Draft date: 7/31/25

2025 Summer National Meeting
Minneapolis, Minnesota

RISK-BASED CAPITAL MODEL GOVERNANCE (EX) TASK FORCE
Tuesday, August 12, 2025
8:30 – 9:30 a.m.
Minneapolis Convention Center—Room 101—Level 1

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
Andrew N. Mais	Andrew N. Mais	Connecticut
Karima M. Woods	Karima M. Woods	District of Columbia
Michael Yaworsky	Michael Yaworsky	Florida
Dean Cameron	Dean 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 Spring National Meeting Minutes — *Director Judith L. French (OH)* — Attachment One
2. Receive Comments on Preliminary Principles and Responses to Questions—*Commissioner Nathan Houdek (WI)* — Attachment Two
   A. Summary — Attachment Three
   B. Washington — Attachment Four
   C. Virginia — Attachment Five
   D. Connecticut — Attachment Six

E.	Reinsurance Association of America (RAA)	Attachment Seven
F.	Transamerica	Attachment Eight
G.	American Council of Life Insurers (ACLI)	Attachment Nine
H.	MetLife	Attachment Ten
I.	Risk & Regulatory Consulting (RRC)	Attachment Eleven
J.	American Academy of Actuaries (Academy)	Attachment Twelve
K.	Athene	Attachment Thirteen
L.	American Property Casualty Insurance Association (APCIA)	Attachment Fourteen
M.	National Association of Mutual Insurance Companies (NAMIC)	Attachment Fifteen
N.	UnitedHealth Group	Attachment Sixteen
O.	Alternative Credit Council (ACC)	Attachment Seventeen
P.	Peter Gould	Attachment Eighteen
Q.	Valmark Financial Group	Attachment Nineteen

3. Discuss Any Other Matters Brought Before the Task Force
   —*Commissioner Nathan Houdek (WI)*

4. Adjournment

Draft: 3/18/25

Risk-Based Capital Model Governance (EX) Task Force
Virtual Meeting
March 17, 2025

The Risk-Based Capital Model Governance (EX) Task Force met March 17, 2025. The following Task Force members participated: Judith L French, Co-Chair (OH); Nathan Houdek, Co-Chair (WI); Doug Ommen, Co-Vice Chair, represented by Kevin Clark (IA); Michael Wise, Co-Vice Chair (SC); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais (CT); Karima M. Woods and Philip Barlow (DC); Michael Yaworsky represented by Ainsley Hurley (FL); Dean L. Cameron and Eric Fletcher (ID); Robert L. Carey (ME); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fisher (ND); D.J. Bettencourt represented by Doug Bartlett (NH); Cassie Brown represented by Jamie Walker (TX); Scott A. White (VA); and Patty Kuderer (WA).

1. Adopted its Proposed 2025 Charges

Director French indicated that the purpose of the meeting was to consider adoption of its proposed 2025 charges after they were exposed for comment on Feb. 9. Comments were received on the exposed charges, as well as other items included in the Feb. 9 memorandum, and will be part of the public record as attachments to the Task Force's meeting at the Spring National Meeting, where the other items will be discussed.

A. American Council of Life Insurers

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) said the ACLI is supportive of the Task Force and its mission. She indicated that the ACLI had previously noted in NAIC discussions in 2024 the need for a transparent, robust process that is informed by data, so it appreciates and supports the creation of the Task Force. Gomez-Vock noted that in light of the interconnectivity of the U.S. statutory framework, the ACLI encourages the Task Force to take a comprehensive view and focus on issues related to structural shifts in the life insurance industry. Structural shifts are often defined as cross-border asset-intensive reinsurance and the evolving asset allocations in life insurers' portfolios. The ACLI believes the Task Force is well-positioned to take a comprehensive viewpoint to provide greater oversight and strategic directions about the policy implications of different workstreams while also empowering technical working groups to pursue more detailed work that aligns with the Task Force's principles.

Gomez-Vock noted that the memo discusses asset issues, but the ACLI thinks it is important to include the NAIC's related reinsurance workstreams. The current global focus on cross-border reinsurance and asset allocation has created a spotlight to communicate the strength of the U.S. system and its ability to effectively assess and respond to evolutions in the market. Focusing on structural shifts will also promote alignment across connected initiatives to ensure that such work advances desired policy outcomes. A big picture is important to maintain the integrity, adaptability, and global competitiveness of the U.S. market while also protecting policyholders. Maintaining commissioner-level transparency in projects that address some of these changes in the industry will help the U.S. system sustain its consistency as it evolves alongside the market. Gomez-Vock suggested that it might be helpful for the Task Force to consider creating an inventory of projects that might be related to structural shifts in the life insurance industry. She also noted that this big picture viewpoint is critical to help identify the best regulatory solutions to protect policyholders while also fostering access to innovative and affordable protects to address protection gaps. The ACLI welcomes the opportunity to assist the Task Force in advancing this important work.

Attachment One

B. Athene

Kimberly Welsh (Athene) said that Athene strongly supports the creation of the Task Force and its 2025 goals and charges. The Task Force will provide essential commissioner-driven oversight and coordination and will help fulfill the NAIC investment framework's goal of setting a long-term strategic direction for investment regulation. The development of clear guiding principles for risk-based capital (RBC) adjustments coupled with the robust gap analysis and consistency assessment will help ensure that RBC methodologies, assumptions, and models are empirical, quantitative, and internally consistent and that the future and retrospective adjustments to RBC are data-driven. She noted that Athene applauds the Task Force's charge to develop educational materials and a public messaging campaign. It recommends this includes proactive advocacy internationally at the International Association of Insurance Supervisors (IAIS) and with other international regulators to promote the state-based system and RBC. Athene also encourages prompt evaluation of all active work streams to ensure alignment with the Task Force's initiative and the investment framework. Current work, such as the ongoing work around collateralized loan obligation (CLO) modeling, should benefit from the guiding principles and be consistent with the NAIC's broader direction on solvency regulation. This initiative is a critical step forward to modernize and ensure long-term integrity to the RBC framework to account for real-world investment dynamics when calibrating RBC charges to advance consistency, equal capital for equal risk, and recognize that the life sector is evolving and is a substantive role in financing the real economy and closing the retirement gap in the U.S. This Task Force will help to ensure that RBC is robust, resilience and continues to set a global standard for safeguarding policyholders while fueling economic growth.

C. American Academy of Actuaries

Katie Dzurec (American Academy of Actuaries—Academy) said that, like others, the Academy supports the Task Force's goals and charges for 2025 but has some forward-looking ideas for assisting with the guiding principles and performing the gap analysis. She indicated the Academy has provided some past and more recent resources and looks forward to continuing its relationship with the NAIC.

D. Anderson Insights

Chris Anderson (Anderson Insights) said that he was a chartered financial analyst who began focusing on insurance company investments at Merrill Lynch Capital Markets and Investment Banking about the time RBC was implemented. Over the last 15 years, he has consulted independently and advised, but not represented, clients primarily concerning insurer investing. He strongly supports the initiative being undertaken, along with others submitting written comments.

Anderson noted that the purpose of the RBC structure was to identify weakly capitalized and, therefore, potentially troublesome insurers. It was designed to enable, and even require, regulators to take action. It should be acknowledged that while RBC is one window regulators can look through to evaluate insurers, it is only one of a suite of tools that is available to them. But what makes RBC unique and so vitally important is that it has been adopted as a uniform standard by all NAIC members. This means that regardless of where an insurer is domiciled at pre-specified RBC levels, discretion ends, and the regulator is compelled to take action. This ensures that there is an absolute minimum standard and a level playing field that applies in all 56 jurisdictions and bolsters confidence in the state-based system. That is why it is so important to evaluate how well RBC is fulfilling its critical function by looking at its strengths and weaknesses before work is begun to further strengthen it. He noted that his comment letter addresses this specifically; however, when he looked recently at RBC data for common stock, specifically C-1 common stock, he was surprised to see that total industry-wide life insurer holdings of unaffiliated

Attachment One

common stock, which amount to just slightly over 2%, resulted in 25% of total industry risks. He said that this seemed odd because he was not familiar with any insurer that has ever failed due to this specific type of asset.

Anderson noted that as discussed in his letter, the NAIC is very well positioned to perform an analysis of the risks that are the root causes of financial difficulties. The Financial Analysis (E) Working Group and its predecessors have a wealth of knowledge in this regard. Other regulators also have a great deal of valuable experience. Anderson said it is important that the Task Force first look at the reasons for failure and then align those with the experience of RBC to ensure that RBC is actually capturing those risks.

Director Wise made a motion, seconded by Director Cameron, to adopt the proposed charges (Attachment One-A-). The motion passed unanimously.

2. Discussed its Spring National Meeting Agenda

Commissioner Houdek stated his appreciation for all 350 participants of the meeting. It highlights strong interest and reaffirms his belief in the importance of staying involved and providing feedback. As the work continues through the end of 2025, the plan is to move aggressively with a matching timeline, but he noted the Task Force is committed to soliciting feedback and input from interested parties, especially from interested parties who have firsthand RBC experience.

He noted the Task Force's meeting at the Spring National Meeting would be similar to this meeting, and those who provided written comments would be given an opportunity to summarize their views. He stated that while the formal deadline for comments of March 12 has passed, he encouraged any additional feedback, specifically on the questions that were included in the exposed memorandum. Interested party involvement is critical for completing this work effectively.

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

SharePoint/NAIC Support Staff Hub/Committees/EX CMTE/RBCMGTG/ …

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Interested Regulators and Interested Parties

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

Date: July 3, 2025

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

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Context

The Risk-Based Capital (RBC) Model Governance (EX) Task Force (Task Force) published its *2025 Goals and Proposed Charges* (The Memo), which provides background and explains the need for expanded governance over the RBC framework. To that end, the Task Force requests comment on proposed preliminary principles and questions intended to be used for guidance.

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

The use of RBC and proposed principles. As explained in the RBC Preamble, the purpose of RBC is to identify potentially weakly capitalized companies. The proposed principles support this purpose and attempt to align with the goals and charges of the Task Force, which include developing principles that will "*serve as a strategic foundation to ensure that all revisions to the RBC framework are enhancements that uphold its integrity, adaptability, and global competitiveness and further the principle of Equal Capital for Equal Risk."* In addition, The Memo explains, the principles will provide guidance "*for updating the RBC formulas to address current investment trends with a focus on more RBC precision in the area of asset risk and to ensure that insurance capital requirements maintain their current strength and continue to appropriately balance solvency with the availability of products to meet consumer needs*."

The governance framework. While the Memo speaks to the principles, the broader governance framework will provide guidance for assessing and changing RBC calculations.

- **Principles** will be foundational to providing a guiding North Star for assessing and changing RBC components.
- **Quantitative guidelines** will articulate quantitative benchmarks allowing quantitative comparability across RBC calculations (e.g., statistical safety level). The guidelines serve as benchmarks, and not hard requirements. Deviations are expected but should be documented and justified.
- **Model Governance Standards** will provide a process for adjustments to RBC, incorporating regular reviews of RBC outcomes. This ensures that future adjustments are made in alignment with guiding principles and supporting guidelines**.**

- **Case studies for additional guidance**. Many RBC components will require additional guidance when assessing their characteristics and the materiality of a principle being violated. Since it is not often practical to construct quantitative thresholds, a series of case studies can provide further guidance.

The role of principles and broader governance framework in helping achieve the other Task Force 2025 goals:
1. Develop a list of gaps and inconsistencies in the RBC calculations and suggestions (solutions) for what could improve/address such gaps.
2. Develop a plan, including priorities and sequencing, for changes to RBC in future years.
3. Develop an education and public messaging campaign to highlight the RBC framework's benefits and strengths as an important part of the U.S. state-based insurance regulatory system. The campaign will help address the need for global insurance supervisors to understand differences across regulatory jurisdictions to effectively supervise these groups.
4. Create a process for analyzing both retrospective and future adjustments to RBC calculations, incorporating regular reviews of RBC calculations and ensuring future adjustments are made in alignment with guiding principles and quantitative guidelines. This process will facilitate ongoing improvements to ensure the framework remains responsive to emerging risks and market trends, enabling the RBC framework to adapt proactively.

The immediate priority is to provide options on proposed preliminary top-of-the-house RBC principles and life investments quantitative guidelines for regulators to choose, supporting the Task Force, whose focus is on *more RBC precision in the area of asset risk,* as described in The Memo. The initial work plan will sequence efforts in the following order, subject to iteration and revisions:
1. Top-of-the-house preliminary principles, with this request looking for comments on the proposed list below.
2. Preliminary quantitative guidelines for life investments RBC, with an exposure requesting comment targeted to be posted at the Summer National Meeting.
3. An initial gap analysis focusing on life RBC investments by year-end 2025.
4. An education and messaging campaign by year-end 2025.
5. A broader plan for other components of the RBC, including those of property & casualty and health, will be developed by year-end 2025.

<u>Questions that the principles and broader framework should be used for guidance:</u>

Memo questions that the principles should be used for guidance:
1. When should a particular risk be addressed in the RBC model?
2. What level and type of data and analysis are needed to support the setting of capital factors?
3. How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?
4. What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?
5. When should the calibration of risks to capital factors be re-evaluated?

Additional questions for consideration:

6. How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?
7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?
8. How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?

9. How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?
10. How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?

Proposed preliminary RBC principles, applied by company type:

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
    a. **Insolvency.**
        i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
        ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
        iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
        iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
    b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.
2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).
3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.
4. **Emerging risks. Evaluation of emerging risks should consider:**
    a. The level and growth in exposure to the emerging risk;
    b. How quickly the risk can become materially incorporated into insurers' business;
    c. Industry exposure to the risk, as well as industry segment exposure; and
    d. Identification and measurement limitations of emerging risks.
5. **Changes to RBC calculations.**
    a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
    b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.
6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

All comments on this proposed preliminary Risk-Based Capital principles and responses to the listed questions should be sent by COB July 24 to NAIC staff (Dan Daveline at ddaveline@naic.org) and Bridgeway Analytics (RBC-MoGo@BridgewayAnalytics.com). Questions can also be directed to the same.

MEMORANDUM

To: Risk-Based Capital Model Governance (EX) Task Force, Interested Regulators, and Interested Parties

From: Bridgeway Analytics

Date: July 31, 2025

Re: Responses to the July 3, 2025, request for comments on proposed preliminary Risk-Based Capital principles and questions

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Context

The Risk-Based Capital (RBC) Model Governance (EX) Task Force (Task Force) published its *2025 Goals and Proposed Charges* (The Memo), which provides background and explains the need for expanded governance over the RBC framework. To that end, the NAIC has hired Bridgeway Analytics to facilitate gathering stakeholder suggestions and feedback, and to synthesize, along with Bridgeway's own objective assessments, on achieving the Task Force Goals and achieve consensus.

On July 3, 2025, the Task Force posted a request for comment on proposed preliminary principles and questions intended to be used for guidance (RBC Model Gov Chair Exposure). The exposure explains that beyond the development of principles, the Task Force goals include a gap analysis of RBC components, an educational campaign, and an overarching governance framework. The interdependent nature of the goals requires a work plan that alternates between refinements to the preliminary principles and other efforts (e.g., development of a gap analysis of RBC components). At this formative stage, there should be no expected formal adoptions of principles or other components of the governance framework until they have been demonstrated to provide an appropriate level of guidance later in the process.

This document

This document summarizes written comments received on the exposure of proposed preliminary principles.

- For ease of navigating the extensive set of comments
  - Comments are summarized under each preliminary proposed principle.
  - Only commenters' questions, NEW principles and objections, paraphrased and categorized as either 'advocating refinement to language' or 'advocating refinement to substance', are included. If a comment has not been included or has been mischaracterized, please email: ddaveline@NAIC.org and RBC-MoGo@BridgewayAnalytics.com.
  - Several commenters were unsure of how to interpret the application of principles across Insurer Type or certain policy categories (e.g., natural catastrophes). To avoid possible confusion, the reference to company type was removed from the proposed principles. Rather, quantitative guidelines are clarified to be 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).
- *A thematic review of responses advocating refining the substance of principles*, dated August 12, 2025, provides insights from deliberations with the Drafting Group.

- This document does not summarize comments on questions that principles are intended to provide guidance on, which are very much appreciated. Considering the iterative nature of the effort, those comments will be revisited at a later date.

Comments on proposed preliminary principles (paraphrased by Bridgeway)

Use of RBC calculations. RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.

Comments advocating refined language:
- Virginia - Add that the RBC framework provides the foundation to the U.S. Aggregation Method for internationally active insurance groups.
- RRC - Preference to reframe title as “Purposes of RBC calculations”
- ACLI: Purposes of RBC calculations. RBC calculations are used as a regulatory tool to identify potentially weakly capitalized companies that may be at risk of insolvency. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels to protect policyholders.
- Academy: Modified language to read '...RBC is intended to be... [remove] only...'
- Transamerica - We recommend relabeling this principle “Purposes of RBC calculations” because we believe that is a more appropriate and useful description of the substance.
    - We support leading off with the historic purpose of RBC, which is to identify potentially weakly capitalized companies. The exposure also states that RBC calculations are used only as a regulatory tool, “…unless otherwise required by law, regulation, or supervisory standards.” It is unclear to us what this means. For example, does this mean that RBC can be used for something else only if some other requirement or “supervisory standard” can be cited? Used by whom? As a result of this ambiguity, we suggest removing this language.

Comments advocating revised substance:
- Transamerica - We think it is important to acknowledge regulatory uses of RBC beyond identifying weakly capitalized companies and to acknowledge the legitimate interest that non-regulatory stakeholders, including current and prospective policyholders and the public, have in RBC information. Proposed text under 1c and 1d attempts to incorporate these uses.
- Athen - RBC calculations are used as a continuous, risk-sensitive measure of capital strength that informs supervisory dialogue, market confidence, and company decision-making across a spectrum of solvency outcomes.
- ACC - We support the principle that RBC remains the primary tool to help identify companies at risk of insolvency. RBC is viewed by markets, ratings agencies, and other stakeholders as a continuous gauge, not just a trip wire. We recommend that the principles explicitly acknowledge the US statutory framework’s emphasis on very substantial reserves, which already provide material loss-absorbing capacity. For example, a typical US life insurer holds statutory reserves often exceeding best-estimate liabilities by a significant margin, while a Solvency II life insurer holds lower technical provisions but higher explicit Solvency Capital Requirements (SCR).

Questions:
- NAMIC -What is the vision for the RBC formula at the end of this process? Is it to remain a tool in the toolbox to identify potential insolvency and avoid the imposition of capital specific regulatory requirements? Or does the Task Force imagine it evolving into a larger analytical tool, to be used to evaluate comprehensive capital adequacy and other items such as product availability as referenced in Principle 1(a)(ii)?

a. **Insolvency.**

i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.

Comments advocating refined language:

- **Ohio - Possibility of insolvency**. RBC charges should be set to reflect a level of safety that identifies the possibility ~~reduces the probability~~ of insolvency, without eliminating the possibility of insolvency.
- ACLI - Remove the reference to RBC "charges" and replace with RBC "framework."
- RRC - Clarifying this further, such as "RBC charges should be set to reflect a margin of safety. The goal of these charges is not to eliminate the possibility of insolvency, but rather to reduce the probability of insolvency assuming appropriate regulatory action is taken."

Comments advocating revised substance:

- Virginia - Add that in no way should these principles be interpreted to allow or establish secondary considerations for the RBC framework.

Questions

- APCIA - We are not sure of the intent of the last sentence as well as the change in wording from the current RBC preamble which states "The purpose of risk-based capital is to determine the minimum capital (RBC levels) an insurer needs to operate its business and insurers should seek to maintain capital above the RBC levels." Is the objective of this project to require insurers to hold capital above the current intervention levels in line with the IAIS ICS? We note that for P&C, the current RBC outcomes were determined to be comparable, so an uplift is not needed.

NEW principle

ACLI - ii. A Component of a Robust Regulatory Framework. RBC is one of many tools within the statutory framework that collectively serve to protect policyholders and provide state regulators insight into potential risks. It should be designed and calibrated in a manner that accounts for and is complementary to the full spectrum of supervisory tools and resources. Feedback on NEW 1(a)(ii). While the RBC framework is a core element of the NAIC solvency system, it is not the only component. Reserves, financial disclosures, and other tools also make up critical components to help regulators identify risks to solvency. These elements need to be considered holistically when making changes to the RBC framework to ensure that risks appropriately captured and addressed in one element of the entire solvency framework are not double counted in another and promote the principle of Equal Capital for Equal Risk, as defined in Principle 2.

ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.

Comments advocating refined language:

- Academy - Alternative language: A.ii. RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs. In considering the appropriate safety level for RBC, the balance between protecting solvency and maintaining affordable insurance products should be considered. RBC charges should be sufficiently granular to recognize material differences in risk.
- RRC - either editing the end of the statement to "…particularly when they may materially affect insurer decisions around product offerings to meet consumer needs." Or rewording the entire section, such as "In considering the appropriate safety level for RBC, the balance between increasing solvency and maintaining affordable insurance products should be considered."

- ACLI - “RBC charges should be sufficiently granular to recognize material differences in risk.” and should be placed in Principle 2, Objectivity. Proposed language: Protecting Policyholders and Meeting Consumer Needs. While RBC calculations primarily serve to protect policyholders, they can influence the availability and affordability of products available to consumers. The RBC framework should be designed and calibrated in a manner that seeks to strike the right balance to protect policyholders without unnecessarily impeding access to insurance products, including long-duration products.

Comments advocating revised substance:

- Connecticut - RBC... is not designed to measure the appropriate level of capital required to achieve a company’s goals.... RBC should not be compromised in determining the underlying risks of a product.
- Virginia - Fostering economic growth and/or regulating the real economy, as some stakeholders have commented in other proceedings, do not fall within the solitary purpose of the RBC framework (and also fall outside of the mandate of chief insurance regulators). Likewise, suggestion in the proposed principles that “RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs” has no place in the RBC framework’s model governance principles.
- Washington: Strike A.a.ii - The need for RBC charges to be sufficiently granular when material differences in risks exist is already covered in Section 1.a.iv. In addition, including the impact of the risk charge in meeting consumer needs appears to conflict with the primary purpose of RBC in meeting consumer needs by trying to protect them from insurer insolvency. Section 1.a.iii. already speaks to the underlying need to have RBC neither promote nor inhibit actions by insurers that are unrelated to solvency risk, which we believe would include the availability of products to meet consumers’ needs.
- NAMIC: RBC should continue to be risk-based. The availability of products should not be a factor in determining how future or existing RBC charges are determined as suggested in Principle 1(a)(ii).
- RAA - RBC should focus exclusively on insurer solvency and the capacity to meet policyholder obligations. While product availability and affordability are important, they are best addressed through separate regulatory tools and market mechanisms, not capital standards. To that end, we recommend the following revision to Section 1.A.ii: "RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs."
- MetLife - RBC requirements should not be based upon the subjective requirement of “meeting consumer needs.” Since (1.a.ii.) conflicts with principle (2) on Objectivity as well as sub-principal (1.a.iii) directly below it, MetLife recommends that (1.a.ii) be removed from the draft principles. The sentence “RBC charges should be sufficiently granular to recognize material differences in risk” can be moved under (1.a.i.)
- Transamerica
    - Statements that RBC charges should not seek to eliminate the possibility of insolvency and that they should “secondarily acknowledge their impact on product availability” seem non-essential. We suggest removing them.
    - We also think the concepts of identified risks and granularity are better addressed under principle 2, as they relate only indirectly to the underlying purposes of RBC
- APCIA - We don’t believe the availability of insurance should be a component of the principles as the primary objective of RBC is, and should remain, to provide an effective solvency tool using an early regulatory intervention mechanism for potentially weakly capitalized insurers.

iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.

Comments advocating revised substance:

- Virginia - The Bureau would like to add that in no way should these principles be interpreted to allow or establish secondary considerations for the RBC framework.

- Transamerica - We are unsure what is meant by "promot[ing] or inhibit[ing] actions by insurers that are unrelated to solvency risk." We have assumed that it involves incentives and disincentives and have incorporated the concept, with revised wording, under the "equal capital for equal risk principle" below.

Questions:
- Transamerica - Unsure what is meant by "promot[ing] or inhibit[ing] actions by insurers that are unrelated to solvency risk." We have assumed that it involves incentives and disincentives and have incorporated the concept, with revised wording, under the "equal capital for equal risk principle" below.

iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.

