

Date: 7/22/24

2024 Summer National Meeting
Chicago, Illinois

CAPITAL ADEQUACY (E) TASK FORCE

Wednesday, August 14, 2024

1:30 – 2:30 p.m.

McCormick Place Convention Center—Grand Ballroom – S100—Level 1

ROLL CALL

Judith L. French, Chair	Ohio	Grace Arnold	Minnesota
Doug Ommen, Vice Chair	Iowa	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Ricardo Lara	California	D.J. Bettencourt	New Hampshire
Michael Conway	Colorado	Justin Zimmerman	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Karima M. Woods	District of Columbia	Jon Godfread	North Dakota
Michael Yaworsky	Florida	Glen Mulready	Oklahoma
Ann Gillespie	Illinois	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Vicki Schmidt	Kansas	Mike Kreidler	Washington
Sharon P. Clark	Kentucky	Nathan Houdek	Wisconsin
Joy Y. Hatchette	Maryland		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of its June 28, April 30, and Spring National Meeting Minutes—*Tom Botsko (OH)*
Attachment One
Attachment Two
Attachment Three
2. Consider Adoption of its Working Group Reports
 - A. Health Risk-Based Capital (E) Working Group—*Steve Drutz (WA)*
Attachment Four
 - B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*
Attachment Five
 - C. Life Risk-Based Capital (E) Working Group—*Philip Barlow (DC)*
Attachment Six
 - D. Property and Casualty Risk-Based Capital (E) Working Group—*Tom Botsko (OH)*
Attachment Seven
3. Consider Adoption of its Working Agenda—*Tom Botsko (OH)*
Attachment Eight



4. Consider Exposure of its Revised Procedure Document—*Tom Botsko (OH)* Attachment Nine
5. Consider Exposure of its 2025 Proposed Charges—*Tom Botsko (OH)* Attachment Ten
6. Discuss and Consider Exposure of the Charges of the New Working Group—*Tom Botsko (OH)* Attachment Eleven
7. Discuss Any Other Matters Brought Before the Task Force—*Tom Botsko (OH)*
8. Adjournment

Draft: 7/17/24

Capital Adequacy (E) Task Force
Virtual Meeting
June 28, 2024

The Capital Adequacy (E) Task Force met June 28, 2024. The following Task Force members participated: Judith L. French, Chair, Tom Botsko, Brad Wolfenbarger, Laura Miller, Stewart Trego, Whitney Fitch, Sean Sheridan, Daniel Bradford, and Dale Bruggeman (OH); Doug Ommen, Vice Chair, Mike Yanacheak, Kevin Clark, and Carrie Mears (IA); Mark Fowler represented by Blase Abreo and Charles Hale (AL); Ricardo Lara represented by Thomas Reedy and Kim Hudson (CA); Michael Conway represented by Eric Unger, Mitchell Bronson, and Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou, Philip Barrett, and Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker and Chut Tee (KS); Sharon P. Clark, Russell Coy, and Vicki Lloyd (KY); Kathleen A. Birrane represented by Greg Ricci and Lynn Beckner (MD); Grace Arnold represented by David Nelson (MN); Chlora Lindley-Myers represented by Debbie Doggett, William Leung, John Rehagen, and Laurie Pleus (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); D.J. Bettencourt represented by Christian Citarella (NH); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Hermoliva Abejar and Dede Benissan (NV); Glen Mulready represented by Diane Carter (OK); Michael Wise represented by Brian Fomby, Will Davis, and Ryan Basnett (SC); Cassie Brown represented by Rachel Hemphill, Amy Garcia, Brenda Talavera, Mei-Li Pitaktong, Miriam Fisk, and Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Adrian Jaramillo, Rebecca Easland, and Michael Erdman (WI).

1. Adopted Proposal 2024-09-CA (Underwriting Risk Investment Risk Factor)

Drutz said the purpose of this proposal is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. He stated that the proposed changes will result in a decrease of between 0.4% and 1.2% for those underwriting risk factors, depending on the line of business and the tier of revenue. In addition, he indicated that this proposal was originally exposed by the Health Risk-Based Capital (E) Working Group for a 32-day comment period that ended March 25. No comments were received. Drutz said the Working Group referred this proposal to the Task Force for another 30-day exposure period that ended May 30, as this proposal affects all three lines of business; no comments were received.

