2. Articulated limitations of RBC (this is a revised version of the proposed Section E). Since the information content of RBC ratios can be limited for companies that are not at risk of triggering an action level, a spectrum of **factors entering into RBC calculations should be considered when using RBC ratios beyond identifying weakly capitalized companies**, including:

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

BRIDGEWAY ANALYTICS

A process for analyzing retrospective and future RBC adjustments

Bridgeway has compiled a formative draft Model Risk Management Guidelines document that attempts to articulate governance concepts related to:

- Roles and responsibilities
- Risk-ranked model inventory
- Model development guidelines that include criteria for selection of data and model methodologies and assumptions, and model validation, as well as an assessment of impact and incentives.
- Model monitoring guidelines.
- Model update guidelines.
- Model documentation guidelines.

The guidelines include a proportionality concept to address concerns over the possibility of model development guidelines becoming onerous to the point where less material updates to RBC become prohibitively cumbersome.

The next steps

- A natural application and field test of these guidelines for the gap analysis and prioritization with the Academy (next slide).
- We have shared the draft with key industry stakeholders and hope to refine it as we apply the guidelines and consider their practical implications while collaborating with the Academy.

Gap analysis, initially focusing on life RBC

The current state – we have a formative inventory and gap analysis

- **Identification of investment categories and application of RBC models – significant nuances:**
  - The inventory evaluates each RBC instruction line as well as an assessment of all items that fall under each RBC reporting line, which can include aggregated assets with varying risk characteristics.
  - The RBC instructions can be more granular than ASI/ASB. For example, Commercial Real Estate Mortgages (~$650 billion) require completing an RBC worksheet with details regarding credit quality (e.g., LTV), which is not public; aggregates are available in some cases when there are AVR lines, but not always.
- **Evaluation of models, including consistency with Statutory Accounting and Reserves**
  - Model documentation is identified, often limited to references in NAIC Proceedings.
  - For each investment category, key model characteristics are evaluated (e.g., statistical safety level).
  - For each category, the treatment under SAP and reserving is evaluated, since RBC aspires to align with both.
    - An example of nuanced inconsistency: RBC instructions have a single line for *Preferred Stocks*, but *Redeemable Preferred Stocks* with Designations 1-3 are valued at amortized cost, while *Perpetual Preferred Stocks* are valued at fair value. Bond RBC factors applied to Preferred Stock were calibrated to amortized cost, resulting in a gap for *Perpetual Preferred Stocks* that is inventoried.
- **Incomplete or inconsistent RBC instructions** and inconsistencies with SAP, ASI, or the VM are communicated with NAIC staff.
- **Investment trends** are evaluated to assess the degree to which a gap might pose a risk to regulators' assessment of solvency.

2026 planning and coordinating with the Academy

Current state

The Task Force submitted a formal request to the American Academy of Actuaries (Academy), requesting that Academy representatives, Bridgeway, and NAIC Staff work toward a more formal project plan for a gap analysis, initially focusing on life RBC.

- The Academy expressed its desire and intent to support the effort.
- Acknowledging the significance of the effort, the Academy formed the **Cross-Practice RBC Task Force,** which will work with other relevant Academy groups when needed.

The next steps – with timelines determined at the end of the year at the earliest

- As part of the gap analysis effort, the Academy was asked to review a data set provided by Bridgeway to provide feedback on the sample life investment content.
- The Academy will be seeking assistance from the Life Practice Council and relevant committees/subcommittees.
- Based on the Academy's preliminary feedback, Bridgeway will update the gap analysis.
- The Academy will make recommendations on prioritization based on the updated gap analysis.

Education and public messaging campaign

Current state – we have a formative deck that covers key concepts

- The NAIC & the U.S. State-Based System
- The U.S. state-based regulatory toolbox
- RBC: An evolving tool within the broader toolbox
- IAIS harmonization and AM comparability

Industry stakeholders and NAIC staff find the content helpful in framing the complex system. It is content-heavy, avoiding errors of omission.

The next steps

- Ongoing incorporation of updates from the Aggregation Method Implementation (G) Working Group
- Once consensus is formed, work toward a distilled variant of the deck

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