Comments advocating refined language:
- Virginia - We would add that the principle must allow RBC to recognize where meaningful differences exist between asset classes and to take those differences into account in calculating RBC charges. Allowing the RBC framework to recognize these differences will further implementation of the principle of "equal capital for equal risk.
- ACLI - recommend relocating this subprinciple to Candidate Principle 2. We recommend refining the identified risk subprinciple to read as: "Risks that are captured or not captured within RBC calculations should be identified and, to the extent practicable, RBC charges should reflect measurable differences in risks that can impact solvency. Consideration should be given if the risks might be better identified and assessed in other regulatory tools rather than in the RBC framework."
- Academy - Updated language: aA.iv. Identified risk. Where identifiable, RBC should include all industry risks that may be material to solvency. In the event one of these risks is excluded (i.e., it is hard to quantify the risk), that should be documented. charges.
- RRC - Add clarifying the language, such as, "RBC should include all risks that may be material to solvency. In the event one of these risks is excluded (e.g., difficult to quantify), the exclusion should be documented and explained. In the event that certain risks are captured in multiple components of the formula, appropriate adjustments should be incorporated."
- Transamerica - the concepts of identified risks and granularity are better addressed under principle 2, as they relate only indirectly to the underlying purposes of RBC.
- APCIA - Although this principle appears reasonable, we note that RBC is not a precise tool and its impact would depend on how it is applied. We suggest the following edit:
  Where identifiable, RBC charges should reflect measurable risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.

b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

Comments advocating refined language:
- Washington - We believe this section should be renamed. The link between acknowledging that RBC is used as a component of assessing capital adequacy for insurance groups, and global competitiveness, is uncertain to us. Maybe "insurance groups and global recognition" would be a better title?

- Academy - Proposed language: 1.B. Insurance groups and global competitiveness. While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component they should be developed with the goal of having them acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.
- RRC - We recommend that the language be altered to "…they should be developed with the goal of having them acknowledged…." "…they should be developed with the goal of having them acknowledged…."
- ACLI - Support 1(b), now moved to Principle 5(c). We propose moving this theme to principle 5, which we believe would create greater alignment with the charges for the Risk-Based Capital Model Governance (EX) Task Force. More broadly, the principles should acknowledge that RBC calculations are a component of capital adequacy assessments for all insurance groups (domestic and international).

Comments advocating revised substance:

- Virginia - There should be no secondary considerations, acknowledgements, or competing purposes. Fostering economic growth and/or regulating the real economy, as some stakeholders have commented in other proceedings, do not fall within the solitary purpose of the RBC framework (and also fall outside of the mandate of chief insurance regulators).

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).

Comments advocating refined language:

- Virginia - First, although consistency across statistical safety levels should be sought, the principles must make clear that there can be no reduction in the current statistical safety levels. The principles should not open the door to increased risk within the RBC framework. Second, the list of intended risks ("concentration, diversification, and tail risks") should be viewed as examples, and not an exhaustive list, to provide the necessary flexibility to state insurance regulators in responding to future risks.
- NAMIC - Principle 2 "Objectivity", reflect this current approach and acknowledge the key differences between different business models, different risks and provide a discussion of how the models are structured to address these differences.
- Academy - Does not necessarily believe that RBC should consider overall business practices and their treatment within the framework. Different safety levels may be suitable for different risk charges in some cases, such as for risks with substantially different time horizons. Note that currently Rcat, which focuses on natural catastrophes, is calibrated to the 100-year return period since insurers typically know their ultimate losses fairly accurately within a year of the event. R4 and R5, on the other hand, are calibrated to the nine- or 10-year return period, due to the longer horizon.
- RRC - Suggests revising the sentence: "They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies)." We suggest the language should be revised as follows: "RBC charges should reflect the underlying economic risk. While accounting values may be used in the calculation for simplicity and auditability, the RBC framework should aim to produce RBC amounts that are consistent across risks, based on the desired safety level, and should not be inappropriately skewed due to accounting differences", or something similar. We also believe it may be overreaching to suggest considering "overall business practices and their treatment within the framework." Although, we do agree that RBC should not dis-incentivize good risk management practices.

- Transamerica -We suggest creating multiple subpoints for improved readability.
    - We recommend adding a subpoint (2c) regarding reinsurance and hedging. It is important for capital charges to apply only to the risks held by the entity.
    - In sub-principle 2d, we suggest limiting the content to areas of offset other than reinsurance and hedging. Accounting treatment is better addressed under the following principle.
    - We recommend including the points regarding "identified risk" and granularity, currently in the first principle, in this principle (2e and 2f).
- ACLI - For ease of reading, we recommend breaking this up into subprinciples. We also relocated several concepts (identified risks) and equal capital for equal risk into this principle.
    - Feedback on 2a. We recommend replacing "charges" with "framework" and adding "that may materially differ across and within asset classes" after "tail risk".
    - Feedback on 2b. Because Principle 2 contemplates what RBC should do, Principle 2 felt like a natural place to include the concept of how RBC calculations should promote equal capital for equal risk. We have included specific language about what that might look like in 2b.
    - Feedback on 2c. To improve thematic consistency, we recommend relocating a concept that was previously included under Principle 1(a)(iv), Identified Risk, to this principle on objectivity.
    - Feedback on 2d. We support seeing the statement that RBC charges should "recognize differences in accounting, reserving requirements and other offsets, etc." As work on this initiative progresses, it will be helpful to obtain a better understanding of how this will work in concert with Candidate Principle #3, Consistency with Statutory Accounting.
- APCIA - We agree that RBC charges should be objective to the extent possible; however, it should be acknowledged that there are areas where expert judgement is needed and applied (e.g., operational risk). We are unsure as to what is meant by measuring at a consistent statistical safety level and whether this is intended to be for each individual factor or a modelled result at the overall industry level. We note that it is not possible to determine the overall statistical safety level for the insurance capital standards due to subjective factors being used as well as the difficulties in combining the individual risks. Currently, different components of the RBC formula within each of the P&C, Life, and Health formulas use rationally developed factors to appropriately measure individual risks, properly recognizing the inherent operating differences between the three different industries. We are also unsure if the second half of the paragraph is intended to rationalize differences in RBC formulas for life, P&C, and health, or refers to something else.

3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.

Comments advocating refined language:

- Washington - We believe that adding "whenever possible" would be prudent to ensure there are no misunderstandings when the data for the RBC formula can't be derived from the annual statement. In addition, it might be valuable to add that "As such, regulators and industry should work together to try and minimize the instances when values used in the RBC formula are not reported in the annual statement."
- Academy - Adding in some cases it will not be possible to get an appropriate risk charge using the annual statement values.
- RRC - recommends enhancing the sentence to start with "To the extent practical, RBC charges…".
- Transamerica - Proposed clarification emphasizes the use of the statutory statement as a basis for capital charges, consistent with historical practice.

4. **Emerging risks. Evaluation of emerging risks should consider:**
    a. The level and growth in exposure to the emerging risk;
    b. How quickly the risk can become materially incorporated into insurers' business;

c. Industry exposure to the risk, as well as industry segment exposure; and
d. Identification and measurement limitations of emerging risks.

Comments advocating refined language:

- Athene - Add a numeric materiality trigger (e.g., 5 % of industry admitted assets) to focus analytical effort.
- RRC - Unsure what "industry segment exposure" means
- MetLife
    - (4.a.) be expanded as follows: The level and growth in exposure to the emerging risk at individual insurance groups
    - On (4.d.), we do not believe that there should be a blanket prohibition on establishing RBC on emerging risks until the standard data requirements have been met.
- Washington - Emerging risks. We believe the list of items that the evaluation of emerging risks should consider should include: e. How the risk is currently accounted for in the RBC formula.
- Transamerica - There should not be new risks from a taxonomy standpoint. There may, however, be new risk drivers (e.g., cyber, climate) or new innovations, such as investments or product types. Accordingly, we suggest modifying the labeling of this principle. We suggest a particular emerging risk or innovation should be addressed in RBC formulas when it is not captured appropriately, and it could have a material effect on the RBC ratios of a material subset of the industry or when a potential misstatement of a risk creates inappropriate incentives or disincentives. This is the suggested new 4e.

Comments advocating revised substance:

- ACLI - It's not clear that principle 4 is fully responsive to the Task Force memo's request that the Principle answer "How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?"

Question

- RRC - unsure what "industry segment exposure" means. Perhaps this is referring to life insurance, health insurance, and property casualty insurance. This should be defined somewhere or clarified. Another factor to be considered is the potential volatility or severity of that risk.

5. **Changes to RBC calculations.**

Comments advocating refined language:

- Transamerica:
    - This principle seems better framed as "maintenance and updating," which is more purposeful language than "changes."
    - It is not just emerging risks that require updating; it may be that experience underpinning current factors has not been refreshed in some time. For this reason, we suggest adding language directing the NAIC stakeholders to determine if existing factors should be updated.
    - We think it improves readability to create separate subpoints for the identification of needed updates and the process for making those updates.
    - As stated above, we recommend moving the "equal capital for equal risk" point to the second principle.

a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.

Comments advocating refined language:
- ACLI - Feedback on 5(a). Recommend incorporating the following: Changes to RBC should be conducted through a transparent and robust process at the NAIC, applying analytical rigor, informed by data, where available, and allowing reasonable time for stakeholders to offer constructive feedback on proposals and providing opportunities for meaningful dialogue between regulators and industry. Complex proposals may require an iterative process.

b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.

Comments advocating refined language:
- Athene - Replace "charge" with "framework". Add designation to 'existing charge or designation...'
- MetLife - MetLife recommends that these RBC Model Governance principles maintain the E Committee's adoption. The specific reference to "tail risk".
- ACLI - Add In general, capital requirements should be implemented uniformly across the NAIC solvency regulatory framework.
- APCIA - we don't necessarily agree with the concept of equal capital for equal risk if it is applied at the individual asset or liability level. There have been changes in the past few years to investment RBC that have not changed total RBC for P&C companies other than through the cost of adoption (e.g., the revised bond factors and the new principles-based bond definition).

Comments advocating revised substance:
- Virginia - the principles should not allow for or require the "balancing of the appropriateness of the existing charge with the added complexity and materiality of the possible change." The calculations of RBC charges should follow the principle of "equal capital for equal risk" and not incorporate any balancing of competing interests.
- RAA - concerns with the repeated reference to the principle of "Equal Capital for Equal Risk" in the draft. While a recognized concept internationally, its focus on aligning capital with economic risk, irrespective of legal structure or accounting treatment, diverges from the longstanding regulatory purpose of the RBC framework: to identify potentially troubled insurers before insolvency and to trigger proportionate supervisory response. The RBC system functions as an early warning mechanism, not as a comprehensive economic capital standard. Therefore, it must remain anchored in the statutory and legal entity framework that underpins state-based insurance regulation in the U.S.

NEW principle
ACLI - c. Adaptability and competitiveness. Changes to the RBC framework are done in a manner that preserves its integrity while evolving as needed to facilitate fair effective and efficient U.S. insurance markets and supervision of insurance products, insurance legal entities and groups, and the fair and equitable treatment of insurance consumers.

NEW principle
ACLI - d. Evaluating co-dependencies and interconnections. Many singular features of RBC are interconnected with other elements of the broader financial regulatory framework. Refinements to RBC should include

considerations of interconnectedness and co-dependencies – including areas where material risk may already be captured - before the adoption of proposals.

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

Comments advocating refined language:

- Academy - We recommend the deletion of the final sentence, as having understandable calculations will not necessarily ensure that future adjustments align with the principles.
- ACLI - We recommend refining the principle to clarify that the governance standards will apply to the RBC framework, not just models.
- Transamerica:
    - We suggest creating multiple subpoints for improved readability.
    - Not every component of RBC is a model and therefore full Model Governance Standards are not necessarily appropriate. Nevertheless, we support having all aspects of RBC subject to a robust governance process.
    - We suggest adding a sub-principle (6c) that emphasizes the importance of maintaining historical documentation of the decisions and rationale for the various components of the formula.
- RRC - suggests removing "components of"

Comments advocating revised substance:

- ACLI - As regulators consider governance frameworks, it is worth considering how the RBC framework comports with NAIC's overarching goals for regulation across all aspects of the financial regulatory framework.
- Athene - Adopt the comprehensive Governance Plan described above to ensure consistent cross-work-stream oversight and retrospective testing of factor performance.
- Washington, DC – The governance framework should explicitly address the benefits of streamlining changes to RBC across company types, particularly for investments, noting the possible significant cost of conducting different studies for life, P&C, and health. Guidelines should be explored and developed to possibly allow for single studies to determine charges across the three, recognizing differences across the three frameworks (e.g., life investments RBC is generally measured net of reserves which is not the case for P&C).

Questions

- APCIA - Is it intended to state that the NAIC should be subject to the Model Governance Standards in its deliberation of any changes to the RBC models or is it the insurer's calculation of RBC and the components of that work that need to satisfy Model Governance Standards? While we agree that there should be governance standards over RBC, the Model Governance Standards was designed to be more broadly applied to various types of models used by insurers. We would also have concerns around the application of Model Governance Standards to components that are subjective/judgment based.
- NAMIC - Model Governance Standards. Does this refer to the standards being developed by the Generator of Economic Scenarios (GOES) Subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force? These standards, to our knowledge, have not been placed in the P/C context.

NEW Principle

Athene – The Task Force Charges state that "the principles will serve 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". These important concepts are not sufficiently reflected in the principles. We urge the Task Force either (a) to restore them as stand-alone principles, or (b) to incorporate them verbatim into the principles, namely, Principle 2 (Objectivity).

1. Integrity and Adaptability. The Task Force has recognized that these are critical concepts to ensuring a modern, risk-aligned capital regime. They should be clearly reflected in the principles.
2. Equal Capital for Equal Risk. RBC should deliver risk-aligned capital irrespective of an asset's legal form or the modelling tool used. Calibration should seek consistency across asset classes, recognize modelling biases and covariance effects, and permit judgement-based proxies for novel assets – subject to retrospective validation through the governance principle.
3. Global Competitiveness. RBC should be acknowledged as comparable with, and in certain cases substitute for, foreign regimes such as Solvency II and ICS – thereby supporting U.S. insurers active internationally and reducing international and federal criticism of, and pressure to change, the U.S. RBC regime. A principle grounded in this concept will also support the Task Force's charge to develop an education and messaging campaign to highlight the benefits and strengths of the state-based RBC system. 4. Balancing Both Prudential Oversight with Strong Capital Markets.

The Task Force has called for the principles to "ensure that insurance capital requirements maintain their current strength and continue to appropriately balance solvency with the availability of products to meet consumer needs." Draft Principle 1.a.ii, merely recommends acknowledgement of RBC impact on product availability. This principle should be enhanced to clarify the importance of balancing solvency, consumer needs, and capital-market strength.
RBC standards should be calibrated with enough granularity and "precision" as called for by the Task Force, and without inappropriate conservatism, to preserve a healthy pipeline of economically sound products that close consumers' retirement-income gaps and to sustain deep, well-functioning U.S. capital markets. Because RBC charges impact product pricing, asset-allocation, and market participation decisions, the RBC framework should promote proportionate capital that both protects policyholders and supports prudentially appropriate insurer investments.

Re-elevating these Task Force concepts will reconcile commissioner comments with the Initiative's aspirational objectives and ensure that future quantitative work remains tethered to clear policy anchors.

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.

BRIDGEWAY ANALYTICS

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

RBC-MoGo-TF

A thematic review of responses advocating refining the substance of principles

August 12, 2025

BRIDGEWAY ANALYTICS

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Agenda: RBC Model Governance

- A reminder of Task Force Goals and Bridgeway's role
- Top-of-the-house proposed preliminary RBC principles
- Responses advocate refining the substance of principles and responses from regulators

A summary of responses proposing refinements to language and substance can be found in: *Responses to the July 3, 2025, request for comments on proposed preliminary Risk-Based Capital principles and questions.*

Responses to questions that principles are intended to provide guidance on were very much appreciated. Considering the iterative nature of the effort, those comments will be revisited at a later date.

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Goals for 2025 (paraphrased)

1. Develop a set of guiding principles for future RBC adjustments.
    - Develop answers and recommendations to *Memorandum* questions and any additional questions.
2. Develop a list of gaps and inconsistencies in the RBC formula and suggestions (solutions) for what could improve/address such gaps.
3. Develop a plan, including priorities and sequencing, for changes to RBC in future years.
4. Develop an education and public messaging campaign to highlight the RBC framework's benefits and strengths as an important part of the U.S. state-based insurance regulatory system.
5. Create a process for analyzing both retrospective and future adjustments to RBC, incorporating regular reviews of RBC outcomes and ensuring future adjustments are made in alignment with guiding principles. This process will facilitate ongoing improvements to ensure the framework remains responsive to emerging risks and market trends, enabling the RBC framework to adapt proactively.

Task Force initiatives will not result in the work of other RBC-related efforts being paused or stopped.

Bridgeway's role is to present options for regulators to choose from.

- The NAIC has hired Bridgeway Analytics to facilitate gathering and synthesizing stakeholder suggestions and feedback, along with Bridgeway's own objective assessments, to help achieve the Task Force Goals and achieve consensus.
- Bridgeway will help develop an education and public messaging campaign, with key messaging points enhanced by input from industry, regulators, and the NAIC.

Guidance on assessing and changing RBC components

Principles will be foundational to providing a guiding North Star for assessing and changing RBC components.

Quantitative guidelines will articulate aspirational quantitative benchmarks allowing 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. Quantitative guidelines should be 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 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 for additional guidance. Many RBC components will require additional guidance when assessing their characteristics and the materiality of a principle being violated. Since it is not often practical to construct quantitative thresholds, we propose building out a series of case studies, which can provide further guidance.

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Proposed preliminary RBC principles~~, applied by company type~~*

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
   a. **Insolvency.**
      i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
      ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
      iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
      iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
   b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.
2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).
3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.
4. **Emerging risks. Evaluation of emerging risks should consider:**
   a. The level and growth in exposure to the emerging risk;
   b. How quickly the risk can become materially incorporated into insurers' business;
   c. Industry exposure to the risk, as well as industry segment exposure; and
   d. Identification and measurement limitations of emerging risks.
5. **Changes to RBC calculations.**
   a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
   b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.
6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

* Several commenters were unsure of how to interpret the application of principles across Insurer Type or certain policy categories (e.g., natural catastrophes). To avoid possible confusion, the reference to company type was removed from the proposed principles. Rather, quantitative guidelines are clarified to be 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).

Responses advocate refining substance of principle 1 (1 of 4)

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
    a. **Insolvency.**
        i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
        ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
        iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
        iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
    b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

Secondary mandates (consumer needs & global competitiveness) received bifurcated reactions

- Concerns (roughly 60% of commenters) over secondary mandates distracting from the primary purpose of having RBC represent an unadulterated measure to identify weekly capitalized companies, mostly regulators, property & casualty stakeholders, and some life stakeholders (e.g., RBC requirements should not be based upon subjective requirements, RBC should not be compromised in determining the underlying risks of a product).
- Advocates and non-objectors (the remainder) pointed to the language of the memo and the aspirations of the 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.
- Themes from deliberations with Drafting Group
    - Introducing secondary mandates can result in scope creep and unintended consequences. The NAIC's mission, for example, includes considerations that would be challenging to incorporate into RBC (e.g., assist state insurance regulators... in serving the public interest... and achieving... regulatory goals in a responsive, efficient, and cost-effective manner... Protect the public interest... Promote competitive markets... Facilitate the fair and equitable treatment of insurance consumers...).
    - Secondary considerations, e.g., product availability, more naturally fit into other parts of the framework and viewed as an outcome of a well-designed framework.
    - 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 GOES and C-3 calibrations. General agreement that RBC should not restrict insurers' prudent risk-taking.

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Responses advocate refining substance of principle 1 (2 of 4)

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
    a. **Insolvency.**
        i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
        ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
        iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
        iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
    b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

Does the RBC ratio provide insights beyond its value at regulatory triggers, and to what precision level should the RBC ratio aspire?

- Several commenters advocated RBC ratios to be accurate, beyond regulatory triggers, rather than only at trigger points (e.g., Company Action Level), advocating that RBC ratios should aspire to represent a measure of financial strength that can rank order companies.
    - GCC directly repurposes as a key financial indicator at the holding-company level, reinforcing the role of RBC ratios in assessing resilience.
    - Rating agencies can find RBC ratios as useful measures in assessing potential regulatory action, as is the case with Moody's, for example. We understand that rating agencies rely heavily on judgment and context, generally not incorporating RBC mechanistically. Nevertheless, we understand that the closer RBC gets to requiring regulatory action, the more likely it is to impact the financial strength rating, all else equal. Notably, agency ratings of Surplus Notes held by insurers are used to determine Designations and RBC.
- Themes from deliberations with Drafting Group
    - Caution should be used 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.

Responses advocate refining substance of principle 1 (3 of 4)

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
   a. **Insolvency.**
      i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
      ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
      iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
      iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
   b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

Questions from commenters

- NAMIC - What is the vision for the RBC formula at the end of this process? Is it to remain a tool in the toolbox to identify potential insolvency and avoid the imposition of capital specific regulatory requirements? Or does the Task Force imagine it evolving into a larger analytical tool, to be used to evaluate comprehensive capital adequacy and other items such as product availability as referenced in Principle 1(a)(ii)?
- APCIA -We are not sure of the intent of the last sentence as well as the change in wording from the current RBC preamble which states "The purpose of risk-based capital is to determine the minimum capital (RBC levels) an insurer needs to operate its business and insurers should seek to maintain capital above the RBC levels." Is the objective of this project to require insurers to hold capital above the current intervention levels in line with the IAIS ICS? We note that for P&C, the current RBC outcomes were determined to be comparable, so an uplift is not needed.

Responses advocate refining substance of principle 1 (4 of 4)

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
    a. **Insolvency.**
        i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
        ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
        iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
        iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
    b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

ACLI - NEW proposed principle under 1.a.

A Component of a Robust Regulatory Framework. RBC is one of many tools within the statutory framework that collectively serve to protect policyholders and provide state regulators insight into potential risks. It should be designed and calibrated in a manner that accounts for and is complementary to the full spectrum of supervisory tools and resources.

Themes, paraphrased responses, and context

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).
3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.
4. **Emerging risks. Evaluation of emerging risks should consider:**
    2. The level and growth in exposure to the emerging risk;
    3. How quickly the risk can become materially incorporated into insurers' business;
    4. Industry exposure to the risk, as well as industry segment exposure; and
    5. Identification and measurement limitations of emerging risks.

There were very helpful comments on positioning, removing ambiguity, and refining language, but commenters generally supported the spirit of the principles.

Themes, paraphrased responses, and context

5. **Changes to RBC calculations.**
   a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
   b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.

Secondary considerations received bifurcated reactions

- The principles should not allow for or require the "balancing of the appropriateness of the existing charge with the added complexity and materiality of the possible change." The calculations of RBC charges should follow the principle of "equal capital for equal risk" and not incorporate any balancing of competing interests.
- Focus of aligning capital with economic risk, irrespective of legal structure or accounting treatment, diverges from the longstanding regulatory purpose of the RBC framework: to identify potentially troubled insurers before insolvency and to trigger proportionate supervisory response. The RBC system functions as an early warning mechanism, not as a comprehensive economic capital standard. Therefore, it must remain anchored in the statutory and legal entity framework that underpins state-based insurance regulation in the U.S.

Themes, paraphrased responses, and context

5. **Changes to RBC calculations.**
   a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
   b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.

ACLI - NEW proposed principles under 5.

c. **Adaptability and competitiveness**. Changes to the RBC framework are done in a manner that preserves its integrity while evolving as needed to facilitate fair effective and efficient U.S. insurance markets and supervision of insurance products, insurance legal entities and groups, and the fair and equitable treatment of insurance consumers.

d. **Evaluating co-dependencies and interconnections**. Many singular features of RBC are interconnected with other elements of the broader financial regulatory framework. Refinements to RBC should include considerations of interconnectedness and co-dependencies – including areas where material risk may already be captured - before the adoption of proposals.

BRIDGEWAY ANALYTICS

Themes, paraphrased responses, and context

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

Governance standards should cover the overarching regulatory framework

Themes from deliberations with Drafting Group

- **The governance framework should explicitly address the benefits of streamlining changes to RBC across company types**, particularly for investments, noting the possible significant cost of conducting different studies for life, P&C, and health. Guidelines should be explored and developed to possibly allow for single studies to determine charges across the three, recognizing differences across the three frameworks (e.g., life investments RBC is generally measured net of reserves, which is not the case for P&C).