Drutz made a motion, seconded by Chou, to adopt proposal 2024-09-CA (Attachment XX). The motion passed unanimously.

2. Adopted Proposal 2024-13-CA (Receivable for Securities Factors)

Botsko said the intent of proposal 2024-13-CA is to provide a routine three-year update to the receivable for securities for all three lines of business by using a weighted average methodology. He also stated that the proposed factors are consistent with the past factors. During its April 30 meeting, the Task Force exposed this proposal for a 30-day public comment period that ended May 30. No comments were received.

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-13-CA (Attachment XX). The motion passed unanimously.

3. Adopted Proposal 2024-15-L (Collateral Loans)

Barlow said the purpose of proposal 2024-15-L is to update risk-based capital (RBC) mapping to capture certain mortgage-type investments as collateral loans backed by mortgages without changing the capital treatment of Schedule BA mortgage investments. Barlow also said that a comment letter received from the Iowa Insurance Division (IID) on May 1 indicated that Iowa supports this proposal to allow look-through treatment for collateral loans secured by mortgages. This proposal was adopted by the Life Risk-Based Capital (E) Working Group during its June 18 meeting.

Barlow made a motion, seconded by Reedy, to adopt proposal 2024-15-L (Attachment XX). The motion passed unanimously.

4. Received Updates from the Statutory Accounting Principles (E) Working Group on the Potential Revisions on Schedule BA Collateral Loans Disclosures and Reporting Lines

Bruggeman said the Statutory Accounting Principles (E) Working Group has had several discussions involving collateral loans in the last couple of years. He stated that revisions have been adopted to *Statement of Statutory Accounting Principle (SSAP) No. 21R—Other Admitted Assets* to clarify the collateral requirements for the loan to be admitted and to require a data-captured disclosure for year-end 2024. The Working Group has also directed a memorandum, in line with the Life Risk-Based Capital (E) Working Group action captured in proposal 2024-15-L, to allow certain collateral loans backed by mortgage loans to flow through asset valuation reserve (AVR) as an interim step while further consideration occurs on more granular reporting lines for collateral loans and the extent to which look-through could occur for AVR or RBC purposes. This memorandum has been provided to the Blanks (E) Working Group and will be considered at its next meeting. Bruggeman also indicated that the NAIC staff for the Statutory Accounting Principles (E) Working Group is currently considering expanded reporting of collateral loans for Schedule BA based on the type of collateral asset and the extent to which a look-through to underlying collateral may be warranted. An updated agenda item is anticipated to be exposed at the Summer National Meeting. As these more granular reporting lines may need to result in changes to AVR and/or RBC, the Task Force will be given notice when that item is exposed to allow for consideration and feedback during the exposure period.

5. Adopted Proposal 2024-17-L (BA Mortgages Omitted AVR Line)

Barlow said the intent of this proposal is to add a factor for the line added to LR009 to specifically address Line 44 of the AVR equity component as part of proposal 2024-06-L. This proposal was adopted by the Life Risk-Based Capital (E) Working Group during its June 18 meeting.

Barlow made a motion, seconded by Chou, to adopt proposal 2024-17-L (Attachment XX). The motion passed unanimously.

6. Discussed Proposal 2024-16-CA (Revised Preamble)

Botsko said the intent of this proposal is to provide edits to the RBC preamble based on the RBC Purposes & Guidelines Ad Hoc Subgroup's discussions to clarify and emphasize the purposes and intent of using RBC. He stated that during its April 30 meeting, this proposal was exposed for a 30-day public comment period that ended May 30, and three comments were received. William J. Schwegler (Transamerica) urged the Task Force to defer action on this proposal because: 1) eliminating RBC transparency would introduce uncertainty among investors; and 2) making RBC confidential would make state regulation an outlier and in contravention of international standards. Tim Finnie (American Academy of Actuaries—Academy) shared two comments with the Task Force, including: 1) that removal of the individual companies' RBC level may lead to the development of alternative metrics of

solvency risk assessment and public reliance on those metrics, which would be detrimental to the public given the effectiveness of RBC; and 2) recommend tempering the language in the revised Section E for the sole emphasis of identifying weakly capitalized companies. Brian Bayerle (American Council of Life Insurers—ACLI) said the ACLI requests a delay in proceeding to allow industry and state insurance regulators more time to craft appropriate updates that both address concerns around the public usage of RBC and harmonize with other ongoing projects at the NAIC. Botsko said he agrees that this issue will require further discussion during upcoming meetings.