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PATTY KUDERER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

Attachment Four

Phone: 360-725-7000
www.insurance.wa.gov

July 17, 2025

Re: Request for Comments on Proposed Preliminary Risk-Based Capital Principles and Questions

Dear Co-Chairs French and Houdek of the Risk-Based Capital Model Governance (EX) Task Force:

We are writing on behalf of the Washington State Office of the Insurance Commissioner with regard to the July 3, 2025 "Request for comments on proposed preliminary Risk-Based Capital principles and questions". We thank you for the opportunity to comment on this exposure. Based on the numbering scheme used for the "Proposed preliminary RBC principles, applied by company type", we have the following comments:

Section 1.a.ii – This principle in part notes that the "RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs. RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs."

We believe the statement should be removed from the principles. As we read it, the first sentence expects that the calculation of RBC will somehow acknowledge its impact on product availability. We do not understand how this could be accomplished. The second sentence repeats other statements already included elsewhere in the principles and emphasizes the need for granularity based on consumer needs. The need for RBC charges to be sufficiently granular when material differences in risks exist is already covered in Section 1.a.iv. In addition, including the impact of the risk charge in meeting consumer needs appears to conflict with the primary purpose of RBC in meeting consumer needs by trying to protect them from insurer insolvency. Section 1.a.iii. already speaks to the underlying need to have RBC neither promote nor inhibit actions by insurers that are unrelated to solvency risk, which we believe would include the availability of products to meet consumers' needs.

Section 1.b. – Insurance groups and global competitiveness. We believe this section should be renamed. The link between acknowledging that RBC is used as a component of assessing capital adequacy for insurance groups, and global competitiveness, is uncertain to us. Maybe "insurance groups and global recognition" would be a better title?

Section 3 – Consistency with Statutory Accounting. While we agree that "RBC charges should be derived from values reported in the statutory annual statement", this is not always possible. We believe that adding "whenever possible" would be prudent to ensure there are no misunderstandings when the data for the RBC formula can't be derived from the annual statement. In addition, it might be valuable to add that "As such, regulators and industry should work together to try and minimize the instances when values used in the RBC formula are not reported in the annual statement."

Section 4 – Emerging risks. We believe the list of items that the evaluation of emerging risks should consider should include:

e. How the risk is currently accounted for in the RBC formula.

Thank you for the opportunity to comment on the preliminary principles.

Sincerely,

Patty Kuderer

Patty Kuderer
Insurance Commissioner

COMMONWEALTH OF VIRGINIA

SCOTT A. WHITE
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STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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July 24, 2025

The Honorable Judith L. French
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, OH 43215

The Honorable Nathan Houdek
Wisconsin Office of the Commissioner of Insurance
101 East Wilson Street
Madison, WI 53703

Re: Comments on the Proposed Preliminary Risk-Based Capital Model Governance Principles

Dear Director French and Commissioner Houdek,

The Virginia Bureau of Insurance ("Bureau") appreciates the ability to offer its comments on the proposed preliminary risk-based capital ("RBC") model governance principles and questions to the Risk-Based Capital Model Governance (EX) Task Force.

The Bureau is supportive of the NAIC's RBC model governance initiative. The Bureau believes that the current RBC framework has served the NAIC and state insurance regulators exceptionally well since its adoption in 1993. The model governance principles should provide the backbone for modernizing and enhancing the RBC framework so it can continue to serve the NAIC and state insurance regulators well for the next 30+ years.

As the Task Force seeks comment on the preliminary proposed principles, the Bureau supports the need to consider enhancements that uphold the integrity, adaptability, and global competitiveness of the RBC framework. However, the Bureau cautions that the effort to improve the RBC framework by making it more granular and adding "precision" should only be pursued if those changes are true enhancements to the RBC framework. The model governance principles must not cause the RBC framework to lose sight of its sole purpose to identify weakly capitalized companies, and the principles should support that RBC calculations follow the principle of "equal capital for equal risk." The Task Force must also ensure that its work and the creation of the model governance principles do no harm to the RBC framework.

The exposure articulates six proposed preliminary principles. The Bureau offers comments on each below.

(1) Use of RBC Calculations

The Bureau supports establishing a principle that the sole purpose of the RBC framework must remain unchanged. RBC is a regulatory tool used to identify weakly capitalized insurance companies.

There should be no secondary considerations, acknowledgements, or competing purposes. Fostering economic growth and/or regulating the real economy, as some stakeholders have commented in other proceedings, do not fall within the solitary purpose of the RBC framework (and also fall outside of the mandate of chief insurance regulators).

Likewise, suggestion in the proposed principles that "RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs" has no place in the RBC framework's model governance principles. The proposed language clearly falls outside of the sole purpose of the RBC framework and it remains unclear how such an "acknowledgement" squares, in application, with the principle of "equal capital for equal risk" underlying the calculation of RBC charges. RBC sets a minimum level of capital required for an insurance company not the appropriate level of capital necessary for an insurance company to meet its business goals.

The Bureau believes that the RBC model governance principles should not soften the RBC framework. In particular, the model governance principles should not try to further product availability when such products cannot withstand the rigor of the RBC framework that strikes the right balance (and has since inception) of protecting policyholders and supporting strong and stable insurance markets nationwide. State insurance regulators have not contorted the RBC framework to foster product development to date and should not do so now or in the future. For example, long-term life products clearly fill a consumer need. If not, there would not be billions of dollars of these products sold annually. But these products require a strong RBC framework to properly protect policyholders who may be relying on such products for decades to come.

Furthermore, the proposed principle that would "secondarily acknowledge their impact on product availability that meets consumer needs" does not enhance the RBC framework. Nor is the proposed principle supported by the current landscape. Products meeting consumer needs exist today under the RBC framework. And it is important to remember that the current RBC framework, the one in place since 1993, has helped support the largest and most robust insurance market in the world.

Elsewhere under the "use of RBC calculations" section, the Bureau supports the proposed language on "identified risk." We would add that the principle must allow RBC to recognize where meaningful differences exist between asset classes and to take those differences into account in calculating RBC charges. Allowing the RBC framework to recognize these differences will further implementation of the principle of "equal capital for equal risk."

The Bureau also generally supports the proposed principles on "possibility of insolvency" and "actions unrelated to solvency." The Bureau would like to add that in no way should these principles be interpreted to allow or establish secondary considerations for the RBC framework.

On the use of RBC calculations at the international level, the Bureau supports the proposed language and adds that the RBC framework provides the foundation to the U.S. Aggregation Method for internationally active insurance groups.

(2) Objectivity

The Bureau generally supports the proposed language on "objectivity" with the following comments. First, although consistency across statistical safety levels should be sought, the principles must make clear that there can be no reduction in the current statistical safety levels. The principles should not open the door to increased risk within the RBC framework. Second, the list of intended risks ("concentration, diversification, and tail risks") should be viewed as examples, and not an exhaustive list, to provide the necessary flexibility to state insurance regulators in responding to future risks.

(3) Consistency with Statutory Accounting

The Bureau supports the proposed principle. The NAIC's statutory accounting regime is an important component of the RBC framework.

(4) Emerging Risks

The Bureau supports the proposed principle and notes, like above, that the list of considerations must not be exhaustive to allow for regulatory flexibility in addressing future concerns.

(5) Changes to RBC Calculations

The Bureau supports the proposed language on "transparency and process." Future changes to RBC calculations should follow an open process which will lead to better results.

The Bureau fully supports that all RBC calculations should follow the principle of "equal capital for equal risk." The Bureau also believes that any changes to RBC calculations should be data driven which should allow for modeling and other analytical approaches to derive appropriate RBC charges consistent with the established statistical safety levels.[1]

However, the principles should not allow for or require the "balancing of the appropriateness of the existing charge with the added complexity and materiality of the possible change." The calculations of RBC charges should follow the principle of "equal capital for equal risk" and not incorporate any balancing of competing interests.

(6) Governance

The Bureau supports the proposed principle.

In closing, the Bureau offers these comments for the Task Force's consideration and looks forward to continued engagement on these important issues.

Sincerely,
/s/ Dan Bumpus
Deputy Commissioner
Innovative Solutions & Strategies Division

[1] Requiring data driven changes to RBC calculations must still provide regulators with flexibility to create and/or change interim RBC charges to address special circumstances that is consistent with the RBC model governance principles.

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

July 24, 2025

Director Judith French, Co-Chair
Commissioner Nathan Houdek, Co-Chair
Risk-Based Capital Model Governance (EX) Task Force
[Via email:] ddaveline@naic.org
RBC-MoGo@BridgewayAnalytics.com

Re: Risk-Based Capital Model Governance (EX) Task Force 2025 goals and proposed charges

Dear Co-Chairs French and Houdek:

On behalf of the Connecticut Insurance Department (CID) we appreciate the opportunity to provide comments to the Risk-Based Capital (RBC) Model Governance (EX) Task Force on the Published 2025 Goals and Proposed Charges (the Memo).

RBC Precision

The Memo explains, the principles will provide guidance for updating the RBC formulas to address current investment trends with a focus on more RBC ***precision*** *in the area of asset risk and to ensure that insurance capital requirements maintain their current strength and continue to appropriately balance solvency with the availability of products to meet consumer needs.*

CID Comment

If "precision" refers to the accuracy and reliability of the RBC formula in determining the appropriate amount of capital an insurer needs to hold to cover potential losses, then we are in favor of it; however, it should not replace the goal of RBC as a conservatism approach to ensure the financial stability and solvency of insurance companies, ultimately protecting policyholders.

Product Availability

The Memo states, *"RBC calculations should secondarily acknowledge their impact* on product availability *that meets consumer needs. RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs."*

CID Comment

RBC should not be compromised in determining the underlying risks of a product. If a product warrants an RBC charge commensurate with the risk of the product, it should be measured accordingly. If a company becomes insolvent, how does that help a consumer that purchased that product?

Gap Analysis

CID Comment

As part of the 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/transparency for other regulators and other readers of the financial statements.

Conclusion

The primary purpose of RBC is to provide an early warning of potentially troubled companies so that regulators can take appropriate regulatory action in an attempt to correct the problem and avoid an insolvency. RBC, therefore, is designed to represent the **minimum level** of capital required to support the insurer's operations. It is **not** designed to measure the **appropriate level** of capital required to achieve a company's goals.

Thank you for consideration of these comments.

Sincerely,

Jack Broccoli

Jack Broccoli
Assistant Deputy Commissioner – Financial Analysis
Connecticut Insurance Department

REINSURANCE ASSOCIATION OF AMERICA

July 23, 2025

Director Judith French
Commissioner Nathan Houdek
Co-Chairs, Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners (NAIC)
Via Email: ddaveline@naic.org; RBC-MoGo@BridgewayAnalytics.com

Re: Comment Letter on Proposed Preliminary Risk-Based Capital (RBC) Principles and Governance Framework

Dear Director French and Commissioner Houdek,

On behalf of the Reinsurance Association of America (RAA) and its member companies, we appreciate the opportunity to comment on the July 3, 2025, memorandum outlining proposed preliminary principles and governance considerations for the NAIC's Risk-Based Capital (RBC) framework. We commend the Task Force for initiating this foundational effort and respectfully offer the following comments from the perspective of our members in the property and casualty (P&C) reinsurance sector.

Principle-Based Governance Framework

The RAA supports the goal of developing a principles-based RBC framework that remains robust, risk-sensitive, and globally credible. However, we note concerns with the repeated reference to the principle of "Equal Capital for Equal Risk" in the draft. While a recognized concept internationally, its focus on aligning capital with economic risk, irrespective of legal structure or accounting treatment, diverges from the longstanding regulatory purpose of the RBC framework: to identify potentially troubled insurers before insolvency and to trigger proportionate supervisory response. The RBC system functions as an early warning mechanism, not as a comprehensive economic capital standard. Therefore, it must remain anchored in the statutory and legal entity framework that underpins state-based insurance regulation in the U.S.

In this context, the RAA believes that Statutory Accounting Principles (SAP) should continue to serve as the foundation for RBC. SAP provides the conservative, policyholder-focused baseline for all other aspects of U.S. solvency oversight. Departing from this anchor would risk undermining consistency, transparency, and regulatory coherence. Additionally, we urge reconsideration of language in Section 1.A.ii of the principles, which states that "RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs." RBC should focus exclusively on insurer solvency and the capacity to meet policyholder obligations. While product availability and affordability are important, they are best addressed through separate regulatory tools and market mechanisms, not capital standards. To that end, we recommend the following revision to Section 1.A.ii:

"RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs."

Responses to Exposure Draft Questions:

1. When should a particular risk be addressed in the RBC model?

Response: A risk should be incorporated into the RBC model when it meets a set of clear and consistent thresholds rooted in materiality, relevance, and supervisory alignment. Specifically, a risk should be included if it has the potential to materially affect solvency, earnings volatility, or policyholder protection across the industry; if it is relevant to the RBC model's scope—such as credit, market, insurance, or operational risk—and not already captured through other mechanisms like statutory reserves; and if it has a reasonable probability of emerging within the one-year capital time horizon. Additionally, risks explicitly mandated by regulatory expectations—such as catastrophe risk in the P&C formula—should be reflected to maintain the RBC model's credibility and alignment with supervisory standards.

Triggering conditions for the inclusion or review of a risk within the RBC model should include the introduction of new product lines or business models, emerging regulatory or systemic concerns (e.g., climate or cyber risk), or the identification of such risks as material in Own Risk and Solvency Assessment (ORSA) filings across a material percentage of the industry. This measured and criteria-based approach promotes consistency, guards against overcomplication, and ensures that the RBC model evolves in a principled and proportional manner.

2. What level and type of data and analysis are needed to support the setting of capital factors?

Response: Capital factors within the RBC framework should be grounded in transparent, credible, and representative data that reflects both historical experience and forward-looking risk assessments. Wherever feasible, the use of industry-wide data should be prioritized and supplemented by relevant external benchmarks to ensure robustness and applicability across different business models. Statistical tools such as loss distribution modeling, volatility analysis, and scenario testing should be employed to assess the variability and potential severity of risk exposures. In instances where data is limited or emerging risks are being considered, expert judgment may be necessary—but it must be applied within a documented governance framework that ensures consistency, accountability, and traceability. All underlying assumptions and methodologies should be rigorously validated through back-testing, peer benchmarking, and independent review to enhance credibility, support regulatory scrutiny, and promote comparability across insurers.

3. How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?

Response: The RAA supports the adoption of a prudent, flexible, and temporary approach to addressing new and emerging risks or asset types when a formal capital framework has not yet been established. In such cases, insurers should incorporate these risks within their Own Risk and Solvency Assessment (ORSA), rather than within the RBC formula, until clear thresholds of materiality, relevance, and likelihood of emergence, as outlined in our response to Question 1, are met. This allows for careful monitoring and assessment without prematurely embedding uncertain or non-quantifiable risks into the capital formula.

Emerging risks should be addressed using scenario analysis, expert judgment, and ongoing dialogue with supervisors, while applying the principle of proportionality so that the response scales appropriately with the risk's complexity and potential impact. Regulators and industry stakeholders should actively monitor developments in emerging guidance or frameworks, such as those related to ESG risks, cyber threats, or digital assets, and adjust capital treatment only, when credible methodologies and data become available. This measured approach promotes responsiveness without compromising the clarity, consistency, and purpose of the RBC framework.

4. What level of statistical safety is to be targeted by the model? How should such tailored safety targets be determined?

Response: The NAIC Life and Property & Casualty (P&C) Risk-Based Capital (RBC) formulas were both developed to support regulatory oversight of insurer solvency, but they reflect the differing risk profiles of each sector. The Life RBC formula places greater emphasis on long-duration investment and interest rate risks, given the asset-liability structure of life insurance products. In contrast, the P&C RBC formula focuses on underwriting risk, reserve adequacy, and short-term solvency exposures that are more relevant to the nature of P&C business. These differences in calibration ensure that the RBC framework is appropriately tailored to the unique characteristics and risk dynamics of each insurance segment.

The RAA believes that the level of statistical safety targeted by the RBC model should be risk-sensitive, transparent, and aligned with its core function as a regulatory tool for identifying financially weak insurers. Rather than imposing a uniform capital threshold, the framework should support flexible, principles-based calibration that reflects the materiality and volatility of each risk component. The RBC model is not intended to represent a full economic capital assessment but rather to flag potential solvency concerns in a timely and proportionate manner. This regulatory purpose should guide the determination of safety margins, ensuring they remain practical, credible, and supportive of effective supervisory oversight. In Appendix A the RAA has compiled a list of significant events that impacted the US P/C insurance industry since the formula was introduced in 1994, documenting lessons learned and how the formula responded.

5. When should the calibration of risks to capital factors be re-evaluated?

Response: The RAA recommends that calibration of capital factors within the P&C RBC framework be subject to regular review and periodic recalibration to ensure continued relevance and accuracy. Specifically, capital factors should be reviewed annually to assess their responsiveness to emerging trends, with a more comprehensive recalibration conducted every three to five years, or sooner if warranted by significant shifts in the risk environment. This approach allows the framework to remain current without introducing unnecessary volatility into capital requirements.

Recalibration should be prioritized following material changes in underlying claims dynamics, such as evolving inflationary pressures, increased litigation costs, or shifts in the severity and frequency of natural catastrophes. Similarly, structural market disruptions, such as changes in underwriting cycles, emerging systemic risks, or notable shifts in asset-liability management practices, may signal the need for updated assumptions and methodologies. A consistent, principles-based process for recalibration helps maintain the credibility and effectiveness of the RBC framework while preserving its intended role as a regulatory solvency tool.

6. How should the RBC calculations define and structure governance over model risk?

Response: The RAA recommends that governance of RBC calculations be structured in a transparent, tiered, and well-documented manner, consistent with established best practices used in regulatory and rating agency capital models. A robust governance framework should begin with clearly defined ownership and accountability for the development, maintenance, and oversight of each RBC formula within the NAIC committee structure. This includes a centralized process for maintaining an inventory of RBC components, with classification according to their materiality and impact on solvency assessments.

Effective governance should also establish uniform documentation standards detailing each model's purpose, data sources, underlying assumptions, limitations, and intended use. Validation procedures should include regular, independent assessments of conceptual soundness and output reliability, complemented by performance monitoring tools such as back-testing. A formalized change management process should govern all updates to model structure or key assumptions, ensuring that modifications are reviewed, justified, and transparently implemented. This structured approach reinforces the credibility and consistency of the RBC framework and helps safeguard against model risk in a manner aligned with its supervisory objectives.

7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)?

Response: In the context of regulating solvency for property and casualty insurers, Statutory Accounting Principles (SAP) should serve as the foundational starting point for Risk-Based Capital (RBC) calculations**.** SAP reflects a conservative, policyholder-protective view of an insurer's financial position and is the basis for virtually all other elements of solvency regulation, including financial examinations, IRIS ratios, and statutory reporting. Using SAP as the anchor for RBC ensures consistency across regulatory tools and facilitates transparency, comparability, and ease of audit for regulators and stakeholders. It also allows RBC to directly leverage the prudence embedded in SAP—such as conservative reserve valuation, limits on admitted assets, and immediate recognition of losses—thus reducing the need for duplicative or overly complex recalibrations in the RBC formula.

That said, there are instances where SAP alone may not fully capture the economic risk inherent in specific exposures**,** particularly for risks that are low-frequency, high-severity, or difficult to model using historical statutory data. A leading example is catastrophe risk, where supplemental risk factors and modeling inputs are warranted to reflect tail event potential and geographic exposure. In such cases, it is appropriate to layer in additional risk-specific information beyond statutory values, provided that it is actuarially justified, transparent, and consistently applied. However, these exceptions should be targeted and limited; the broader RBC framework should remain firmly grounded in SAP to maintain coherence with the solvency regime and avoid unnecessary complexity that could undermine the RBC system's function as a credible and implementable early warning tool.

8**.** How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?

Response: Reserves, valuation adjustments, and offsets should continue to be assessed on a gross-of-tax and undiscounted basis within the RBC framework unless explicitly prescribed by Statutory Accounting Principles (SAP), as is the case for structured settlements. This approach is aligned with the conservatism embedded in SAP and supports the primary objective of RBC as an early warning tool for identifying potentially weakly capitalized insurers. Assessing capital needs gross of tax reflects the full economic exposure before tax benefits that may not materialize in stress or failure scenarios, where the ability to realize deferred tax assets is substantially impaired. Discounting reserves beyond what is allowed in SAP could understate the true obligation and potentially mask deteriorating financial strength, particularly for long-tailed lines.

Simultaneously, total adjusted capital (TAC) should continue to be measured on a net-of-tax basis**,** consistent with current practice. This balance, gross-of-tax risk charges and net-of-tax capital, preserves a conservative solvency margin while recognizing the insurer's ongoing ability to absorb losses under normal operations. In distressed situations, tax offsets lose relevance as future profitability erodes and deferred tax assets become non-admissible, making gross-of-tax measurement an important safeguard. Altering this standard would add volatility, reduce comparability, and increase reliance on uncertain assumptions at the exact moments when clarity and conservatism are most critical. Retaining the current framework ensures the RBC system remains credible, transparent, and focused on its core mission of protecting policyholders.

9. How should existing principles (e.g., AAA's Structured Securities RBC Principles) fit into the broader framework?

Response: A formal statutory hierarchy of RBC authoritative guidance—parallel to the structure used in Statutory Accounting Principles (SAP) could be established to promote clarity, consistency, and transparency in the application and evolution of the RBC framework. As with SAP, a tiered hierarchy would clearly distinguish regulator-adopted guidance (e.g., NAIC-adopted RBC Instructions, blanks, or explicitly issued interpretations) from advisory material developed by non-regulatory bodies**,** such as the American Academy of Actuaries. This approach ensures that binding requirements and material subject to regulatory oversight are given proper weight, while allowing for supplemental expert guidance to inform, but not dictate, regulatory capital methodology.

While principles developed by bodies like the Academy of Actuaries can provide valuable technical insight and perspective, they should be formally recognized as Level 4 or 5 guidance informational in nature but not authoritative unless explicitly adopted by the NAIC or state regulators. This distinction is essential to maintaining a regulator-led capital framework that reflects public policy priorities, legal enforceability, and solvency-focused oversight. Without such a hierarchy, there is a risk of blurring the line between advisory input and regulatory requirements, potentially undermining transparency and accountability. A clear and codified hierarchy could ensure that industry stakeholders, regulators, and the public can consistently interpret and apply RBC standards in a manner aligned with statutory solvency oversight.

10. How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?

Response: It is essential to recognize the fundamental differences between the business models of life and property & casualty (P&C) insurers and how those differences are appropriately reflected in the design of their respective NAIC RBC formulas. The Life RBC formula is intentionally investment-centric, with significant emphasis on asset risk (C-1) and interest rate risk (C-3), due to the long-duration nature of life insurance liabilities and the associated exposure to asset-liability mismatch. While insurance risk is incorporated into the Life formula, it typically plays a secondary role relative to the capital required for managing investment-related risks.

In contrast, the P&C RBC formula is structured around the relatively short-duration liabilities characteristic of P&C products, where underwriting and reserving risks, particularly reserve risk (R4) and premium risk (R5), are the principal drivers of capital requirements. Asset and interest rate risks play a more limited role given the shorter asset-liability matching horizon. As such, the interaction and covariance between asset and interest rate risks (C-1/C-3) that are material in the life context are significantly less relevant in the P&C space. Therefore, we respectfully recommend that the treatment of C-1/C-3 interaction and covariance not be extended to the P&C RBC formula, as doing so would not align with the risk profile or solvency drivers of property and casualty insurers.

Conclusion

We commend the Task Force for its thoughtful leadership and inclusive process in developing these preliminary principles. The RAA and its members are committed to supporting a modern, risk-responsive RBC framework that promotes solvency, supports innovation, and reflects the significant role reinsurance plays in the global insurance ecosystem.

We welcome the opportunity to participate in future working sessions and offer technical support or data-driven input to help refine these principles and their implementation.

Sincerely,

Jeff Alton
Senior Vice President, Accounting, Finance and Risk
On behalf of the Reinsurance Association of America (RAA)
Email: alton@reinsurance.org

Appendix A: Successes of the P&C RBC Formula (1994–Present)

1. Natural Catastrophes

- *Events:* Hurricanes Katrina (2005), Sandy (2012), Harvey (2017), wildfires, winter storms, earthquakes.
- *Outcome:* RBC effectively identified insurers with disproportionate catastrophe exposure.
- *Mechanisms:* Higher RBC charges for catastrophe-prone lines, embedded reinsurance credit risk factors (R-1), and responsive regulatory oversight.

2. Terrorist Attack – 9/11 (2001)

- *Outcome:* While reinsurance faced stress, RBC reflected sector resilience and flagged reinsurance collectability, leading to greater emphasis on counterparty risk.

3. Financial Crisis (2007–2009)

- *Outcome:* RBC factors effectively captured deterioration in structured investment assets; P&C insurers largely unaffected compared to life sector.
- *Observation:* RBC proved conservative and adaptable, with no systemic P&C failures attributed to capital shortfalls.

4. COVID-19 Pandemic (2020)

- *Impacts:* Business interruption claims, capital market volatility.
- *Outcome:* RBC ratios remained stable for most P&C carriers due to exclusions, portfolio diversification, and reserving adequacy.

Transamerica℠

July 24, 2025

Judith L. French (Ohio)
Co-Chair, NAIC Risk-Based Capital Model Governance (EX) Task Force

Nathan Houdek (Wisconsin)
Co-Chair, NAIC Risk-Based Capital Model Governance (EX) Task Force

Doug Ommen (Iowa)
Co-Vice Chair, NAIC Risk-Based Capital Model Governance (EX) Task Force

Michael Wise (South Carolina)
Co-Vice Chair, NAIC Risk-Based Capital Model Governance (EX) Task Force

Dear Ms. French, Mr. Houdek, Mr. Ommen, and Mr. Wise,

The Transamerica Companies ("Transamerica") welcome the opportunity to comment on the RBC Model Governance Task Force's exposure regarding Risk-Based Capital principles and questions ("the exposure").

Transamerica supports the task force's initiative of developing principles to ensure a consistent approach to future RBC adjustments.

Overall, we view the draft principles as providing a useful overall framework, but we believe refinements could better organize, position, and clarify the substance of the principles.

Below is a markup of each proposed principle, followed by a discussion of our suggested refinements:

1. <u>**Purposes**</u> **~~Use~~ of RBC ~~calculations~~.** ~~RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.~~
    a. <u>Serve as a regulatory tool to identify potentially weakly capitalized insurance legal entities at risk of insolvency.</u>
    b. <u>Facilitate regulatory intervention in weakly capitalized legal entities, as permitted or required by law.</u>
    c. <u>Complement other regulatory tools that, in combination, serve to protect insurance policyholders.</u>
    d. <u>Convey information regarding the solvency of regulated insurance legal entities, as assessed by state regulatory authorities, to relevant stakeholders and the public.</u>
    e. <u>Serve as an element of the state regulators' assessment of capital adequacy for insurance groups.</u>
        i. **~~Possibility of insolvency~~**~~. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.~~
        ii. **~~RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.~~** ~~RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.~~
        iii. **~~Actions unrelated to solvency.~~** ~~RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.~~
        iv. **~~Identified risk.~~** ~~Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.~~

Transamerica

f. ~~**Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.~~

Discussion

- We recommend relabeling this principle "Purposes of RBC calculations" because we believe that is a more appropriate and useful description of the substance.
- We support leading off with the historic purpose of RBC, which is to identify potentially weakly capitalized companies. The exposure also states that RBC calculations are used only as a regulatory tool, "…unless otherwise required by law, regulation, or supervisory standards." It is unclear to us what this means. For example, does this mean that RBC can be used for something else only if some other requirement or "supervisory standard" can be cited? Used by whom? As a result of this ambiguity, we suggest removing this language.
- We think it is important to acknowledge regulatory uses of RBC beyond identifying weakly capitalized companies and to acknowledge the legitimate interest that non-regulatory stakeholders, including current and prospective policyholders and the public, have in RBC information. Proposed text under 1c and 1d attempts to incorporate these uses.
- Statements that RBC charges should not seek to eliminate the possibility of insolvency and that they should "secondarily acknowledge their impact on product availability" seem non-essential. We suggest removing them.
- We are unsure what is meant by "promot[ing] or inhibit[ing] actions by insurers that are unrelated to solvency risk." We have assumed that it involves incentives and disincentives and have incorporated the concept, with revised wording, under the "equal capital for equal risk principle" below.
- We also think the concepts of identified risks and granularity are better addressed under principle 2, as they relate only indirectly to the underlying purposes of RBC.

2. **Equal capital for equal risk ~~Objectivity.~~ ~~RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).~~**

   a. <u>RBC risk charges should be objective and measured at a consistent statistical safety level, thereby avoiding the promotion or inhibition of actions that are unrelated to solvency risk.</u>
   b. <u>RBC risk charges should reflect the risk exposures they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks.</u>
   c. <u>RBC capital requirements should reflect the effects of reinsurance and risk management (e.g., hedging).</u>
   d. <u>RBC risk charges should recognize prudence within reserving requirements and other offsets (e.g., taxes or discounting).</u>
   e. <u>Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks not captured within RBC calculations should be identified. Adjustments should be made to offset the double-counting of risks.</u>
   f. <u>RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.</u>

Discussion

- We recommend relabeling this section "Equal capital for equal risk" because we believe this is the main point of this section and is included in the charges to the Task Force.
- We suggest creating multiple subpoints for improved readability.
- We recommend adding a subpoint (2c) regarding reinsurance and hedging. It is important for capital charges to apply only to the risks held by the entity.
- In sub-principle 2d, we suggest limiting the content to areas of offset other than reinsurance and hedging. Accounting treatment is better addressed under the following principle.
- We recommend including the points regarding "identified risk" and granularity, currently in the first principle, in this principle (2e and 2f).

3. <u>**Use of statutory accounting**</u> **~~Consistency with Statutory Accounting~~.** <u>RBC risk charges should be determined by applying an RBC factor to amounts reported in the public statutory annual statement.</u> ~~RBC charges should be derived from values reported in the statutory annual statement.~~

Discussion

- The exposure states that "RBC charges should be derived from values reported in the statutory annual statement." This could be interpreted in different ways. It could mean that the risk charge is a function of statutory accounting or that the RBC factors should be multiplied by numbers found in the statutory statements. Based on prefatory question #7 in the exposure, we are inclined to interpret the principle as suggesting that the risk charge should be a function of statutory accounting.
- SAP uses a mix of accounting bases, which have significantly varying degrees of sensitivity to changes in economic variables. Accordingly, as suggested by question #7, alignment with SAP can result in materially different capital charges for assets and liabilities measured using a cost accounting/book value basis and assets and liabilities measured using a market value basis. These differences naturally lead to accounting-oriented incentives and disincentives, creating tension with the principle of "equal capital for equal risk."
- For this reason, our proposed clarification emphasizes the use of the statutory statement as a basis for capital charges, consistent with historical practice.

4. **Emerging risks <u>and innovations</u>. Evaluation of emerging risks <u>and innovations</u> should consider:**
   a. The level and growth in exposure to the emerging risk <u>or innovation</u>;
   b. How quickly the risk can become materially incorporated into insurers' <u>business</u>;
   c. Industry exposure to the risk, as well as industry segment exposure; ~~and~~
   d. Identification and measurement limitations of emerging risk<u>; and</u>
   e. <u>The extent to which the emerging risk or innovation is misstated by the existing RBC formulas, either creating a material effect on the RBC ratios of a material subset of the industry or creating imprudent incentives or disincentives.</u>

Discussion

- There should not be new risks from a taxonomy standpoint. There may, however, be new risk drivers (e.g., cyber, climate) or new innovations, such as investments or product types. Accordingly, we suggest modifying the labeling of this principle.
- We suggest a particular emerging risk or innovation should be addressed in RBC formulas when it is not captured appropriately, and it could have a material effect on the RBC ratios of a material subset of the industry or when a potential misstatement of a risk creates inappropriate incentives or disincentives. This is the suggested new 4e.

5. ~~**Changes to RBC calculations.**~~ **Maintenance and updating of RBC**
    a. ~~**Transparency and process.**~~ NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations and determine if existing factors should be updated in light of emerging experience.
    b. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
    c. ~~**Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.~~

Discussion

- This principle seems better framed as "maintenance and updating," which is more purposeful language than "changes."
- It is not just emerging risks that require updating; it may be that experience underpinning current factors has not been refreshed in some time. For this reason, we suggest adding language directing the NAIC stakeholders to determine if existing factors should be updated.
- We think it improves readability to create separate subpoints for the identification of needed updates and the process for making those updates.
- As stated above, we recommend moving the "equal capital for equal risk" point to the second principle.

6. **Governance**
    a. ~~Components~~ All aspects of RBC ~~calculations~~ should be subject to robust governance, including, but not limited to, ~~adhere to Model Governance Standards that provide processes for model development,~~ documentation standards, validation, ongoing monitoring, and change management.
    b. The calculations should be understandable and auditable by regulators.
    c. Decisions regarding RBC and the rationale for those decisions should be well-documented and available on the NAIC website.

Discussion

- We suggest creating multiple subpoints for improved readability.
- Not every component of RBC is a model and therefore full Model Governance Standards are not necessarily appropriate. Nevertheless, we support having all aspects of RBC subject to a robust governance process.
- We suggest adding a sub-principle (6c) that emphasizes the importance of maintaining historical documentation of the decisions and rationale for the various components of the formula.

Thank you for considering our feedback. We look forward to further discussions at a future meeting of the Risk-Based Capital Model Governance Task Force.

Sincerely,

William J. Schwegler

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SVP, Prudential Issues & International

Carrie Haughawout
SVP, Life Insurance & Regulatory Policy

July 24, 2025

Director Judith French and Commissioner Nathan Houdek
Co-Chairs Financial Condition E Committee
National Association of Insurance Commissioners (NAIC)
Via email ddaveline@naic.org

Re: NAIC Risk Based Capital (RBC) Model Governance (EX) Task Force chair exposure – RBC Principles

Dear Director French and Commissioner Houdek,

ACLI appreciates the opportunity to provide feedback on the NAIC Risk Based Capital Model Governance (EX) Task Force ("RBC MoGo") exposed RBC principles. For ease of review, we have provided a redlined version of the candidate principles, that includes ACLI's recommended refinements, along with detailed feedback under each candidate principle. We also enclosed a "clean version" of what the principles would look like if all of ACLI's recommendations were accepted.

We welcome further discussions on the RBC Principles and we would be happy to elaborate or answer questions about the feedback provided within. We look forward to continued collaboration with regulators.

Best Regards,

Mariana Gomez-Vock
SVP, Prudential Policy & International

Carrie Haughawout
SVP, Life Insurance & Regulation

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ACLI FEEDBACK ON CANDIDATE PRINCIPLES

ACLI Comments on Candidate Principle 1:

Original Principle 1, with redline showing ACLI's recommendations:

1. ~~Use~~ Purpose **of RBC calculations.** RBC calculations are used as a regulatory tool ~~only~~ to identify potentially weakly capitalized companies that may be at risk of insolvency ~~unless otherwise required by law, regulation, or supervisory standards~~. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels to protect policyholders.

   a. Insolvency.

      i. **Possibility of insolvency.** RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.

      ii. **A Component of a Robust Regulatory Framework.** RBC is one of many tools within the statutory framework that collectively serve to protect policyholders and provide state regulators insight into potential risks. It should be designed and calibrated in a manner that accounts for and is complementary to the full spectrum of supervisory tools and resources.

      iii. **Protecting Policyholders and Meeting Consumer Needs.** While RBC calculations primarily serve to protect policyholders, they can influence the availability and affordability of products available to consumers. The RBC framework should be designed and calibrated in a manner that seeks to strike the right balance to protect policyholders without unnecessarily impeding access to insurance products, including long-duration products.

      ~~**should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.~~

      iv. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.

      ~~v. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.~~

   ~~b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.~~

We understand that it can be difficult to read lengthy redlines, so we have provided a clean version of Principle 1 that incorporates ACLI's recommendations, in the box below:

1. Purpose of RBC calculations. RBC calculations are used as a regulatory tool to identify potentially weakly capitalized companies that may be at risk of insolvency. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels to protect policyholders.
   a. Insolvency
      i. Possibility of insolvency. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
      ii. A Component of a Robust Regulatory Framework. RBC is one of many tools within the statutory framework that collectively serve to protect policyholders and provide state regulators insight into potential risks. It should be designed and calibrated in a manner that accounts for and is complimentary to the full spectrum of supervisory tools and resources.
      iii. Protecting Policyholders and Meeting Consumer Needs. While RBC calculations primarily serve to protect policyholders, they can influence the availability and affordability of products available to consumers. The RBC framework should be designed and calibrated in a manner that seeks to strike the right balance to protect policyholders without unnecessarily impeding access to insurance products, including long-duration products.
      iv. Actions unrelated to solvency. RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.

1. General Feedback on #1. We suggest the NAIC start with a principle that is focused on the purpose of RBC, which should be to identify potentially weakly capitalized companies in a consistent and transparent way so that regulators are equipped to appropriately take corrective action. As part of that principle, the NAIC could then state that RBC is a core part of its solvency framework and, as such, acknowledge that it has a range of uses, only some of which will be affected by the sub-principles. This is intended to acknowledge the ongoing discussions at the Capital Adequacy Task Force on the RBC Preamble, without allowing it to distract from the core work of the RBC Model Governance Task Force.

2. Feedback on 1(a)(i). We generally support the objective of 1(a)(i), which is to communicate that the RBC framework is not intended to remove the possibility of insolvency. We think the concept can be incorporated into our proposed alternative for 1(a)(ii). If the statement remains as a stand-alone subprinciple, we recommend rewording the statement to remove the reference to RBC "charges" and replace with RBC "framework." The current focus on RBC charges is too narrow, as charges only provide an indicator of solvency risk and cannot reduce the probability of insolvency.

3. Feedback on NEW 1(a)(ii). While the RBC framework is a core element of the NAIC solvency system, it is not the only component. Reserves, financial disclosures, and other tools also make up critical components to help regulators identify risks to solvency. These elements need to be considered holistically when making changes to the RBC framework to ensure that risks appropriately captured and addressed in one element of the entire solvency framework are not double counted in another and promote the principle of Equal Capital for Equal Risk, as defined in Principle 2.

4. **Feedback on 1(a)(ii), now 1(a)(iii).** ACLI supports including a reference acknowledging the need to meet growing demographic demand for long-term products with retirement savings features. There is a global pension and retirement savings gap, and this gap is particularly stark in the United States, where 11,000 Americans turn 65 every day and a 40% expected increase in Americans over 65 over the next 25 years. The U.S. faces a growing retirement savings gap with declining access to defined benefit plans and over one-third of pre-retirees concerned about running out of money in retirement.

   The RBC framework, as the core of the NAIC solvency system, can affect insurers and how they deliver products that meet consumer needs. While the RBC framework's primary purpose is to ensure that companies can deliver on promises to policyholders (solvency), it should not impede consumer's ability to access innovative and competitive insurance and retirement solutions that are necessary to close the retirement savings protection gap. Regulators should remain focused on protecting consumers with rigorous supervision, without unnecessarily impeding access to innovative products that address a growing consumer need for long-duration products.

   The sentence in the original 1a(ii) dealing with the granularity of RBC charges should be separated from the bolded statement on product availability. Granularity of RBC charges is a separate issue and should not be confounded with the bolded statement, as individual RBC charges, at the granular level, shouldn't materially affect companies' ability to meet consumer needs. This element should be limited to ***"RBC charges should be sufficiently granular to recognize material differences in risk."*** and should be placed in Principle 2, Objectivity.

5. **Feedback on 1(a)(iii), now 1(a)(iv).** ACLI generally supports the concept, but from a practical perspective, we observe that the calibration of RBC charges naturally provide an incentive or disincentive for certain activities.

6. **Feedback on 1(a)(iv), now in Principle 2.** We generally support this concept – although we recommend relocating this subprinciple to Candidate Principle 2, Objectivity (see below). Wherever this concept is located, it may be relevant here to note the distinct role of RBC in the NAIC solvency framework to capture solvency-related risks a uniform, transparent, consistent and appropriate manner.

   We recommend refining the identified risk subprinciple to read as: "*Risks that are captured or not captured within RBC calculations should be identified and, to the extent practicable, RBC charges should reflect measurable differences in risks that can impact solvency. Consideration should be given if the risks might be better identified and assessed in other regulatory tools rather than in the RBC framework.*"

7. **Support 1(b), now moved to Principle 5(c).** We propose moving this theme to principle 5, which we believe would create greater alignment with the charges for the Risk-Based Capital Model Governance (EX) Task Force. More broadly, the principles should acknowledge that RBC calculations are a component of capital adequacy assessments for all insurance groups (domestic and international).

ACLI Comments on Candidate Principle 2:

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level.

   a. The RBC framework ~~charges~~ should reflect the risk exposure ~~they~~ intended to be measured, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks that may materially differ across and within asset classes.

   b. Equal capital for equal risk. The RBC framework should promote equal capital for equal risk, which includes consideration of tail risk and consistency across asset classes, ensuring that the risk charges align with the associated risks and calibration at a sufficiently granular level to capture material differences in risks across asset types.

   c. Risks that are captured or not captured within RBC calculations should be identified and, to the extent practicable, RBC charges should reflect measurable differences in risks that can impact solvency. Consideration should be given if the risks might be better identified and assessed in other regulatory tools rather than in the RBC framework

   d. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).

1. **General feedback on Principle 2.** ACLI supports the statement that RBC charges should be objective and measured at a consistent statistical safety level. The principle on objectivity appears to include basic principles about what the RBC framework should reflect (*e.g.*, the risk exposure they're supposed to measure, etc.) and what it should do (*e.g.*, recognize differences in accounting, etc.). For ease of reading, we recommend breaking this up into subprinciples. We also relocated several concepts (identified risks) and equal capital for equal risk into this principle.

2. **Feedback on 2a.** We recommend replacing "charges" with "framework" and adding "that may materially differ across and within asset classes" after "tail risk".

3. **Feedback on 2b.** Because Principle 2 contemplates what RBC should do, Principle 2 felt like a natural place to include the concept of how RBC calculations should promote equal capital for equal risk. We have included specific language about what that might look like in 2b.

4. **Feedback on 2c.** To improve thematic consistency, we recommend relocating a concept that was previously included under Principle 1(a)(iv), **Identified Risk**, to this principle on objectivity.

5. **Feedback on 2d.** We support seeing the statement that RBC charges should "recognize differences in accounting, reserving requirements and other offsets, etc." As work on this initiative progresses, it will be helpful to obtain a better understanding of how this will work in concert with Candidate Principle #3, Consistency with Statutory Accounting.

ACLI Comments on Candidate Principle 3:

3. Consistency with Statutory Accounting. RBC charges should be derived from values reported in the statutory annual statement.

ACLI generally supports this principle. However, we also note that some RBC charges are derived by specially designed models (example - CMBS) that calculate RBC charges.

ACLI Comments on Candidate Principle 4:

4. Emerging risks. Evaluation of emerging risks should consider:
   a. The level and growth in exposure to the emerging risk;
   b. How quickly the risk can become materially incorporated into insurers' business;
   c. Industry exposure to the risk, as well as industry segment exposure; and
   d. Identification and measurement limitations of emerging risks.

ACLI generally agrees that the RBC framework needs some degree of flexibility to address emerging risks, along with a threshold that can help regulators determine when intervention is needed. It's not clear that principle 4 is fully responsive to the Task Force memo's request that the Principle answer "How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?"

When addressing emerging risks in a principle – whether it's stand alone or part of another principle - we recommend an acknowledgement of how other components of the NAIC solvency system could capture emerging risks, and that the RBC element provides distinctive risk-capturing benefits for the system as it relates to uniformity, transparency, and verifiability.

ACLI Comments on Candidate Principle 5:

5. Changes to RBC calculations.

   a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations ~~shall adhere to the *NAIC Open Meeting Policy* and~~ should be pursued ~~conducted~~ transparently, informed by data where available, and developed over time horizons that allow~~ing~~ stakeholders reasonable time to offer feedback and for adaption and implementation. Complex proposals may require a more iterative process.

   b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk. In general, capital requirements should be implemented uniformly across the NAIC solvency regulatory framework.

   c. **Adaptability and competitiveness.** Changes to the RBC framework are done in a manner that preserves its integrity while evolving as needed to facilitate fair effective and efficient U.S. insurance markets and supervision of insurance products, insurance legal entities and groups, and the fair and equitable treatment of insurance consumers.

   d. **Evaluating co-dependencies and interconnections.** Many singular features of RBC are interconnected with other elements of the broader financial regulatory framework. Refinements to RBC should include considerations of interconnectedness and co-dependencies – including areas where material risk may already be captured - before the adoption of proposals.

1. **Feedback on 5(a).** Recommend incorporating the following: Changes to RBC should be conducted through a transparent and robust process at the NAIC, applying analytical rigor, informed by data, where available, and allowing reasonable time for stakeholders to offer constructive feedback on proposals and providing opportunities for meaningful dialogue between regulators and industry. Complex proposals may require an iterative process.

2. **NEW - Feedback on 5(c).** We recommend adding a subprinciple on adaptability and competitiveness – both of which were identified as key objectives in the RBC Model Governance Task Force Memo. Subprinciple 5c includes concepts related to competitiveness and group supervision, which were previously addressed in subprinciple 1(b).

3. **NEW – Feedback on 5(d).** We recommend adding a new subprinciple (or a separate principle) that emphasizes the need for regulators to have a full understanding of all of the interconnections and co-dependencies associated with proposals to change RBC.

   For example, the Life RBC Working Group covariance proposal makes significant changes to equity risk and its correlation to other risk factors (i.e., credit, interest rate, etc.). However, the proposal does not appear to consider how the correlation changes will interact with existing equities and common stock RBC charge (30%), which has additional conservatism that does account for economic correlations and other risks. The RBC governance process should seek to address such changes and, to that end, further work on any co-dependent issues (particularly covariance) should only proceed when the RBC governance updates are complete to ensure that working groups have clear goals and guidance for their work.

4. Feedback on 5(e). We recommend relocating this concept of recognizing other differences in accounting, reserving, etc. from Principle 2 Objectivity into 5.

ACLI Comments on Candidate Principle 6:

> 6. Governance. Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

ACLI supports the development of strong governance standards for the RBC Framework. An RBC Governance Framework should promote consistency, transparency, and sound governance in the use of models across RBC calculations.

It is not clear if the principle is suggesting applying ***model*** standards to the RBC framework or calculation – which doesn't make sense, as neither of them are models. Or, and this seems more aligned with the intent of the principle, if the regulators intend to develop a Governance Framework for RBC, which could include many of the items referenced in the principle, such as documentation, validation, monitoring, change management, communication, and oversight. We recommend refining the principle to clarify that the governance standards will apply to the RBC framework, not just models.

As regulators consider governance frameworks, it is worth considering how the RBC framework comports with NAIC's overarching goals for regulation across all aspects of the financial regulatory framework. For example, it would be helpful if the RBC governance framework provided guidance on reserve considerations when the RBC framework is updated.

If the regulators are interested in developing governance standards for the RBC framework and standards to address model risk for models used in the RBC calculation, then that model guidance should aim to reinforce existing expectations for sound model risk management and ensure alignment with prevailing supervisory guidance.

A "CLEAN" VERSION THAT CAPTURES ACLI'S RECOMMENDED REFINEMENTS TO THE CANDIDATE PRINCIPLES

1. Purpose of RBC calculations. RBC calculations are used as a regulatory tool to identify potentially weakly capitalized companies that may be at risk of insolvency. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels to protect policyholders.
    a. Insolvency
        i. Possibility of insolvency. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
        ii. A Component of a Robust Regulatory Framework. RBC is one of many tools within the statutory framework that collectively serve to protect policyholders and provide state regulators insight into potential risks. It should be designed and calibrated in a manner that accounts for and is complimentary to the full spectrum of supervisory tools and resources.
        iii. Protecting Policyholders and Meeting Consumer Needs. While RBC calculations primarily serve to protect policyholders, they can influence the availability and affordability of products available to consumers. The RBC framework should be designed and calibrated in a manner that seeks to strike the right balance to protect policyholders without unnecessarily impeding access to insurance products, including long-duration products.
        iv. Actions unrelated to solvency. RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.

2. Objectivity. RBC charges should be objective and measured at a consistent statistical safety level.

    a. The RBC framework should reflect the risk exposures intended to be measured, capturing differences in risk distributions, with appropriate considerations for concentration, diversification, and tail risks that may materially differ across and within asset classes.

    b. *Equal capital for equal risk.* The RBC framework should promote equal capital for equal risk, which includes consideration of tail risk and consistency across asset classes, ensuring that the risk charges align with the associated risks and calibration at a sufficiently granular level to capture material differences in risks across asset types.

    b. Risks that are captured or not captured within RBC calculations should be identified and, to the extent practicable, RBC charges should reflect measurable differences in risks that can impact solvency. Consideration should be given if the risks might be better identified and assessed in other regulatory tools rather than in the RBC framework

c. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).

3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.

4. **Emerging risks.** Evaluation of emerging risks should consider:
    a. The level and growth in exposure to the emerging risk;
    b. How quickly the risk can become materially incorporated into insurers' business;
    c. Industry exposure to the risk, as well as industry segment exposure; and
    d. Identification and measurement limitations of emerging risks.

5. **Changes to RBC calculations.**
    a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations should be pursued transparently, informed by data where available, and developed overtime horizons that allow stakeholders reasonable time to offer feedback and for adaption and implementation. Complex proposals may require a more iterative process.
    b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk. In general, capital requirements should be implemented uniformly across the NAIC solvency regulatory framework.
    c. **Adaptability and competitiveness.** Changes to the RBC framework are done in a manner that preserves its integrity while evolving as needed to facilitate fair effective and efficient U.S. insurance markets and supervision of insurance products, insurance legal entities and groups, and the fair and equitable treatment of insurance consumers.
    d. **Evaluating co-dependencies and interconnections.** Many singular features of RBC are interconnected with other elements of the broader financial regulatory framework. Refinements to RBC should include considerations of interconnectedness and co-dependencies – including areas where material risk may already be captured - before the adoption of proposals.

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

MetLife

July 24, 2025

Dan Daveline
Director, Financial Regulatory Services
NAIC
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comment on July 3 RBC Model Governance Chair Exposure

Dear Mr. Daveline:

This letter is submitted on behalf of MetLife, Inc. ("MetLife"). MetLife appreciates the opportunity to comment on the July 3 RBC Model Governance Chair Exposure, which includes a list of principles and questions on the NAIC's RBC framework. While we support the comment letter from ACLI, we wanted to share some additional thoughts to help the Task Force prioritize its initiatives and maximize its success.

Building on a Successful History

Since the Global Financial Crisis, the NAIC has used well-established quantitative benchmarks to achieve several milestone upgrades to the RBC framework:

1. NAIC modeling of commercial and residential mortgage-backed securities to assign credit designations, reducing overreliance on rating agencies
2. Development of specific RBC factors for commercial and agricultural mortgages, based upon the CM1-CM7 classification
3. Benchmark revisions of bond and real estate equity RBC factors
4. Establishing a principles-based bond definition, aligning bond RBC factors with underlying risk

In recent years, the NAIC has proven the adaptability of the RBC framework by successfully incorporating new or emerging risks, often through the adoption of interim solutions until permanent solutions can be developed:

1. Introduction of Longevity Risk RBC
2. Interim framework for partial admissibility of net negative IMR to stabilize RBC ratios
3. Interim RBC for securitized residual tranches

In our view, the creation of the RBC Model Governance Task Force is another positive step to ensure that the RBC framework remains robust, well into the future.

We offer detailed comments to the draft principles and questions below. First, we have two general comments:

1. We think the draft principles require only limited modification. In general, principles should be limited in number and sufficiently high-level to cover a variety of circumstances.
2. Many of the questions can be answered simply by referring to benchmarks developed by previous successful RBC initiatives, including those outlined above.

Preliminary Principles

Listed below are the draft principles from the exposure, with MetLife's comments below selected draft principles.

1. **Use of RBC calculations**. RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.

   a. **Insolvency.**
      i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
      ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs**. RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
      iii. **Actions unrelated to solvency**. RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
      iv. **Identified risk**. Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.

   b. **Insurance groups and global competitiveness**. While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

MetLife Comment on (1.a.ii): MetLife believes that RBC facilitates objective policyholder protection and financial stability. RBC requirements should not be based upon the subjective requirement of "meeting consumer needs." Since (1.a.ii.) conflicts with principle (2) on Objectivity as well as sub-principal (1.a.iii) directly below it, MetLife recommends that (1.a.ii) be removed from the draft principles. The sentence "RBC charges should be sufficiently granular to recognize material differences in risk" can be moved under (1.a.i.).

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).

3. **Consistency with Statutory Accounting**. RBC charges should be derived from values reported in the statutory annual statement

4. **Emerging risks**. Evaluation of emerging risks should consider:
    a. The level and growth in exposure to the emerging risk;
    b. How quickly the risk can become materially incorporated into insurers' business;
    c. Industry exposure to the risk, as well as industry segment exposure; and
    d. Identification and measurement limitations of emerging risks.

MetLife Comments on (4): One of the most salient lessons of the Global Financial Crisis is that systemic risk can quickly develop, even if solvency concerns are limited to a very small number of individual financial groups.

- We therefore recommend that (**4.a.**) be expanded as follows: The level and growth in exposure to the emerging risk <u>at individual insurance groups</u>
- On (**4.d.**), we do not believe that there should be a blanket prohibition on establishing RBC on emerging risks until the standard data requirements have been met. In recent years, NAIC has established successful "interim solutions" for negative IMR and residual RBC that successfully addressed these issues on an interim basis, providing an RBC "bridge" toward the permanent solution. Please see the response below to question #3 for additional details. MetLife believes that these successful examples should encourage the NAIC's development of RBC for future emerging risks.

5. **Changes to RBC calculations**.
    a. Transparency and process. NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the NAIC Open Meeting Policy and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
    b. Equal capital for equal risk. RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.

MetLife Comment on (5.b.): The principle adopted in the E Committee's Holistic Investment Framework was "Equal capital for equal risk, which includes consideration of tail risk." MetLife recommends that these RBC Model Governance principles maintain the E Committee's adoption. The specific reference to "tail risk" recognizes the well-established NAIC guidepost – incorporated in the milestone 2021 Bond RBC revision – to establish RBC factors at the 96th percent confidence interval. Further detail is provided in the response to question 4 below. MetLife believes that future RBC adoptions should adhere to the same standard to avoid inconsistency within RBC.

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

Comments on RBC Questions

1. When should a particular risk be addressed in the RBC model?

Since the purpose of RBC is to identify weakly-capitalized insurers for potential regulatory intervention, risks should be addressed in RBC factors if:

a. The risk is material to an individual company or group of companies
b. It is a fast-growing growing risk that will soon be material, and/or
c. The absence of regulatory action is deemed to create incentives that could lead to excessive risk-taking

Market, credit, insurance and operational risks are significant risk factors that can be addressed in RBC. Certain risk categories (terror and nuclear risk) are systemic by nature and should not be addressed by RBC. Liquidity risk should be measured via liquidity stress testing rather than RBC.

2. What level and type of data and analysis are needed to support the setting of capital factors?

The Bond RBC factor revision process provides an excellent template for how to create a standard process for well-established RBC factors:

1. Use long periods of historical data - at least 30-40 years if available - to capture a variety of stress events. Recent history cannot predict future tail events.
2. In the absence of a long history of direct historical data (e.g., CLOs), then use the most prudent proxy available for that data (e.g., historical data for underlying bank loans).
3. Data analysis should not assume that future government intervention will effectively smooth all future stress events.

New and emerging risks are addressed in the following question.

3. How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?

Regulators often mention that RBC is a "blunt instrument," incorporating many shortcuts on issues considered too minor to warrant regulatory attention. There are, however, several examples in recent years where NAIC has effectively employed "interim solutions" or interim steps for emerging risks in anticipation of developing a more permanent solution in the future:

1. In late-2023, regulators agreed to an interim solution to admit a portion of "negative IMR" for insurers that had developed following the sharp interest-rate increases in 2022. This interim solution allowed several insurers to avoid uneconomic volatility in their statutory financials due to simple asset turnover.

2. In mid-2024, NAIC approved on an interim basis a new 45% RBC charge on securitization residuals, whose allocation had grown significantly at a number of insurers.

3. In 2025, NAIC is expected to approve a disclosure-only requirement on cedants in selected asset-intensive offshore reinsurance transactions with significant post-reinsurance drops in reserves. Offshore reinsurance is a fast-growing trend among U.S. life insurers.

4. As CLOs have developed over time into a major asset sector for insurers, NAIC is currently addressing whether the RBC factors for CLOs should be changed to address the issue that many NRSRO ratings for CLOs address only the narrow issue of "probability of default," without addressing the more RBC-relevant issue of "loss given default," especially in tail scenarios. It is quite possible that the NAIC solution to this issue could involve a multi-step process, incorporating interim and permanent elements.

In each of these instances, regulators did not have the full range of information needed to develop a permanent solution but instead developed an interim/temporary solution using a lower level of available data, to address the potential build-up of systemic risks. The NAIC has effectively used the "interim solution" approach even-handedly to address issues where reserves/RBC are too conservative (IMR), as well as those where reserves/RBC may be insufficiently conservative (RBC for subordinated tranches of securitizations, including residuals.)

Using more limited datasets may lead to overly conservative initial standards, but these can be adjusted over time as more data becomes available. Having somewhat conservative initial standards is preferable for regulators than having to deal with excessive risk accumulation due to regulatory delay.

4. What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?

NAIC has well-established statistical guideposts that underpin all of the successful RBC revisions adopted in recent years:

1. Insurance reserves are meant to cover "expected" losses or claims. Reserves are typically set at a "moderately adverse" level, commonly interpreted as one standard deviation, or 68% confidence interval (CI).
2. Capital is intended to cover "unexpected losses" between the 68% CI and the 96% CI, representing a two standard deviation (SD) adverse event.

MetLife believes that the RBC principles should prioritize an accurate assessment of a 96% CI loss using long periods of data, rather than focusing on the academic debate between a single confidence interval point and the conditional tail expectation (CTE) methodology.

Standard stress testing (liquidity and capital) is also set at the two SD level. Most analysts would think of the GFC as one example of a two SD event. An interest rate spike scenario is another. Both of these are “bad” scenarios, but definitely not “worst case.”

While capital is held against a sufficiently bad scenario, there are scenarios in the far end of the tail that will still cause insolvencies. If insurers had to hold capital against a 99% CI (three SD) event, there would be a lot fewer insurance products available to consumers. Two SD is the commonly applied “regulatory balance.”

5. When should the calibration of risks to capital factors be re-evaluated?

Major permanent factors, such as bond RBC, should be re-evaluated for potential revision every 20-30 years; the 2021 bond RBC revision occurred almost 30 years after the original bond factors were generated.

Bond factors should also be recalibrated if:

1. It becomes apparent that either a) there’s a gap in the capital treatment across similar tail risks, and/or b) the existing capital factors are inconsistent with given tail risks

2. A major stress event demonstrates that the existing factors are inaccurate. For example, RMBS and CMBS were removed from filing-exempt (FE) status post-GFC due to questions on the applicability of third-party ratings to RBC. Similar questions are now being raised about ratings for subordinated CLOs and other subordinated structured products.

3. An asset class experiences major structural changes, prompting a re-evaluation of whether RBC charges are still appropriate.

6. How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?

MetLife believes that the NAIC's long history of transparency in its model development and in its adoption and implementation of RBC standards position the NAIC well to incorporate the full range of model governance standards. MetLife stands ready to assist NAIC in this effort.

7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?

It may make theoretical sense to apply RBC to market values on the balance sheet. Effectively, though, statutory balance sheets are predominantly based on book values rather than market value. In addition, RBC charges are mapped automatically from statutory balance sheets rather than independent market values. There is no reason to believe that there is a systematic conservative or non-conservative RBC bias in the difference between market and book values.

Given this practical disconnect, MetLife recommends that the RBC principles focus on areas of potential practical improvement in the RBC framework over time.

8. How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?

MetLife believes that RBC already fully incorporates reserves, valuation adjustments and other offsets. For example:

a. RBC is simply the difference between the Total Asset Requirement (TAR) and reserves. Capital requirements explicitly exclude reserves
b. Losses are tax-adjusted before being incorporated into RBC

9. How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?

The Academy developed its principles to guide the details of its own RBC-related analysis, consistent with the Academy's mission. While the Task Force may want to reference the Academy principles, MetLife recommends that the Task Force develop an independent set of principles tailored to NAIC's regulatory responsibilities.

10. How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?

NAIC's legal-entity covariance methodology has long been a bedrock of the RBC framework's success. MetLife believes that the costs associated with tinkering with the legal-entity formula – including creating uncertainty for insurance company financial projections – far outweigh the marginal benefits for regulators in identifying weakly-capitalized insurers.

MetLife believes that regulators could instead prioritize analysis of covariance between asset types within individual RBC factor categories, for example:

a. Covariance assumption between mortality and longevity risk in C-2
b. Residual tranches of securitizations receive the benefit of equity covariance despite the fact that they represent a hyper-levered position on fixed income risk

Conclusion

We reiterate MetLife's sincere appreciation for the opportunity to offer our recommendations for the development of RBC Principles. Over the past three decades, NAIC has developed a remarkably robust RBC framework, including incorporating new and emerging risks into the framework as appropriate. We believe that the Task Force's primary role is to document these successful practices and quantitative guideposts, and establish a comprehensive model governance framework for RBC. The MetLife team stands ready to assist the Task Force in this important mission. If you have any question regarding the present letter, please contact Ben Cushman, Head of Global Regulatory Policy, via email at ben.cushman@metlife.com.

Sincerely,

Chuck Scully
Executive Vice President and CIO
MetLife Insurance Investments

Memo

To: Director Judith French and Nathan Houdek, Co-Chairs of the Risk-Based Capital Model Governance (EX) Task Force

From: Patricia Matson, FSA, MAAA, Partner, Risk & Regulatory Consulting, LLC

Lynn Manchester, FSA, MAAA, Director, Risk & Regulatory Consulting, LLC

Janine Bender, ASA, MAAA, Supervisor, Risk & Regulatory Consulting, LLC

Date: July 24, 2025

Subject: RRC Comments regarding Request for comments on proposed preliminary Risk-Based Capital ("RBC") principles and questions

Background

The Risk-Based Capital Model Governance (EX) Task Force is requesting comments on the proposed preliminary Risk-Based Capital ("RBC") principles and questions ("the Exposure").

Risk & Regulatory Consulting, LLC ("RRC") appreciates the opportunity to offer our comments on the proposed expanded governance over the RBC framework. Should you have any questions, we would be glad to discuss our comments with you and Task Force members.

We appreciate the work that the RBC Model Governance (EX) Task Force has undertaken to address what we believe is a critical industry issue, namely RBC principles which *"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."*

We strongly encourage the Task Force to consider RBC holistically in developing these principles, rather than focusing on specific subsets of RBC in isolation. The principles should apply across the life, health, and property/casualty formulas and should apply to all risk components (not just investment risk). The principles should also consider other aspects of the regulatory framework such as Statutory Accounting Principles.

Regarding the "Questions that the principles and broader framework should be used for guidance," we have the following comments:

1. When should a particular risk be addressed in the RBC model?
   Response: We believe a risk should be addressed if it poses or has the prospect of being a material industry risk. In order to balance the comprehensiveness of RBC with practicality, we believe that capturing risks that may only be represented across a small number of insurers would be challenging and an inefficient use of limited resources. There may be other parts of the regulatory framework, such as additional disclosure requirements, which would be equally effective.

2. What level and type of data and analysis are needed to support the setting of capital factors?
   Response: RRC encourages the use of sound analytical practices to estimate risk and the

associated charges for that risk, guided by the existing regulatory framework and applicable actuarial standards of practice. This should involve the use of credible historical data on loss distributions, which can be used to estimate losses at a defined confidence level. It should also involve fitting less robust data to a distribution, in order to estimate those losses. In addition, anticipated impacts of changes in the risk since the data period are also important to consider. The actual data and analysis will depend on the risk being addressed and the data available. RRC encourages as much consistency of approach as possible, while still considering how the risk manifests and the credibility and reliability of data.

3. How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?
   Response: RRC believes the same analytically sound approaches should be used for new and emerging risks. In other words, they should be assessed appropriately and then added to the capital framework once a sound capital approach is developed. In order to capture emerging risk that may not be incorporated into the RBC framework quickly, applying a margin that reflects the perceived risk (as well as its correlation with risks already captured in RBC) on top of the developed factors may be appropriate while more detailed analysis is done. The RBC submissions could also be used to collect data from insurers on emerging risks to support development of factors.

4. What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?
   Response: RRC believes that the regulatory community should determine the desired safety level considering the goal of protecting consumers. RRC believes that such a target should be consistent across insurer types and risks, should consider diversification across risks, and should appropriately capture tail risks (which may mean that at least some risks require a conditional tail expectation rather than a point estimate in order to capture "fat tail" risk).

5. When should the calibration of risks to capital factors be re-evaluated?
   Response: RRC recommends a periodic re-evaluation, such as every 10 years. We also suggest developing criteria that would require an interim evaluation, such as substantial changes in market conditions, a major industry shift in solvency levels, or a major change in the underlying accounting rules for items that drive RBC.

6. How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?
   Response: RRC recommends leveraging model risk governance frameworks that are currently available for both ensuring soundness of the calculation templates as they are developed and changed, and for providing guidance to companies for governing their completion of the RBC calculation templates. One example of such a framework is Supervision and Regulation Letter 11-7 issued by the Federal Reserve (SR 11-7).

7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?
   Response: Alignment of the calculations with valuation guidance found in the Statutory Accounting Principles is a necessary component. It also creates auditability, which is an important

characteristic. There may be other considerations beyond Statutory Accounting Principles to capture the risk well (similar to how the risk is captured for Variable Annuities in the current Life RBC formula), but that tradeoff should be carefully considered, and any differences should be explained. With respect to the difference between directly held assets and securitized exposures, differences and similarities between treatment should take into account all differences in ownership of exposures. Differences in the management of the assets, cash flow waterfalls, and collateralization triggers can lead to a substantive difference in the risk profile.

8. How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?
   Response: Statutory reserves and capital are both intended to provide protection to policyholders. When considered in aggregate (i.e., reserves plus capital), the amounts held should result in a high probability of payment of all claims to customers, including coverage of associated expenses. Capital should pick up where reserves leave off, in other words the margins in reserves would generally cover customer payments with a high degree of certainty, and the combination of reserves and capital would cover those payments with a higher degree of certainty. Diversification across risks should also be considered. We suggest that the time value of money be considered in light of its critical impact on insurers' risk profile.

9. How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?
   Response: RRC believes that any RBC principles adopted or endorsed by regulators should be consistent and that conflicts would likely lead to confusion and potential for arbitrage. If as a result of this effort conflicts should arise, these conflicts should be resolved on a case-by-case basis.

10. How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?
    Response: Risk diversification should be considered and applied consistently across companies. RRC recommends something relatively simple like correlation matrices to maintain auditability.

<u>Regarding the "Proposed preliminary RBC principles, applied by company type," we have the following comments:</u>

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.
   Response: RRC recognizes that RBC is intended solely as a regulatory tool and understands the regulatory concern that RBC may be misused and/or misunderstood. The principles on their own cannot dictate the uses of RBC, only the INTENT can be dictated. RRC suggests that the language be edited to emphasize intent rather than use. Additionally, the calculations provide regulators with information they can use to make decisions about intervention rather than just the ability to intervene.

   a. **Insolvency.**
      i. **Possibility of insolvency**. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.
         Response: We suggest clarifying this further, such as "RBC charges should be set to reflect a margin of safety. The goal of these charges is not to eliminate the

possibility of insolvency, but rather to reduce the probability of insolvency assuming appropriate regulatory action is taken."

ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.
Response: We believe the statements in this section could be made clearer. RRC suggests either editing the end of the statement to "…particularly when they may materially affect insurer decisions around product offerings to meet consumer needs." Or rewording the entire section, such as "In considering the appropriate safety level for RBC, the balance between increasing solvency and maintaining affordable insurance products should be considered."

iii. **Actions unrelated to solvency.** RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.
Response: RRC has no comments and agrees with this as written.

iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.
Response: RRC finds the language in 1.a.iv to be a bit confusing and suggests clarifying the language, such as, "RBC should include all risks that may be material to solvency. In the event one of these risks is excluded (e.g., difficult to quantify), the exclusion should be documented and explained. In the event that certain risks are captured in multiple components of the formula, appropriate adjustments should be incorporated."

b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.
Response: We recommend that the language be altered to "…they should be developed with the goal of having them acknowledged…."

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).
Response: RRC suggests revising the sentence: "They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies)." We suggest the language should be revised as follows: "RBC charges should reflect the underlying economic risk. While accounting values may be used in the calculation for simplicity and auditability, the RBC framework should aim to produce RBC amounts that are consistent across risks, based on the desired safety level, and should not be inappropriately skewed due to accounting differences", or something similar. We also believe it may be overreaching to suggest considering "overall business practices and their treatment within the framework." Although, we do agree that RBC should not dis-incentivize good risk management practices.

3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.
   Response: RRC recommends enhancing the sentence to start with "To the extent practical, RBC charges…". While RRC recognizes that having RBC charges derived from reported values enhances transparency, in some cases it will not be possible to develop an appropriate risk charge using Annual Statement values alone, so there should be allowance for alternatives in those cases. RRC believes that sound charges should be a higher priority than having them be 100% based on the Annual Statement values.

4. **Emerging risks. Evaluation of emerging risks should consider:**
   a. The level and growth in exposure to the emerging risk;
   b. How quickly the risk can become materially incorporated into insurers' business;
   c. Industry exposure to the risk, as well as industry segment exposure; and
   d. Identification and measurement limitations of emerging risks.

   Response: RRC is unsure what "industry segment exposure" means. Perhaps this is referring to life insurance, health insurance, and property casualty insurance. This should be defined somewhere or clarified. Another factor to be considered is the potential volatility or severity of that risk.

5. **Changes to RBC calculations.**
   a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
      Response: RRC agrees with this and supports transparency of all aspects – principles, calculations, disclosures, etc.

   b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.
      Response: RRC agrees with this and does not have any further comments.

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.
   Response: RRC suggests removing "components of", as the intent is that the entirety of RBC calculations should be well governed. Additionally, we recommend the removal or re-wording of the last sentence (having understandable RBC will not ensure that future adjustments align with the principles).

Thank you for the opportunity to provide comments on this important topic. We can be reached at 813-506-7238/lynn.manchester@riskreg.com or 860-305-0701/tricia.matson@riskreg.com or if you or other members have any questions.

July 24, 2025

Director Judith French (OH), Co-Chair
Commissioner Nathan Houdek (WI), Co-Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners

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

Dear Director French and Commissioner Houdek:

On behalf Life Practice Council (LPC), Health Practice Council (HPC), Casualty Practice Council (CPC), and Risk Management and Financial Reporting Council (RMFRC) of the American Academy of Actuaries (Academy),[1],we appreciate the opportunity to offer the following comments to the Risk-Based Capital (RBC) Model Governance (EX) Task Force (Task Force) on the principles and questions outlined in the request for comments on the proposed preliminary RBC principles and questions. These comments reflect the actuarial perspectives and expertise of our volunteers across the health, life, property/casualty, and financial reporting and risk management lines of business.

Questions that the principles and broader framework should be used for guidance:

1. *When should a particular risk be addressed in the RBC model?*

   When it is a material industry risk.

2. *What level and type of data and analysis are needed to support the setting of capital factors?*

   We encourage the use of sound actuarial practices to estimate risk and the associated charges for that risk, guided by applicable actuarial standards of practice. This may involve the use of credible historical data on loss distributions, which can be used to estimate losses at a defined confidence level. It may also involve fitting less robust data into a distribution to estimate those losses. In addition, anticipated impacts of changes in the risk since the data period are also important to consider. The exact data and analysis will depend on the individual risk and the data available. We encourage as much consistency of approach as possible while still considering how the risk manifests as well as the credibility and reliability of data.

3. *How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?*

   We believe the same actuarially sound approaches should be used for new and emerging risks. In other words, they should be assessed appropriately and added to the capital framework once a sound capital approach is developed. If there is a desire to capture emerging risks generally, which may not be incorporated into RBC quickly, a general margin approach on top of the developed factors could be considered.

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

4. *What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?*

   We believe that the regulatory community should determine the desired safety level. Such a target should be consistent across companies and risks, consider diversification across risks, and appropriately capture tail risks, which may mean that at least some risks require a conditional tail expectation rather than a point estimate to capture "fat tails."

5. *When should the calibration of risks to capital factors be re-evaluated?*

   We recommend a periodic reevaluation, such as every 10 years.

6. *How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?*

   We recommend leveraging the model risk governance frameworks that are currently available, which includes [Actuarial Standard of Practice No. 56, *Modeling* (ASOP 56)].

7. *To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?*

   Aligning the calculations with amounts in the Statutory Statements creates auditability, which is a desirable characteristic. However, we recognize that there may be risks that require going beyond Statutory Statement values and factors in order to capture the risk well. An example of this includes incorporating risks for variable annuities, as we have today with C3 Phase 2. However, that tradeoff should be carefully considered. If there are accounting issues that drive significant regulatory arbitrage due to the capital charges, it is possible that an alternative method for determining capital would be needed. It is also possible that the underlying accounting requirements should be reconsidered.

8. *How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?*

   Capital should cover risks beyond those already accounted for in the starting balance sheet. For example, if reserves are set at one standard deviation beyond the mean, then capital would be from one standard deviation to whatever the desired confidence level (i.e. no double counting). Diversification should be considered.

9. *How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?*

   In general, RBC should be designed so that it does not violate existing principles. In the event there is a conflict between having the RBC fit into RBC principles versus having it not violate existing principles, then both sets of principles may need to be reevaluated.

10. *How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?*

    Risk diversification should be considered. However, we suggest balancing the approach to diversification with ease of understanding and auditability.

In addition to the responses to the proposed questions above, we offer the following comments on the proposed preliminary RBC principles.

<u>Proposed preliminary RBC principles, applied by company type</u>:

1. *Use of RBC calculations.* Since RBC principles cannot necessarily dictate what RBC calculations are

used for, we recommend the following revisions:

1. **Use of RBC calculations.** RBC is intended to be used as a regulatory tool ~~only~~ to identify potentially weakly capitalized companies. RBC provides regulators with legal permission and/or requirements to intervene at various RBC levels.

   1.A.ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** In considering the appropriate safety level for RBC, the balance between protecting solvency and maintaining affordable insurance products should be considered. RBC charges should be sufficiently granular to recognize material differences in risk~~, particularly when they may materially affect insurer decisions that impact meeting consumer needs~~.

   1.~~a~~A.iv. **Identified risk.** Where identifiable, RBC should include all industry risks that may be material to solvency. In the event one of these risks is excluded (i.e., it is hard to quantify the risk), that should be documented. ~~charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.~~

   1.B. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, ~~they should be acknowledged as a component~~they should be developed with the goal of having them acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. ~~They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies)~~RBC charges should reflect the risk of impairment to the entity's statutory surplus. While accounting values may be used in the calculation for simplicity and auditability, the RBC framework should aim to produce RBC amounts that are consistent across risks based on the desired safety level and should not be inappropriately skewed due to accounting differences.

   While we agree that RBC should not dis-incentivize good risk-management practices, we do not necessarily believe that RBC should consider overall business practices and their treatment within the framework. Different safety levels may be suitable for different risk charges in some cases, such as for risks with substantially different time horizons. Note that currently Rcat, which focuses on natural catastrophes, is calibrated to the 100-year return period since insurers typically know their ultimate losses fairly accurately within a year of the event. R4 and R5, on the other hand, are calibrated to the nine- or 10-year return period, due to the longer horizon.

3. **Consistency with Statutory Accounting.** RBC charges should be derived from values reported in the statutory annual statement.

Given that in some cases it will not be possible to get an appropriate risk charge using the annual statement values, we suggest this addition to allow for alternatives in those cases.

4. **Emerging Risks.**

We suggest further clarifying what is meant by "industry segment exposure."

5. **Changes to RBC calculations**.

We agree with this principle and reiterate our support for a transparent, collaborative process.

5. B. ***Equal Capital for Equal Risk.***

The current P&C RBC formula has examples which seem to conflict with the concept of equal capital for equal risk. Our understanding is that when P&C RBC was introduced, it was observed that larger insurers generally had lower risk than smaller insurers (per dollar of premium, for a given line of business). Despite that observation, the NAIC decided not to stratify P&C RBC charges for reserve risk and premium risk by insurer size/volume, to avoid making it more onerous for smaller insurers to operate.

6. **Governance.** ~~Components of~~ RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing monitoring, and change management. The calculations should be understandable and auditable by regulators. ~~This ensures that future adjustments align with guiding principles and supporting guidelines.~~

We recommend the deletion of the final sentence, as having understandable calculations will not necessarily ensure that future adjustments align with the principles. We propose ASOP No. 56 as a good resource for setting up model governance standards. Further, we believe that the principles should state that the NAIC serves as the repository for RBC data.

We would welcome the opportunity to discuss these comments and remain committed to continuing public dialogue and collaborative efforts as the Task Force continues its work. If you have any questions or would like to discuss these comments further, please contact Katie Dzurec, Public Policy Outreach (State) Director (dzurec@actuary.org).

Sincerely,

Jason Kehrberg, MAAA, FSA
Vice President, Life Practice Council

Annette James, MAAA, FSA
Vice President, Health Practice Council

Susan Kent, MAAA, FCAS
Vice President, Casualty Practice Council

Steve Malerich, MAAA, FSA
Vice President, Rick Management and Financial
Reporting Council

July 24, 2025

Director Judith French (OH) and Commissioner Nathan Houdek (WI)
Co-Chairs, Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners

Re: July 3 Exposure of Preliminary Risk-Based Capital Principles and Questions

Dear Director French, Commissioner Houdek, and Task-Force Members,

Athene Holding Ltd. ("Athene") appreciates the opportunity to comment on the *Preliminary Risk-Based Capital Principles & Questions* exposure ("Exposure"). We continue to support the NAIC's efforts to modernize RBC through a principles-first, data-driven framework that is transparent, internationally credible, and firmly anchored in "Equal Capital for Equal Risk." We therefore welcome the Task Force's initiative.

I. Dispelling Persistent *Myths vs. Realities* About RBC

Both the NAIC's **2024 holistic Framework for Regulation of Insurer Investments** and the Task Force's current **RBC Modernization Initiative** acknowledge an undeniable fact: the U.S. life-insurance industry, and the risks it manages, have evolved dramatically over the past three decades. The policy question before the NAIC is therefore less "*What is RBC today?*" than "*What do we want RBC to be tomorrow?*"

Answering that forward-looking question first requires a candid reconciliation of several outdated perceptions with the realities of how RBC is already used by regulators, investors, ratings agencies, and international standard-setters. Attached as **Appendix A** is a comparison of current myths of "RBC" that we see continue to be espoused by some industry and regulators (domestic and foreign) versus the current realities around RBC. These should be resolved as part of the principles.

Only by resolving these perception gaps can the resulting principles deliver a capital regime that both: (i) continues to protect policyholders and (ii) fosters innovation, global competitiveness and equal capital for equal risk in the decades ahead.

II. Narrative Responses to the Consultation Questions

Please see **Appendix B** for our responses to the more technical consultation questions.

III. Comments on the Draft Principles

RBC is no longer a binary alarm but a dynamic, risk-sensitive solvency measure: supervisors, ratings analysts and investors treat company-action ratios as markers of strength, the Group Capital Calculation extends them to holding companies, and global peers benchmark them against Solvency II and Basel. Our comments urge the Task Force to embed this reality – and objectives of integrity, competitiveness and equal capital for equal risk – throughout the draft principles.

Purpose (Principle 1) - Principle 1 describes RBC as a mechanism "used only to identify potentially weakly capitalized companies." While that reflects RBC's original statutory intent, it no longer captures how the framework is actually employed in 2025 **(see attached Appendix A)**:

- **A continuous solvency gauge, not a binary trip-wire.** Regulators, ratings agencies, investors, and even peer insurers interpret company-action–level ratios as waypoints on a spectrum of financial strength, long before formal triggers are breached. Capital management, product pricing, and reinsurance decisions are significantly influenced by where a firm sits on that continuum.
- **A cornerstone of group-wide supervision.** The NAIC's Group Capital Calculation (GCC) directly repurposes the same factor architecture as a key financial indicator at the holding-company level, reinforcing RBC's role in assessing systemic resilience across a diversified enterprise rather than a single legal entity.
- **A signal watched by global standard-setters.** RBC outcomes feed the IAIS Aggregation-Method assessment of U.S. capital adequacy and are routinely benchmarked against Solvency II and Basel capital metrics.

Recommended refinement of Principle 1

We recommend that Principle 1 should be revised to reconcile not only the current realities around RBC but also the vision for it as reflected by the Framework and NAIC leadership's vision for the current RBC EX Task Force.

> "RBC calculations are used as a ~~regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.~~ continuous, risk-sensitive measure of capital strength that informs supervisory dialogue, market confidence, and company decision-making across a spectrum of solvency outcomes. They continue to provide regulators with legal authority to intervene at statutory action levels, and also serve as a forward-looking financial indicator for insurers. While RBC may inform broader policy discussions, regulatory interventions based upon RBC results should remain linked to the protection of policyholders and the solvency of insurers, unless expressly directed by statute."

We support the statements in Principle 1.a (i-iv), and recommend that Principle 1 should acknowledge the important role U.S. insurers play in closing the retirement gap and funding the real economy.

Objectivity (Principle 2). We welcome commitment to objective, risk-aligned charges and also would urge transparency around modeling and calibration.

SAP Consistency (Principle 3). Alignment with statutory reporting generally is sensible, but form neutrality should be stated explicitly to curb arbitrage. Please see our response to Question 7 above.

Emerging Risks (Principle 4). Add a numeric materiality trigger (e.g., 5 % of industry admitted assets) to focus analytical effort.

Change-Management (Principle 5). We applaud the transparency pledge and suggest a forward calendar of factor reviews to enhance predictability. We recommend that the first sentence of Principle 5.b. be clarified to state, "When considering changes to RBC, t**<u>he</u>** RBC ~~charges~~ **<u>framework</u>** should balance the appropriateness of the existing charge **<u>or designation</u>** with the added complexity and materiality of the possible change."

Governance (Principle 6). Adopt the comprehensive Governance Plan described above to ensure consistent cross-work-stream oversight and retrospective testing of factor performance.

Additional Considerations for Principles:

The Task Force Charges state that "the principles will serve 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". These important concepts are not sufficiently reflected in the principles.

We urge the Task Force either (a) to restore them as stand-alone principles, or (b) to incorporate them verbatim into the principles, namely, Principle 2 (Objectivity).

1. **Integrity and Adaptability.**
   The Task Force has recognized that these are critical concepts to ensuring a modern, risk-aligned capital regime. They should be clearly reflected in the principles.

2. **Equal Capital for Equal Risk.**
   RBC should deliver risk-aligned capital irrespective of an asset's legal form or the modelling tool used. Calibration should seek consistency across asset classes, recognize modelling biases and covariance effects, and permit judgement-based proxies for novel assets – subject to retrospective validation through the governance principle.

3. **Global Competitiveness.**
   RBC should be acknowledged as comparable with, and in certain cases substitute for, foreign regimes such as Solvency II and ICS – thereby supporting U.S. insurers active internationally and reducing international and federal criticism of, and

pressure to change, the U.S. RBC regime. A principle grounded in this concept will also support the Task Force's charge to develop an education and messaging campaign to highlight the benefits and strengths of the state-based RBC system.

4. **Balancing Both Prudential Oversight with Strong Capital Markets.**
   The Task Force has called for the principles to "ensure that insurance capital requirements maintain their current strength and continue to appropriately balance solvency with the availability of products to meet consumer needs." Draft Principle 1.a.ii, merely recommends acknowledgement of RBC impact on product availability. This principle should be enhanced to clarify the importance of **balancing solvency, consumer needs, and capital-market strength.**

   RBC standards should be calibrated with enough granularity and "precision" as called for by the Task Force, and without inappropriate conservatism, to preserve a healthy pipeline of economically sound products that close consumers' retirement-income gaps and to sustain deep, well-functioning U.S. capital markets. Because RBC charges impact product pricing, asset-allocation, and market participation decisions, **the RBC framework should promote proportionate capital that both protects policyholders and supports prudentially appropriate insurer investments.**

Re-elevating these Task Force concepts will reconcile commissioner comments with the Initiative's aspirational objectives and ensure that future quantitative work remains tethered to clear policy anchors.

IV. Conclusion

By embedding robust principles, instituting rigorous governance, and grounding calibrations in transparent data, the NAIC can elevate RBC to the status of Solvency II and Basel— but also will reinforce consumer protection while supporting the life-insurance sector's vital role in financing the real economy. Athene stands ready to share data, analytical resources and governance expertise as the Task Force advances this important work.

Respectfully submitted,

Michael Consedine
Executive Vice President & Global Head of Regulatory & Policy Affairs
Athene Holding Ltd.

cc: Dan Daveline, NAIC Financial Regulatory Services • Members, RBC Model Governance (EX) Task Force

APPENDIX A

RBC "Myths" vs. Reality

Myth	Reality
"RBC is used only by regulators to flag weak companies."	RBC results are scrutinized by ratings agencies, investors, peer insurers and international standard-setters; they are a key input to the IAIS Aggregation Method for Insurance Capital Standard (ICS) equivalence.
"RBC is a once-a-year blunt instrument."	Capital factors materially shape daily decisions on asset allocation, reinsurance, product pricing and capital-raising across the U.S. life-insurance sector.
"Because RBC is conservative, precision is unimportant."	Inconsistent or ad-hoc factors distort investment behavior, create regulatory-arbitrage opportunities and erode consumer value; reasonable precision therefore demands consistent quantitative methods.
"The NAIC's Risk-Based Capital system is a single, integrated model - built through a clear, commissioner-led and transparent governance process—so every factor fits neatly within one aligned framework."	Decades of piecemeal revisions have left RBC a patchwork of unrelated sub-models and one-off factor tweaks, many crafted in staff-level silos or ad-hoc work-streams with limited commissioner or stakeholder oversight. The result is inconsistent calibration, duplicate efforts (e.g., competing CLO models) and a capital formula that now lags the cohesion of peer regimes.

APPENDIX B

Narrative Responses to the Consultation Questions

1. When should a particular risk be addressed in the RBC model?

A risk should be incorporated only after a structured gap-analysis demonstrates materiality and confirms it is not already captured elsewhere in RBC or statutory reserves. Materiality can be evidenced by industry exposure that exceeds, for example, 5 % of admitted assets or concentrates heavily in a handful of firms. This disciplined gateway aligns with the Exposure's call for an initial gap analysis and ensures regulatory resources are focused where they most enhance policy-holder protection.

2. What level and type of data and analysis are needed to support capital factors?

Capital factors must be grounded in multi-year, stress-period statutory data at the insurer level, supplemented by robust market data where statutory history is thin. Methodologies, statistical models, and assumptions should be published to permit independent replication, mirroring the impact-study discipline employed in Solvency II and Basel III. This transparency underpins market confidence and enforces Equal Capital for Equal Risk.

3. How should new and emerging risks or asset types be treated if a framework has not yet been developed?

New or emerging risks should first be monitored and understood, not immediately capital charged. Regulators and industry should gather data through existing disclosure and supervisory channels, evaluate whether current statutory accounting or reserving already captures the exposure, and only then decide if an incremental RBC treatment is warranted. Any interim capital measure should be clearly identified as temporary and revisited once a full, data-driven calibration can be completed, ensuring equal capital for equal risk and without stifling responsible innovation.

4. What statistical safety level should be targeted, and how should tailored targets be set?

Athene recommends anchoring the life RBC formula to a Conditional-Tail Expectation (CTE) at the 90 percent probability level (or equivalent), net of reserves, for the Company-Action Level ("CAL"). In practice this means capital would cover the average of the worst 10 percent of loss outcomes after statutory reserves have absorbed expected losses. A CTE-90 benchmark:

- Matches existing NAIC practice in VM-20 reserving (which already pushes reserves toward CTE-70, leaving capital to cover only the tail beyond that level).
- Keeps U.S. insurers globally competitive. A CTE-90 (or equivalent) target produces risk charges broadly comparable to Solvency II's 99.5 percent VaR once the latter is

adjusted for the higher loss-absorbing reserves embedded in U.S. GAAP/PBR, while avoiding the doubling-or-more increase in required assets for securitizations, CLOs, and other long-dated credit assets that an unnecessarily punitive calibration would impose.

- Preserves flexibility for higher or lower targets where empirical loss distributions differ materially; any deviation from CTE-90 (or equivalent) should be documented in a public calibration dossier.

5. When should calibrations of risks to capital factors be re-evaluated?

Calibrations should be reviewed regularly, we suggest at least every five years and sooner if:

- Aggregate portfolio shifts exceed defined concentration or duration thresholds;
- Market stress events materially alter asset-class behavior; or
- New data reveal systematic bias.

A rolling review calendar avoids disruptive “cliff” adjustments while ensuring the framework remains contemporaneous.

6. How should governance over model risk be structured?

Athene supports an NAIC-wide RBC Governance Plan that mandates documented model scope, independent validation, ongoing performance monitoring, and disciplined change-control, supervised by a commissioner-led steering committee. COSO, Solvency II Pillar 2, and Basel model-risk guidelines could provide some direction.

7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)?

We support using SAP-based values as the starting point for RBC because they are audited, verifiable, and widely understood. But SAP may still leave material blind spots that must be closed so capital truly tracks risk. Some of the key gaps are:

- <u>Risk-granularity gaps</u>. SAP can lump very different credit qualities or structures into one bucket, e.g., AAA and BBB bonds, so RBC requires finer, risk-based charges.

- <u>Off-balance-sheet / structural gaps</u>. Items such as unfunded commitments, guarantees, and exposures hidden inside subsidiaries or funds aren’t always on the SAP balance sheet; RBC must pull them in and assign capital.

- <u>Forward-looking & interaction gaps</u>. SAP is largely point-in-time and siloed. RBC should reflect diversification and concentration effects, asset-liability mismatches revealed in cash-flow testing, and credible future profitability or tax-planning impacts on loss-absorbing capacity.

By reconciling these gaps, while still anchoring charges to SAP book values, RBC delivers "equal capital for equal risk" without compromising the discipline of statutory accounting.

8. How should reserves, valuation adjustments or offsets be considered?

Offsets including tax benefits, DAC, conservative reserves, should be recognized only where they demonstrably absorb loss under the same stress horizon used for capital calibration, and only once to avoid double-counting. A standardized Offsets Appendix across C-risks would promote comparability.

9. How should existing principles (e.g., Academy Structured-Securities Principles) fit into the framework?

Professionally vetted guidance already endorsed by regulators should be incorporated unless or until the Task Force supersedes them. This preserves analytical investment and prevents duplication.

10. How should the interaction/co-dependence of factors (e.g., C-1/C-3 covariance) be recognized?

Diversification credit must reflect empirically derived covariance matrices subject to supervisory floors ensuring aggregate capital still meets the benchmark safety level. Because interest-rate (C-3) and credit (C-1) risks interact, their respective reviews should be synchronized to avoid overlap or blind spots.

American Property Casualty
Insurance Association
INSURING AMERICA apci.org

July 24, 2025

VIA ELECTRONIC SUBMISSION

Dan Daveline
NAIC
ddaveline@naic.org

Bridgeway Analytics
RBC-MoGo@BridgewayAnalytics.com

RE: Request for comments on proposed preliminary Risk-Based Capital principles and questions

Dear Mr. Daveline:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the proposed preliminary Risk-Based Capital (RBC) principles and questions that have been developed by the NAIC RBC Model Governance Task Force (the Task Force). APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA supports the goal of developing a written record of the RBC principles to ensure the continuing effectiveness of RBC and appreciates the engagement with staff, as well with Bridgeway Analytics. Due to the short comment period, as well as our member companies working on their 2nd quarter statutory and GAAP accounting close, our comments and questions are preliminary and at a relatively high level. We understand that the intent of this request for comments is to receive initial comments from interested parties followed by a discussion in Minneapolis and an official comment period thereafter. With this understanding, we look forward to the opportunity to provide more detailed comments in the future as the project progresses. Going forward, as stakeholder feedback is sought on these principles, we suggest an accompanying guidance note which would provide an explanation and a rationale behind the principles. This would help stakeholders better understand and interpret the principles' explanatory statements.

In general, we think some of the proposed principles are reasonable, but found it difficult to provide comments on the package of proposed principles as we are unsure whether the intent of the project is to expand the purpose of RBC or merely document the current underlying principles underlying the RBC formula. Some of the proposed principles appear to indicate that RBC would become more of an assessment of capital as opposed to a solvency analysis tool used by regulators to identify weakly capitalized insurance companies based on capital benchmarks.

Proposed principle 1.a.i states "RBC charges should be set to reflect a level of safety that reduces the probability of insolvency" which implies a higher safety level than the current RBC action levels. As a result, it is unclear how some of the proposed principles would fit within the current RBC framework and whether, instead, the NAIC intends to change the framework. We are also concerned that there are some internal inconsistencies within the memo, such as the implication that product availability concerns could influence RBC factors even though the overall intent of the principles appears to be risk-based. Availability of products should not influence a true risk-based capital assessment tool.

We are also unsure as to the level of application of some of the principles including the proposed "objectivity principle" and the "equal capital for equal risk" principle. Is the intent of these sections to have consistency between the three RBC frameworks or the underlying factors, or both? The sections acknowledge that there may be differences in accounting, reserving, tax, etc. which create necessary differences in the RBC factors for the three RBC formulas. We also note that the "objectivity" section addresses diversification which is inherently difficult to measure for some risks and may result in the use of "expert judgement" as it is in the IAIS Insurance Capital Standard, or ICS. Expert judgement is already used in RBC via the operational risk factor. While we understand the need for the use of expert judgement, once used it is not possible to calculate a statistical safety level for each RBC formula. We believe it would be helpful if the principles directly acknowledged the differences in the business models and different risks of life, P&C, and health insurance and provide a discussion of how the models are structured to address these differences.

We have provided some responses (in italics) to the proposed principles and questions in the Appendix.

We welcome the opportunity to continue to work with Bridgeway Analytics and the Task Force in the development of the Model Governance Framework. Should you have any questions, please contact us. Thank you for your consideration.

Sincerely,

Jay Muska

John (Jay) Muska, CFA, CPA
Vice President of Accounting and Financial Issues
American Property and Casualty Insurance Association

cc: D. Keith Bell
Chair, APCIA Financial Management and Risk Committee

Appendix

Proposed preliminary RBC principles, applied by company type:

1. **Use of RBC calculations.** RBC calculations are used as a regulatory tool only to identify potentially weakly capitalized companies unless otherwise required by law, regulation, or supervisory standards. RBC calculations provide regulators with legal permission and/or requirements to intervene at various RBC levels.

    a. **Insolvency.**

        i. Possibility of insolvency. RBC charges should be set to reflect a level of safety that reduces the probability of insolvency, without eliminating the possibility of insolvency.

Response: *We are not sure of the intent of the last sentence as well as the change in wording from the current RBC preamble which states "The purpose of risk-based capital is to determine the minimum capital (RBC levels) an insurer needs to operate its business and insurers should seek to maintain capital above the RBC levels." Is the objective of this project to require insurers to hold capital above the current intervention levels in line with the IAIS ICS? We note that for P&C, the current RBC outcomes were determined to be comparable, so an uplift is not needed.*

        ii. **RBC calculations should secondarily acknowledge their impact on product availability that meets consumer needs.** RBC charges should be sufficiently granular to recognize material differences in risk, particularly when they may materially affect insurer decisions that impact meeting consumer needs.

Response: *We don't believe the availability of insurance should be a component of the principles as the primary objective of RBC is, and should remain, to provide an effective solvency tool using an early regulatory intervention mechanism for potentially weakly capitalized insurers. The RBC formulas should be risk-based. As drafted, the above wording could suggest that NAIC should consider the impact of the availability of homeowners insurance when setting the RBC charges. P&C RBC, outside of catastrophe risk, is more deterministic based than life RBC and therefore past historical information is used to determine the factors (e.g., premium and reserve risk). Availability should not be considered when setting the factors since it would violate the principle of being risk-based.*

We also are unsure what is meant by sufficiently granular. The phrase is subjective and may open the door to unnecessary technical refinements of the formula over time. This would create an illusion of precise measurement and may create an opening for those with vested interests aside from solvency to suggest further changes to the RBC charges in the future in order to make them "sufficiently granular."

If the intent is to have greater granularity in the thresholds of potential insolvency, i.e., beyond the CAL, RAL, ACL, and MCL levels that exist today, that is perhaps less problematic, than suggesting greater granularity in the charges themselves is required. However, this approach would still deviate from the original purpose of RBC and would be troubling to P&C insurers.

        iii. Actions unrelated to solvency. RBC charges should not serve to promote or inhibit actions by insurers that are unrelated to solvency risk.

Response: *This principle is reasonable and is consistent with our comments immediately above; however, we note that capital charges can influence an insurer's strategic choices.*

iv. **Identified risk.** Where identifiable, RBC charges should reflect measurable differences in risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.

Response: *Although this principle appears reasonable, we note that RBC is not a precise tool and its impact would depend on how it is applied. We suggest the following edit:*

> *Where identifiable, RBC charges should reflect measurable risks that can impact solvency. The risks captured or not captured within RBC calculations should be identified. Adjustments should offset material risks that are captured in multiple calculations.*

b. **Insurance groups and global competitiveness.** While RBC calculations are designed to identify potentially weakly capitalized companies, they should be acknowledged as a component of assessing capital adequacy for insurance groups, including those active internationally.

Response: *This principle appears reasonable and should be acknowledged as such in the NAIC's overall documentation of the U.S. insurance solvency framework.*

2. **Objectivity.** RBC charges should be objective and measured at a consistent statistical safety level. RBC charges should reflect the risk exposure they are intended to measure, capturing differences in their risk distributions, with appropriate considerations for concentration, diversification, and tail risks. They should recognize differences in accounting, reserving requirements, and other offsets (e.g., taxes or discounting) and consider overall business practices and their treatment within the framework (e.g., hedging strategies).

Response: *We agree that RBC charges should be objective to the extent possible; however, it should be acknowledged that there are areas where expert judgement is needed and applied (e.g., operational risk) when reliable quantitative risk measurement is not available. This is the case in the Solvency II standard formula as well as the IAIS ICS.*

We are unsure as to what is meant by measuring at a consistent statistical safety level and whether this is intended to be for each individual factor or a modelled result at the overall industry level. We note that it is not possible to determine the overall statistical safety level for the insurance capital standards due to subjective factors being used as well as the difficulties in combining the individual risks. Currently, different components of the RBC formula within each of the P&C, Life, and Health formulas use rationally developed factors to appropriately measure individual risks, properly recognizing the inherent operating differences between the three different industries.

We are also unsure if the second half of the paragraph is intended to rationalize differences in RBC formulas for life, P&C, and health, or refers to something else. It may be helpful to explicitly state that the three RBC formulas should be different due to the differences in the underlying risks of life, P&C, and health insurers.

3. Consistency with Statutory Accounting. RBC charges should be derived from values reported in the statutory annual statement.

Response: *We agree with this principle; however its application should be sufficiently broad to capture any reporting for RBC items that are not included in the statutory annual statement (e.g., the historical experience used to determine the CAT Risk charge).*

4. **Emerging risks. Evaluation of emerging risks should consider:**

    a. **The level and growth in exposure to the emerging risk;**
    b. **How quickly the risk can become materially incorporated into insurers' business;**
    c. **Industry exposure to the risk, as well as industry segment exposure; and**
    d. **Identification and measurement limitations of emerging risks.**

Response**:** *This principle generally appears reasonable; however, capital should not be the automatic default to address all emerging risks. Sometimes risks are better addressed through other supervisory tools.*

5. **Changes to RBC calculations.**
    a. **Transparency and process.** NAIC RBC stakeholders should collaborate to identify emerging risks that potentially require changes to RBC calculations. Changes to RBC calculations shall adhere to the *NAIC Open Meeting Policy* and should be conducted transparently, allowing stakeholders reasonable time to offer feedback. Complex proposals may require a more iterative process.
    b. **Equal capital for equal risk.** RBC charges should balance the appropriateness of the existing charge with the added complexity and materiality of the possible change. Refinements to RBC calculations should aspire not to result in deviations from the principle of Equal Capital for Equal Risk.

Response:

a. *We agree with the transparency and process paragraph.*
b. *We are a little confused by the first sentence since it appears to be at odds with the principle. While we appreciate the nuance (first sentence) in the equal capital for equal risk paragraph, we don't necessarily agree with the concept of equal capital for equal risk if it is applied at the individual asset or liability level. There have been changes in the past few years to investment RBC that have not changed total RBC for P&C companies other than through the cost of adoption (e.g., the revised bond factors and the new principles-based bond definition). It is also unclear how the phrase would be applied. The same asset held by different types of insurers can present different risks, due to the differences in liquidity risk of the insurer's liabilities and construction of the overall portfolio. There are also cases where the accounting differences (fair value versus amortized cost) would justify differences in the RBC risk charge, i.e., the required capital.*

Additionally, life and P&C insurers fail for different reasons, and this is currently reflected in the RBC formulas. Each formula should continue to focus on the drivers of failure. This requires differences in RBC between life, P&C, and health to appropriately capture the risk.

As a result of the above points, depending on the situation and respective industry (i.e., life, P&C, or health), it may not make sense for individual assets or similar liabilities to receive the same risk charge across all three RBC formulas. We do appreciate that the language indicates the principle is aspirational, but it may also be helpful to include some high-level examples where the principle may not be appropriate for a particular RBC formula.

6. **Governance.** Components of RBC calculations should adhere to Model Governance Standards that provide processes for model development, documentation standards, validation, ongoing

monitoring, and change management. The calculations should be understandable and auditable by regulators. This ensures that future adjustments align with guiding principles and supporting guidelines.

Response: *We believe that this objective needs to be clarified as our members had different interpretations. Is it intended to state that the NAIC should be subject to the Model Governance Standards in its deliberation of any changes to the RBC models or is it the insurer's calculation of RBC and the components of that work that need to satisfy Model Governance Standards? While we agree that there should be governance standards over RBC, the Model Governance Standards was designed to be more broadly applied to various types of models used by insurers. We would also have concerns around the application of Model Governance Standards to components that are subjective/judgment based.*

Questions that the principles and broader framework should be used for guidance:

Memo questions that the principles should be used for guidance:

1.When should a particular risk be addressed in the RBC model?

Response: *A risk should be addressed in RBC when it becomes material to the industry (P&C, Life, or Health). Generally speaking, the risk should be quantifiable over time with the necessary data captured to develop an appropriate factor for the risk.*

2.What level and type of data and analysis are needed to support the setting of capital factors?

Response: *Credible and relevant data for a sufficient period of time would be needed that allows for a proper statistical analysis to support the related risk factors.*

3.How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?

Response: *The ORSA identifies and addresses new and emerging risks and appears to work well in informing regulators of these risks. Prior to addressing a new material risk through capital, it should first be determined if the risk can be addressed through other supervisory tools. If additional capital is warranted and new risk can be modelled or where factors can be developed, they should be evaluated by the relevant RBC working Group and considered for inclusion in the RBC formula based upon credible quantitative data and an evaluation of the qualitative factors related to the risk. If the risk is modelled prospectively, the process that was used for incorporation of catastrophe risk in the P&C RBC factors is an example of a thoughtful, reasonable process.*

4.What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?

Response: *The level should be determined by the default history of each industry, if available. The current target for P&C appears to be sufficient based on the Federal Reserve Comparing Capital Requirements in Different Regulatory Frameworks white paper[1]. We also note that the current target for P&C produces comparable outcomes that are generally in line with the IAIS*

[1] See Comparing Capital Requirements in Different Regulatory Frameworks, September 2019,https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20190906a1.pdf

ICS for non-life insurers. The level of statistical safety should also be based on a level of reasonableness to avoid false positive results and creating a false sense of precision.

5.When should the calibration of risks to capital factors be re-evaluated?

Response: *It depends on the factor and how often the underling risk changes. For risks that are potentially more volatile, the risks should be re-evaluated more frequently than those that are more constant in nature. We note that the premium and reserve factors are updated annually while investment factors are not as frequent. We believe both are appropriate. At this moment, we don't see the need to change the current processes as we are unaware of any risks in the P&C formula that should be re-evaluated more frequently.*

Additional questions for consideration:

6.How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?

Response: *We believe this risk will require observation and analysis over time to determine the extent of the correlation, if any, of model risk to solvency risk. We expect to have further comments on this point in the future.*

7.To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?

Response: *We are fully supportive of the current alignment between RBC and SAP for P&C as SAP is designed to provide relevant financial information for insurance regulators and other users of the statutory financial statements. For P&C RBC for example, the benefit of attempting to structure assets for a better RBC outcome is not commensurate with the risk and is appropriately limited by covariance.*

8.How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?

Response: *We believe that this consideration is important and is already contemplated in SAP as it has contributed to an understanding of the overall level of prudence embedded in the balance sheet and risk capital. We also note that the current approach of having RBC on a pre-tax basis is logical and conservative. Attempting to change RBC to post-tax would be a challenging project as evidenced by the work on the IAIS ICS.*

9.How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?

Response: *Given the short period available to consider this exposure, we have no response to the question at this time*.

10.How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?

Response: *Based on the 30+ year history of RBC, the current covariance formula appears to be effectively capturing the overall risk for P&C well and is in line with the risks that may cause P&C insurers to fail. During that time, the implementation of RBC has resulted in a steady decline in the number of P&C insolvencies, has achieved the goals of the current RBC framework, and should serve as the foundation for any proposed principles.*

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July 24, 2025

VIA ELECTRONIC SUBMISSION

Director Judith French
Commissioner Nathan Houdek
Co-Chairs, Risk-Based Capital Model Governance (EX) Task Force
VIA Email: Dan Daveline; ddaveline@naic.org
Bridgeway Analytics; RBC-MoGo@BridgewayAnalytics.com

RE: Request for Comments on Proposed Preliminary Risk-Based Capital Principles and Questions

Dear Director French and Commissioner Houdek,

Thank you for the opportunity to comment to the Risk-Based Capital (RBC) Model Governance (E) Task Force on the Proposed Preliminary Principles (Principles) which will be foundational to the larger RBC project. The National Association of Mutual Insurance Companies (NAMIC)[1] appreciative of the engagement with industry thus far. The Principles will serve as a foundation for RBC formula changes and enhancements in years to come. Due to the short comment period as well as our member companies working on quarter close statutory filings, our comments are preliminary and relatively high level. We look forward to providing more detailed comments as the project progresses.

NAMIC agrees wholeheartedly that the purpose of the RBC formula is to help regulators identify potentially weakly capitalized companies and that the formula has its roots in statutory accounting. We appreciate the Principles acknowledging these critical features of the overall design and purpose of solvency oversight. This aligns with the current US solvency regime that relies on Statutory Accounting Principles (SAP) and RBC formula ratios as part of the larger toolbox to assess financial strength and solvency of insurers. SAP provides conservative, policyholder-focused baseline for all aspects of solvency oversight. The RBC formula has served industry and regulators well,

[1] The National Association of Mutual Insurance Companies consists of nearly 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

functioning as an early warning mechanism for insolvency for many years; therefore, we think it is critical that regulators can continue to rely on RBC as an early-warning signal of potentially troubled insurers and not have RBC evolve into a tool to rank or capture overall capital adequacy.

NAMIC also fully supports the transparent and collaborative process for updating the RBC formula. This key tenant to the promulgation of solvency regulation has worked for the industry and public for years. It is this intentional, collaborative approach that has historically set NAIC apart from other organizations, creating the high level of credibility necessary to carry out the NAIC's mission. That credibility is recognized by state, federal, and international policy makers in many ways, including specific statutory references and requirements for NAIC subject matter expertise and state regulator involvement. Preservation of the state-based approach to solvency regulation is possible thanks to the NAIC and its commitment to transparency and collaboration. Principle 6 "Governance" references the Model Governance Standards. Does this refer to the standards being developed by the Generator of Economic Scenarios (GOES) Subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force? These standards, to our knowledge, have not been placed in the P/C context.

The current operating framework to refine the RBC formula across lines allows for line specific issues to be addressed by industry and regulators; however, we caution making any foundational changes to this time-tested framework without careful consideration and well-informed consultation. Today, fundamental differences are appropriately reflected in the respective RBC formulas, such as the P/C focus on short-duration liabilities which reflect the product offerings, reserve risk and premium risk as those are the main capital drivers in this line of business. While the Capital Adequacy Task Force oversees the work of the three RBC formula working groups, changes typically are bottom-up as opposed to top-down. This structure is a strength of the current framework as it inherently builds in the appropriate lenses through which solvency should be viewed for each line and allows for ongoing reviews by each working group to address emerging risks and overall effectiveness of each formula. We believe it would be helpful if the Principles, such as Principle 2 "Objectivity", reflect this current approach and acknowledge the key differences between different business models, different risks and provide a discussion of how the models are structured to address these differences.

Sound RBC policy should strike a risk-sensitive balance that enables insurers to remain strong while also being able to serve diverse and evolving consumer needs; nevertheless, we would caution the impulse to potentially use RBC as a secondary tool to impact product availability. RBC should continue to be risk-based. The availability of products should not be a factor in determining how future or existing RBC charges are determined as suggested in Principle 1(a)(ii). In the context of the P/C market, it could propose that the availability of homeowners insurance be considered in RBC charges, which would not be risk-based.

In reviewing the Principles and the currently adopted RBC Preamble[2] together, we are uncertain of the intent of the Principles and their role in the current overall solvency regime.

1. The RBC Preamble states that the purpose of RBC is to identify potentially weakly capitalized companies. This facilitates regulatory actions that, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies. Comparison of an insurer's total adjusted capital to any RBC level is a regulatory tool that may indicate the need for possible corrective action with respect to the insurer and is not intended as a means to rank insurers generally.[3]

> The Preamble lays out a clear vision and use of the RBC formula. It is not meant to be a comprehensive economic capital standard and should remain anchored in the statutory and legal framework that currently underpins the state-based insurance system. Further, as a regulatory tool, RBC was not designed to rank companies or indicate overall financial strength; rather its sole function is to help regulators identify insurers that may be undercapitalized and require closer supervision. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due, and that companies always maintain adequate capital and surplus in such forms as required by state statute.
>
> What is the vision for the RBC formula at the end of this process? Is it to remain a tool in the toolbox to identify potential insolvency and avoid the imposition of capital specific regulatory requirements? Or does the Task Force imagine it evolving into a larger analytical tool, to be used to evaluate comprehensive capital adequacy and other items such as product availability as referenced in Principle 1(a)(ii)?

2. The Preamble also states that over the years, various financial models have been developed to try to measure the "right" amount of capital that an insurance company should hold. No single formula or ratio can give a complete picture of a company's operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner...Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is impractical to use the RBC formula to compare the RBC ratio developed by one insurance

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[2] "Risk-Based Capital Preamble", National Association of Insurance Commissioners. https://content.naic.org/committees/e/capital-adequacy-tf

[3] *Id*.

company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a definitive assessment of their relative financial strength.[4]

> The Preamble makes it clear that thresholds levels of capitalization rather than target levels should be used in the RBC formula and regulatory supervision. These thresholds trigger specific regulatory actions when an insurer's capital falls below defined ratios. Are the threshold levels of capitalization what the term "consistent statistical safety level" refers to in the Principle 2 "Objectivity"?
>
> The Preamble also discourages the use of the RBC formula to compare across companies. "Quantitative Guidelines" description in the Principles states that they will "articulate quantitative benchmarks allowing quantitative comparability across RBC calculations". As written now, this idea appears to conflict with the Preamble, although that may not be the intent of the words on the page. The three formulas are different for necessary reasons; what is risky in the life context may be more or less risky in the P/C and health context. The RBC formula and the Principles should support flexible calibration that can reflect the materiality of each risk component in the respective formula well as the overall picture of a company's risk. With an eye towards protecting policyholders, the RBC formula ensures that insurers maintain a minimum amount of capital relative to the risks they take, so they can meet obligations to policyholders even under adverse conditions.

We appreciate the opportunity to comment and commit to working with the Task Force as well as with Bridgeway Analytics on these Principles and the larger project to deliver the best result for regulators and P/C insurance companies for years to come.

Sincerely,

Colleen Scheele

Colleen Scheele
Senior Vice Policy President and Counsel, Tax and Fiscal Policy
National Association of Mutual Insurance Companies

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[4] *Id*.

UNITEDHEALTH GROUP

Corporate Finance – Actuarial Services Division
185 Asylum Street, CityPlace I ● Hartford, CT 06103

July 24, 2025

Director Judith L. French, Co-Chair
Commissioner Nathan Houdek, Co-Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via electronic mail to Dan Daveline.

Re: July 3 Chair Exposure.

Dear Director French and Commissioner Houdek:

I am writing on behalf of UnitedHealth Group with regard to the July 3 chair exposure requesting comments on the proposed preliminary Risk-Based Capital (RBC) principles and responses to specific questions about those principles. We appreciate the opportunity to provide our comments.

We consider the principles stated in the exposure document to be generally appropriate. Of course, the actual effectiveness of those principles will depend on how they are implemented. Certain aspects of implementation will be touched on as part of the comments below.

Our responses to the questions on pages 2 through 3 of the exposure document are as follows. As a matter of convenience, the corresponding question is quoted at the head of each response.

1. When should a particular risk be addressed in the RBC model?

A risk should be addressed in the RBC model only if:

- The risk has the potential to materially impact insurer solvency. The purpose of RBC is to identify potentially weakly capitalized companies; it is not necessary to model every theoretical risk, only those that could lead to fully depleting a company's capital.

- The risk can be reasonably quantified. The RBC formula produces a numerical result, so it must be possible to assign a reasonable numerical value to a risk.

- The risk is not already being dealt with through another aspect of the regulatory structure and could not be more effectively dealt with in such a manner. For example, some assets are assigned zero value by Statutory Accounting Principles. It follows that even a total loss of the asset cannot impact statutory capital and surplus, so there is no need for the RBC formulas to address the risk associated with such assets.

2. What level and type of data and analysis are needed to support the setting of capital factors?

Capital factors should be based on actual historical data.

- Ideally, the data would relate to insurance companies specifically, as that will most accurately portray the risk that is relevant for the purposes of RBC. That may not be necessary if it can be reasonably demonstrated or assumed that the risks for insurers do not materially differ from the risks for another population: e.g., if insurers hold a particular asset type that is essentially identical to investments in that asset type by other investors, the experience of the broader group of investors (including the insurers) could be used.

- If insurer-specific data are not available, then data arising from similarly situated entities may be used. However, careful thought must be given to whether the risk to insurers differs from the risk to those other entities. If there is a difference in risk, the data can be used only if it is possible to make a reasonable adjustment in the analysis to reflect that difference.

- If a risk is relatively new, there may not be sufficient available data specific to that risk. If it can be logically argued that the risk is similar to another risk for which data are available, then those available data could be used in the analysis.

There are other necessary characteristics for the data as well.

- The data should cover a reasonably sized population over a reasonable period of time, such that it is likely that the results won't be distorted disproportionately by outliers.

- The data should be recent enough that they are likely to reflect the current state of the risk.

The analysis should be performed using a method that:

- Appropriately measures the potential loss.

- Makes any adjustments needed for differences between insurers' experience and the experience underlying the data (e.g., different accounting principles).

- Can be reviewed for reasonableness by parties other than those performing the analysis. That does not mean that all details of any model used have to be published; but the general methodology and the sources of the data should be widely understood.

The importation of factors from other solvency formulas is not acceptable unless the details of the analysis underlying those factors — safety level, time horizon, data sources, method of analysis — are known and are compatible with the RBC formula.

3. How should new and emerging risks and asset types be treated if a capital framework has not yet been developed for them?

As noted in the response to #2, it may be possible to address new and emerging risks if they can be analogized to existing risks.

It may also be possible to analyze a risk based on a theoretical model of the risk. However, the assumptions underlying such a model would have to be carefully scrutinized.

If there is neither an analogous risk nor a suitable analytical model, then it does not make sense to try to reflect the risk in the RBC formula. As noted in the response to #1, in order for a risk to be incorporated into the RBC formula, the potential loss must be reasonably quantifiable. Subjective guesses as to the appropriate factor will most likely result in an RBC requirement that is either unreasonably burdensome or dangerously inadequate. In such a case, the risk should be addressed by some other means (e.g., placing limitations on a risky activity until there is enough experience to gauge the degree of risk that it entails).

4. What level of statistical safety is to be targeted by the model or, if not, a single target, and how should such tailored safety targets be determined?

This is a difficult question from a practical perspective. The goal of the RBC formula should be to ensure that only a very small percentage of companies are likely to deplete their required capital levels before there is an opportunity for regulatory intervention. From that standpoint, a safety level of 98% or even 99% would not be unreasonable.

However, without having a correlation calculated between every pair of risks represented in the formula, it is difficult (if not impossible) to determine what the overall safety level genuinely is. It is possible that if the factor for each separate risk were determined at, for example, an 80% safety level, the current structure of the formulas would still produce an overall safety level of 98%.

Possibly, the only practical way to address this issue is an empirical methodology: an overall safety level of (for example) 98% should be selected by regulators, and the results of the RBC formulas should be reviewed on an ongoing basis to determine whether the desired safety level is actually being achieved.

5. When should the calibration of risks to capital factors be re-evaluated?

The frequency of re-evaluating the capital factors should be tied to how many years of data are used in the analysis. The selection of the number of years of data must balance, on the one hand, the need for sufficient data to achieve a reasonable level of credibility for the results and, on the other hand, the need for data to be recent enough to be representative of current conditions. The number of years may therefore vary depending on the risk being studied.

Given that a specific number of years of data will be used in the evaluation, the evaluation should typically be performed when one-third to one-half of that number of years has passed. Over a shorter period, probably too little of the data will have changed for there to be a meaningful change in the results. Over a longer period, there is a chance that the data used in the previous evaluation will no longer be relevant to current circumstances. The one-third threshold may be used when previous evaluations have indicated significant year-to-year variations in the data, suggesting that a material change in the factor may occur after that shorter period; the one-half threshold may be used when the historical data have been more stable.

There may be situations when more frequent evaluation would make sense. For example, the investment income adjustment to the Health RBC underwriting risk factors has been updated annually. This is appropriate because market interest rates can change significantly from year to year, and because the calculation of the adjustment is relatively simple to perform.

A different timing may also be appropriate if there has been a significant change in the financial environment, such as the financial crisis of 2007-2009, or the introduction of the Affordable Care Act. In such situations, it would be appropriate to perform a re-evaluation as soon as sufficient data are available to produce a credible result.

6. How should the RBC calculations define and structure governance over model risk, including model development, documentation standards, validation, ongoing monitoring, and change management?

The following principles should be followed.

a. There should be a clear statement of the goal of the RBC formulas. That could be a theoretical target safety level, or it could be a results-oriented goal such as a certain maximum percentage of companies being at an RBC Action Level in any given year. Either way, the goal should be publicly documented in a way that is readily accessed.

b. When new factors or structures are developed, the underlying assumptions and methodologies used in the development should be thoroughly and publicly documented at the time the changes are proposed, so that all interested parties can examine them. This may not be entirely possible, because in some cases a proprietary model might be used to calculate the factors; but even then, as much as possible should be revealed about the assumptions and the general features of the methodology. Such documentation should be maintained in a publicly available location for as long as the corresponding factors or structures are in use.

c. There should be routine evaluations, on an annual basis, of whether the RBC formulas are achieving the stated goal.

d. Individual factors in the formula should also be re-evaluated periodically; see the response to question #5 above.

7. To what extent should RBC calculations align with Statutory Accounting Principles (SAP)? If alignment is pursued, how should the framework account for, say, valuation differences between directly held assets and securitized exposures, and how might these differences influence investment behavior or regulatory arbitrage?

The purpose of RBC is to identify potentially weakly capitalized companies. Presumably, the appropriate measure of capitalization is capital and surplus according to SAP. If that is not the appropriate measure, then SAP should be revised to make it appropriate; it makes no sense to have one measure of capitalization for RBC and a separate one for financial reporting. RBC, then, should measure the potential depletion of capital and surplus as determined according to SAP.

That said, RBC measures the risk of loss under adverse conditions, not value under normal conditions. Therefore, the relationship of the RBC charge for a certain risk to the SAP valuation of the corresponding asset or liability may vary widely, depending on the type of risk.

If the alignment of RBC with SAP leads to undesirable investment behavior (or other undesirable behaviors), that implies that SAP should be modified to eliminate the source of that behavior.

8. How should reserves, valuation adjustments, or offsets (e.g., taxes or discounting) be considered?

As noted in the response to #7, RBC measures the risk of loss under adverse conditions. To the extent that conservatism in reserving already addresses some degree of adversity, that degree should not be double-counted in the RBC requirement. There may be, of course, practical difficulties in measuring the degree of conservatism in some types of reserves.

Similarly, if the valuation of assets has been adjusted to reflect some degree of conservatism, RBC should reflect that some potential for loss is already reflected in that valuation.

Where reserves are discounted, RBC should recognize the risk that the company's investment earnings may not be sufficient to support the discount rate.

9. How should existing principles (e.g., the American Academy of Actuaries' Principles for Structured Securities RBC), which regulators have endorsed, fit into the principles?

The proposed preliminary principles are high-level principles that apply across formulas and across risks. Risk-specific principles, such as those for structured securities, should be separately maintained, as they are more in the nature of technical considerations rather than overarching principles. Such technical considerations are more likely to be modified over time as marketplace dynamics and understandings of the risks involve change.

10. How should interaction/co-dependence of factors (e.g., C-1/C-3 and RBC Covariance) be recognized and treated?

The RBC formulas historically have included a simplified covariance adjustment to address the interaction among factors. The American Academy of Actuaries has recommended a more sophisticated version of the adjustment for the Life RBC formula. A similar approach should be used across all the RBC formulas, to better reflect the extent to which risks are coincident and therefore additive.

* * * * *

Thank you for the opportunity to provide these comments. We would be happy to discuss these comments with you and the Task Force.

Sincerely,

James R. Braue

James R. Braue
Vice President, Actuarial Services
UnitedHealth Group

cc: Dan Daveline, NAIC
Bridgeway Analytics
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July 24, 2025

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Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Comment Letter on Proposed Preliminary Risk-Based Capital Principles and Questions

Dear Director French, Commissioner Houdek, and Members of the RBC Model Governance (EX) Task Force:

On behalf of the Alternative Credit Council (ACC),[1] a global trade association of alternative investment managers working with insurers across multiple jurisdictions, we appreciate the opportunity to comment on the proposed preliminary Risk-Based Capital (RBC) principles and guiding questions outlined in the July 3, 2025 memorandum.

[1] The Alternative Credit Council is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, as well as the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

ALTERNATIVE CREDIT COUNCIL
LENDING FOR GROWTH

We support the Task Force's effort to enhance transparency, consistency, and governance of the RBC framework. As a trade association representing asset managers globally, we are well-versed in how solvency regimes influence insurers' investment behavior, particularly whether the capital framework corresponds to the actual level of economic risk. Hence, we urge the Task Force to explicitly recognize a critical structural difference between the US RBC framework and most other international supervisory regimes.

The US framework relies far more heavily on conservative statutory reserves, which provide a substantial first layer of policyholder protection. By contrast, regimes such as Solvency II or the Insurance Capital Standard (ICS) rely primarily on market-consistent valuation with lower reserve requirements, requiring larger explicit capital buffers to achieve equivalent policyholder protection.

Because of this structural difference, RBC should be calibrated in the context of total available capital, which we define as: reserves, risk-based capital, and available capital/surplus. Applying international-style RBC calibrations on top of U.S.-style high reserves risks double-counting prudence, creating unnecessary capital strain and reducing insurers' ability to offer competitively priced products.

In the attached annex, we provide specific comments on the six proposed principles and responses to the specific questions based on this guiding perspective, along with recommendations for ensuring risk-appropriate, globally competitive RBC standards. Overall, here is a summary of our recommendations:

- Recognizing and considering total available capital when assessing RBC adequacy.

- Avoid double-counting prudence; RBC should be incremental to statutory reserves and complementary to elements of the US statutory framework, not duplicative of their protection when addressing risk.

- Phase in emerging risks carefully to allow gradual adaptation with monitoring and data-driven analysis before imposing new RBC charges.

- Engage investment experts with a global perspective of asset risk to ensure charges reflect actual economic risk rather than accounting artifacts.

- Ensure global comparability by conducting impact analyses comparing US RBC plus reserves versus insurance regimes that rely more on capital requirements, versus reserves, for achieving their targeted level of prudence.

We commend the Task Force for advancing this important governance initiative.

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From our perspective as a global association, we recommend that RBC calculations must be contextualized within the US solvency framework's heavier reliance on reserves. Any recalibration should holistically assess total available capital, ensuring that RBC remains proportionate, risk-sensitive, and globally competitive.

If you have any questions or would like to discuss further, please do not hesitate to contact me at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council

Annex:

Comments on the Six Preliminary Principles

1. Use of RBC Calculations
We support the principle that RBC remains the primary tool to help identify companies at risk of insolvency. RBC is viewed by markets, ratings agencies, and other stakeholders as a continuous gauge, not just a trip wire. We recommend that the principles explicitly acknowledge the US statutory framework's emphasis on very substantial reserves, which already provide material loss-absorbing capacity. For example, a typical US life insurer holds statutory reserves often exceeding best-estimate liabilities by a significant margin, while a Solvency II life insurer holds lower technical provisions but higher explicit Solvency Capital Requirements (SCR).

Similarly, under ICS, insurers hold economic liabilities at market-consistent levels, with most prudence reflected in the capital buffer rather than in reserves. Thus, RBC capital charges in the US should be incremental to existing statutory reserves, not duplicative of the prudence already embedded in the balance sheet.

2. Objectivity
We support objective, risk-based RBC charges that are consistent with the principle of equal capital for equal risk. From an international supervisory perspective, we urge the Task Force to avoid calibrations that mirror Solvency II or ICS risk factors without recognizing the already higher level of reserve prudence in the US. For example, a AAA-rated bond under US SAP is already carried at amortized cost with valuation

reserves and AVR/C-1 charges, while under Solvency II it is marked to market and directly reflected in capital. These foundational differences should be taken into account to retain the global competitiveness of US markets.

Additionally, we recommend that all proposals to modify RBC capital charges be accompanied by published data and the underlying methodology used to justify the changes. This level of transparency will enable a data-driven process and informed debate about the proposed methodology. To reiterate, these proposals should explicitly take into account the resulting total available capital impact to avoid double-counting.

The assessments should not be limited to total available capital impacts alone, though. There are several other elements of the US statutory framework that are intended to protect against risk. Changes to the RBC framework should consider whether:

1. The RBC framework is the best tool to address a potential risk.
2. If the risk regulators want to address is already captured in other elements of regulatory tools and resources related to supervision.

It is imperative that different elements of the US statutory framework are ultimately complementary to each other, rather than create redundancies, when addressing risk.

3. Consistency with Statutory Accounting Principles (SAP)

Aligning RBC with SAP is appropriate; however, RBC should explicitly acknowledge that SAP often takes a legal form rather than an economic substance perspective, which can significantly impact capital requirements. For instance, SAP rules are different for funds compared to partnerships or joint ventures, even though the underlying assets and substantive economic risks might be very similar. The NAIC is currently examining how to harmonize capital requirements for bond mutual funds and bond ETFs, but the accounting rules may remain different in some cases. Whether an investment product receives look-through capital treatment can have a very significant impact on that investment's attractiveness to an insurer, but it is also important that various fund types with the same or very similar underlying assets and the same economic risk receive similar accounting treatment as well.

As a result, we believe that accounting, valuation, and capital requirements must be assessed holistically when making any changes to elements of the US statutory framework. We recommend that any review of US RBC take into account the existing SAP framework, particularly with a view towards ensuring the goal of equal capital for the same amount of economic risk without regard to legal form. For many modern financial instruments – particularly structured products, private credit, and alternative investments – the SAP asset categorization or valuation methodology can have an equal or greater impact on insurer balance sheets than the capital charge itself.

A product classified under one SAP category may face conservative valuation haircuts or different admissibility limits, effectively altering the investment economics before RBC charges are even applied. This means that for new and evolving products, it is often the intersection of statutory accounting treatment, valuation rules, and RBC factors – rather than RBC alone – that need to be considered when determining an appropriate level of prudence for such assets. Therefore, when updating RBC principles, it is essential to coordinate RBC refinements with SAP categorization and valuation guidance to ensure a coherent, non-duplicative prudential framework that supports appropriate risk recognition without discouraging sound investment innovation.

4. Emerging Risks
We agree that emerging risks must be evaluated on a timely basis, but the analysis should be systematic and data-driven. Any supervisory adjustments should include essential steps such as data collection, thoughtful analysis, and involve stakeholder feedback to ensure supervisors fully understand the risks and benefits of any new insurance-related investment trends. However, any policy changes should be proportionate to the actual levels of economic risk and avoid stifling beneficial innovation.

5. Changes to RBC Calculations
As mentioned above, transparency and multi-stakeholder engagement are critical. From our vantage point, RBC changes have broad capital market implications by influencing insurers' demand for certain asset classes.

Crucially, before updating or introducing new RBC charges, we recommend that the Task Force explicitly analyze:

- How much protection reserves already provide.
- If the risks are already captured or would be better addressed by other regulatory supervisory tools and resources.
- Whether the RBC change would create redundancies compared to other regulatory tools – including reserves – when addressing risk.

6. Governance
We strongly support enhanced Governance Standards and recommend including a requirement that any RBC recalibration include a total available capital impact assessment. However, we are unsure if the utilization of the Model Governance Standards are appropriate, considering that those are developed for actuarial modeling assessments and not the RBC framework. Further clarity on regulatory intent for this principle would be helpful. In addition, we note the current existence of ongoing, parallel efforts within various parts of the NAIC, such as CLO modeling and the overall review of all structured securities, which should take these principles into account going forward.

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Responses to Guiding Questions

Question: When should a particular risk be addressed in RBC?
Response: Only when it represents a material risk that is not captured elsewhere (e.g., statutory reserves or other elements of the financial regulatory framework), given that US insurers already hold higher baseline prudence than most foreign peers.

Question: What data is needed for capital factors?
Response: Historical default/loss data, economic stress scenarios, and comparative studies across jurisdictions to ensure RBC factors remain proportionate to US reserve conservatism.

Question: How should emerging risks be treated without a capital framework?
Response: Start with qualitative oversight or transitional proxy factors, while assessing how existing reserves already absorb some of the risk. Also consider if there are other tools within the statutory framework that can and should be used to address the risks before pursuing updates to RBC.

Question: What statistical safety level should RBC target?
Response: RBC should target a safety level incremental to US reserves, rather than the same as Solvency II SCR (99.5% confidence over one year), because the latter focuses on short-term market risk, which is not as relevant for insurance investors as credit risk. In addition, US reserves already embed prudence equivalent to part of the capital buffer; therefore, capital requirements in the US context should factor in this additional safety in the calibration of RBC safety levels. However, achieving a single safety level across all liabilities and assets may be challenging, as each has a distinct overall risk profile, including tail considerations for the underlying asset when appropriate.

Question: When should risk calibration be re-evaluated?
Response: When structural changes in markets or key attributes materially alter risk, or when redundancies in how risks are captured are identified. Recalibration may be necessary when new, more detailed data is available as well.

Question: How should governance over model risk be structured?
Response: Use independent validation, transparent documentation, and consider the impact of SAP and valuation methodology to avoid over-calibration. The RBC framework should aim to reinforce sound risk management and ensure alignment with prevailing supervisory guidance and NAIC's overarching financial regulatory and policy goals.

Question: Should RBC align with SAP?
Response: RBC should anchor to SAP but retain flexibility to adjust for economic substance, recognizing SAP's use of legal structure for determining the treatment of a variety of investments, particularly structured securities. As mentioned above, it

is often the intersection of statutory accounting treatment, valuation rules, and RBC factors – rather than RBC alone – that need to be considered when determining an appropriate level of prudence for such assets. Therefore, when updating RBC principles, it is essential to coordinate RBC refinements with SAP categorization and valuation guidance to ensure a coherent, non-duplicative prudential framework that supports appropriate risk recognition without discouraging sound investment innovation.

Question: How should reserves, valuation adjustments, or offsets be considered?
Response: Various elements of the statutory framework need to be considered holistically and in totality to ensure the overall level of prudence is appropriate and supports achievement of the NAIC's overarching financial regulatory and policy goals. For example, as noted above, it is critical that reserves and capital are considered together when assessing RBC adequacy. Further, other elements of the framework and tools supervisors can employ to assess and monitor risk must also be accounted for to avoid duplicative impacts.

Question: How should existing RBC principles (e.g., AAA Structured Securities Principles) fit in?
Response: They should be consistent within the broader governance framework, with careful mapping to avoid divergence or inconsistent outcomes.

Question: How should interaction/co-dependence (e.g., C-1/C-3 covariance) be treated?
Response: Thorough analysis and evaluation of potential unintended consequences must be assessed, including whether other financial regulatory framework changes are needed to achieve appropriate levels of prudence overall and outcomes. There are significant interconnections and co-dependencies across the RBC framework and other financial regulatory tools and resources. For example, the Life RBC Working Group's covariance proposal is highly interconnected with the C-1 and C-3 factors. Further, it is duplicative of risk considerations within the equity RBC charges themselves. These elements may also compound the impact of the new Generator of Economic Scenarios, which helps life insurers determine capital and reserving across all product lines.

PETER GOULD

July 24, 2025

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

Sent via email to:
Dan Daveline (ddaveline@naic.org)
Bridgeway Analytics (RBCMoGo@BridgewayAnalytics.com)

Re: Request for comments on proposed preliminary Risk-Based Capital principles and questions
https://content.naic.org/sites/default/files/inline-files/July%203%20RBC%20Model%20Gov%20Chair%20Exposure_0.pdf

Dear Members of the RBCMGTF:

I am a retiree and am writing to comment as a consumer and annuity contract owner with skin in the game. I depend on annuities for a considerable portion of my retirement income. I purchased annuities as a source of retirement income I would not outlive - not as speculative investments. I appreciate the opportunity to comment on the RBC project.

As described in the Memorandum (Memo) for this project, "the purpose of RBC is to identify potentially weakly capitalized companies". There may have been a time when RBC (under current rules) served that purpose. However, because of its static design, it's been ineffective for years, if not decades. Regulators and the consumers who depend on them have been out-gunned by the insurance industry in many ways: out-lawyered, out-actuary-ed, out-financial-engineered and out-spent. It is my hope that the result of this project will not be another static measure that quickly becomes ineffective, but rather a dynamic measure with a framework and process to keep it relevant and effective as a useful tool for all stakeholders now and for the future.

In high-level deliberations like these, it's easy to lose sight of policy owners. These are folks like me (retiree), your parents, grandparents, your car mechanic, etc. - consumers who purposely make a long-term commitment with their hard-earned money so that their risk can be managed. In my case, I can liquidate my annuities and reinvest the proceeds elsewhere. Some policy owners, due to changes in their insurability or financial condition, do not have that flexibility. In the most extreme cases (Pension Risk Transfers), plan participants are forced to be policy owners with no option to change or move elsewhere.

In all the above cases, the Importance of pre-purchase insurer evaluation and due diligence cannot be overstated. After the insurance purchase, policy owners are entirely dependent on effective regulation and vigorous enforcement to ensure that their insurer will remain viable and able to honor contractual promises. Per the Memo, "the purpose of RBC is to identify potentially weakly capitalized companies" - a key metric when evaluating an insurer before making a purchase and in ongoing monitoring and policy management.

P.O. Box 8815 Bloomington, IN 47407-8815

In the Memo, there are references to transparency and I think that this should be an overarching priority so that the RBC calculations as reported, the methodology for calculating RBC (including proposed changes to the methodology) and the data underpinning the calculations are easily available to all stakeholders. I would hope that NAIC leadership rejects the proposal (current working its way through the Capital Adequacy (E) Task Force) to deny stakeholders access to RBC data.

The NAIC website features a searchable Consumer Information Search Financial Overview Report system and it would be very easy to enhance this system with information for each insurer to facilitate the proposed transparency improvements (each with explanations that are easily understandable by consumers and other stakeholders) - specifically:

1. Computed RBC for the most recent reporting year and the preceding 5 years

2. Listing of identified and potential counterparty risks that could adversely affect the insurer and policy owners

3. Listing of regulatory exceptions granted to the insurer, including effective date, reason for granting the exception, effect of the exception on the insurer's viability and claims-paying ability, sunset date (if any) for the special exception and any subsequent analysis on the merits of continuing or terminating the exception. If the 92,000 PHL Variable Life policy owners had access to this information, they might not be holding an empty bag now.

4. Links to access the insurer's complete annual statutory statements for the most recent reporting year and the preceding 5 years. The only way for policy owners and other stakeholders to thoroughly assess an insurer's condition is to work through the annual statement. While some insurers are transparent and make the annual statement easily available on their websites, most do not. These statements should be easily accessible to all stakeholders.

The Memo asked commenters to identify and offer suggestions to plug gaps in RBC computations. Despite not being an insurance professional and having little experience in this area, even I can identify some huge gaps that need to be plugged, including:

1. Counterparty risk - reinsurance, captive reinsurance, offshoring, ceding up to the parent or ceding down to a subsidiary, etc. All of these "techniques" employ the sanctioned alchemy of the Model Credit for Reinsurance rules. Regardless of the viability of the transaction, the liabilities magically disappear from the insurer's balance sheet.

   I have been participating in the LATF's Reinsurance Asset Adequacy Testing project. It was telling to hear one attendee at the Spring 2025 meeting LATF session say, "Everybody in this room knows that all reinsurers are not equal."

   I can tell you that 99.99% of consumers and probably 99% of insurance professionals have no clue about counterparty risk. How can consumers make an educated insurance decision or professionals make an appropriate recommendation if there's no transparency to counterparty risk? Even if regulators' hands are tied by 2017 Covered Agreement rules, there's no reason to limit transparency. In the case of RBC, counterparty risk should either be incorporated into the calculus or clearly disclosed separately.

2. Misclassification of Assets to avoid RBC charges - I'm not a regulatory auditor, but I have been shown statutory annual statements where assets are obviously being misclassified to game RBC calculations.

3. Financial engineering of junk grade assets to avoid RBC charges - This practice was recently eloquently described in an article in Financial Times (see https://www.ft.com/content/ee40241a-c568-4673-88df-001c0244fb37). Again, with the use of alchemy and the admonition "Don't look at the man behind the curtain", junk assets magically become investment grade securities.

I am deeply concerned with another aspect of this project - Education and Messaging. Per the Memo, one of the objectives of the project is to " Develop an education and public messaging campaign to highlight the RBC framework's benefits and strengths as an important part of the U.S. state-based insurance regulatory system." This seems self-serving and one-sided. If you're going to extol the virtues of RBC, then it's incumbent on you to disclose the shortfalls and limitations of RBC - warts & all, so that stakeholders aren't lulled into a halcyon sense of false security.

In my observations, insurers engage in questionable practices that put policy owners at risk and then wait to see if regulators discover the bad behavior. You need look no further than the 3 or 4 iterations of AG49. It's a high-stakes game of whack-a-mole. By the time regulators identify the behavior and consider regulating it, it's already a widespread industry practice - it's not easy to cram the genie back into the bottle. This effect is compounded by relying on annual statement reporting, when the information could be tracked in real time (or close to real time). In the cases of PHL Variable Life or A-Cap, the RBC's went from positive to VERY negative in a year or less. With real-time reporting, at least regulators might have had a chance to forestall the implosions. Short of real-time reporting, a process could be established for insurers to quickly report events or developments that negatively affect RBC - thus shortening the timeline for remedial action.

Finally, NAIC has warehoused the annual financial information for thousands of insurers for many years. As I proposed with the AAT project, this data could be used to back-test the efficacy of the "new RBC". If you build one or more datasets, when an RBC proposal is exposed, it could be accompanied by back-testing results so that the proposal's efficacy could be evaluated **before you vote on it**. Why fly blind?

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould

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July 15, 2025

Sent via e-mail to: Dan Daveline, NAIC (ddaveline@naic.org) and Bridgeway Analytics (RBC-MoGo@BridgewayAnalytics.com)

Director Judith French (OH) and Commissioner Nathan Houdek (WI)

Co-Chairs, Risk-Based Capital Model Governance (EX) Task Force

Life Actuarial (A) Task Force

Re: Request for Comments on Proposed Preliminary Risk-Based Capital Principles and Questions

Dear Members of the Task Force:

I am the Chief Executive Officer of Valmark Financial Group ("Valmark"), a sixty-two-year-old organization that distributes life insurance, annuities, and other financial products through a network of independent financial professionals. Those professionals currently maintain more than $80 billion of life-insurance death benefit and approximately $4.5 billion of annuity cash value on behalf of American families. For virtually my entire 38-year career, the life-insurance industry has been able to say—truthfully—that no policyholder has ever failed to receive their full contractual death benefit. Recent events place that record in jeopardy and underscore the need for meaningful reform of the Risk-Based Capital (RBC) framework.

I therefore applaud the NAIC for initiating a comprehensive review of the RBC regime. Although the original RBC construct, developed in the 1990s in response to asset-concentration failures, was innovative and effective at the time, the entrance of private-equity (PE) sponsors into the insurance marketplace, combined with sophisticated reinsurance structures, has created new and material solvency risks that the current formula does not adequately capture.

These solvency risks have been exacerbated by, among other things:

> Disagreement regarding the appropriate level of reserves for complex, long-tailed products such as universal life with secondary guarantees, long-term-care insurance, and variable annuities with guaranteed benefits;
>
> A prolonged period of historically-low interest rates that materially increases required reserves under any valuation basis; and
>
> Forthcoming changes to U.S. GAAP that will further increase reserve requirements and accentuate the incentive for capital-relief transactions.

Sophisticated investors -- especially private-equity sponsors -- have exploited these dynamics through the use of large-scale domestic and offshore reinsurance and other forms of financial engineering. Far from dispersing risk, some of these transactions concentrate it in thinly-capitalized entities that are opaque to U.S. stakeholders. Current RBC rules afford full credit for reinsurance recoverables irrespective of the reinsurer's financial strength, thereby permitting capital arbitrage and the upstreaming of hard capital even as risk increases.

Recent failures make the danger tangible. The rehabilitation of Phoenix Home Life Variable Life (PHLV) and the collapse of Bermuda-based 777 Re -- a reinsurer critical to Sentinel Security Life Insurance Company and Atlantic Coast Life Insurance Company (Atlantic Coast) -- demonstrate how quickly reported RBC ratios can deteriorate when a counterparty fails. In Atlantic Coast's case, their RBC ratio went from positive 600 to negative 2,000 in a matter of days, and in PHLV's case, the company shifted from a positive surplus in 2022 to a $2.165 billion capital deficit in 2024, jeopardizing policyholder protections.[1]

Recent Federal Reserve research further underscores these concerns. Carlino, Foley-Fisher, Heinrich, and Verani (2025) document that the share of life insurers' general-account assets invested in below-investment-grade corporate debt has roughly doubled since the 2007-09 financial crisis, largely through investments in CLOs, BDCs, and similar vehicles that can obscure the true leverage borne by policyholders.[2] These findings reinforce the urgency of updating the RBC framework to capture asset-side as well as liability-side risks.

Courts in South Carolina and Utah have recently concluded that existing statutes prevented regulators from intervening sooner because reinsurance credits were treated, by definition, as risk-free assets. Moreover, life insurers can reduce required capital charges on these exposures by repackaging middle-market loans into insurer-affiliated CLOs—cuts that Federal Reserve analysts estimate may be as large as a tenfold reduction for the same underlying credit risk.[3]

The lesson is clear: without reform, the contagion risk identified more than a decade ago by Superintendent Benjamin Lawsky[4] has only multiplied -- off-balance-sheet liabilities ceded to lightly supervised affiliates now exceed $1 trillion[5].

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[1] Data drawn from statutory filings and rehabilitation orders for Phoenix Home Life Variable Life (PHVL) and from regulatory statements regarding 777 Re, Sentinel Security Life Insurance Company, and Atlantic Coast Life Insurance Company. See also, Samuelson, Bobby. "A Question of Value." *The Life Product Review*, no. 420, 10 Dec. 2024, https://lifeproductreview.com/2024/12/10/420-a-question-of-value/ *Subscription required*.

[2] Carlino, Sydney, Nathan Foley-Fisher, Nathan Heinrich, and Stéphane Verani (2025), "Life Insurers' Role in the Intermediation Chain of Public and Private Credit to Risky Firms," FEDS Notes, Board of Governors of the Federal Reserve System, March 21, 2025.

[3] ID.

[4] New York State Department of Financial Services, Benjamin M. Lawsky, Superintendent of Financial Services, June 2013, "Shining a Light on Shadow Insurance."

[5] Araullo, Kenneth. "Offshore Reinsurance Tops $1 Trillion for US Life Sector." *Insurance Business Magazine*, 21 May 2025, https://www.insurancebusinessmag.com/reinsurance/news/breaking-news/offshore-reinsurance-tops-1-trillion-for-us-life-sector-536426.aspx.

To safeguard policyholders and restore confidence in the system, I respectfully recommend that the Task Force give priority to the following actions:

Stricter capital requirements for reinsured liabilities — Require higher RBC charges, or explicit capital add-ons, for liabilities ceded to reinsurers that are (i) not licensed in the United States, (ii) not subject to equivalent regulatory oversight, or (iii) not fully collateralized. Doing so ensures that a direct writer remains adequately capitalized even if the reinsurer fails to perform.

Enhanced transparency of reinsurance arrangements — Mandate detailed public disclosure of reinsurance counterparties, contractual terms, and any parental guarantees or side agreements. Greater transparency will allow regulators and market participants to detect emerging concentrations of risk.

Limits on the use of reinsurance for capital arbitrage — Adopt a clear substance-over-form test for risk transfer and deny RBC credit where that test is not met. Require Own Risk and Solvency Assessment (ORSA) filings to address counterparty default risk explicitly.

Appropriate capital treatment for complex credit structures — Assign higher RBC factors, or explicit capital add-ons, for exposures to below-investment-grade corporate debt held via CLOs, BDCs, and other unconsolidated vehicles.

The U.S. life-insurance sector is a cornerstone of household financial security and of the broader economy. Prudent, risk-sensitive capital standards are therefore indispensable. I appreciate the opportunity to contribute to the Task Force's deliberations and stand ready to elaborate on these comments at its convenience.

Sincerely,

Lawrence J. Rybka, JD, CFP®

Chief Executive Officer
Valmark Financial Group

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