7. Adopted Proposal 2024-12-H (Modified Health Care Receivable Factors)

Drutz said the purpose of proposal 2024-12-H is to propose tiered factors recommended by the Academy to apply on health care receivables in XR021. Specifically, this proposal modified the application of tiered factors for non-pharmaceutical health care receivables, applying tiered factors on an aggregated basis. This proposal only impacts the health RBC formula and was adopted by the Health Risk-Based Capital (E) Working Group via e-vote June 24.

Drutz made a motion, seconded by Chou, to adopt proposal 2024-12-H (Attachment XX). The motion passed unanimously.

8. Adopted Proposal 2024-14-P (PC Underwriting Line 1 Factors)

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provided a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) RBC formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the Academy is in the process of reviewing the Line 1 calculation methodology and will provide recommendations soon. Botsko said that at its April 30 meeting, the Working Group exposed this proposal for a 30-day public comment period that ended May 25. No comments were received.

Drutz made a motion, seconded by Davis, to adopt proposal 2023-14-P (Attachment XXX). The motion passed unanimously.

9. Adopted a Risk-Based Capital Investment Risk and Evaluation (E) Working Group Meeting Summary

Botsko said the Task Force received a meeting summary from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group June 25. Barlow said the Working Group adopted a motion to retain the 45% life RBC factor for all residual tranches for year-end 2024. He said the motion passed with nine affirmative votes and six opposing votes by the members present. The 45% RBC factor for residual tranches was adopted fully through the NAIC committee structure in 2023; therefore, no further action is needed to incorporate this RBC factor. He also stated that the Academy is working diligently to establish a methodology for this item, and information will be shared with the Working Group in upcoming meetings. Director French said she believed that the process should be more expedited; scheduling regular updates with the Academy on the progress of the work may improve the process. Stephen Smith (Academy) said the Academy's goal is to share a substantive set of analyses with the Task Force and Working Group at the Fall National Meeting. He said that in the meantime, the Academy will provide interim updates upon request.

Kevin Clark said he appreciates the work and resources dedicated by the industry to provide data for the Working Group's consideration on this issue. He stated that while there have been varying views on how to interpret that data, there is no question that it has contributed to a significantly better understanding of the asset class than the Task Force had when considering an interim charge last year. As we noted during the Working Group's discussion, the Oliver Wyman report did result in a couple of indisputable observations: 1) risk varies rather widely within the

residual tranche asset class; and 2) comparable attributes exist that have a strong correlation to the level of risk. He also indicated that the previously shared memorandum from the IID analyzed these attributes and several options for how to do this. Kevin Clark said that the Task Force does not have enough time to adequately consider the alternatives for the 2024 reporting year. He said that as the Academy continues to progress with its work to develop permanent factors for structured securities, including residual tranches, starting with collateralized loan obligations (CLOs), he recommended the Task Force should: 1) do everything to support the Academy in moving this work forward as expeditiously as possible; and 2) consider what is learned from this project as it progresses; 3) address those asset-backed securities (ABS) other than CLOs after the CLO is completed, as most of what the Task Force has considered in the development of the interim charge has been in relation to CLO, which is the most significant portion of the population, and also the first asset class being addressed by the Academy's work; and 4) reconsider the appropriate charge for the remaining population once a permanent solution for the CLOs is in place.

Kevin Clark stated that the Statutory Accounting Principles (E) Working Group has adopted a change in the accounting for residual tranches that goes into effect next year. He said the methodology is the most conservative accounting methodology that exists for any asset class, such that the risk of loss to surplus due to poor performance of residual tranches will be significantly reduced going forward. Finally, he urged the Task Force and Working Group members to remain engaged on this topic and commit to working toward a data-driven approach to assigning required capital. Patrick Reeder (Everlake Life) said ensuring the industry is engaged in this project moving forward is important.

Drutz made a motion, seconded by Chou, to adopt the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting summary (Attachment XX). The motion passed unanimously.

10. Adopted Proposal 2024-18-CA (Residual Factor for PC & Health)

Botsko said that during the Task Force's April 30 meeting, the members decided to adopt proposal 2024-02-CA but deferred consideration of the factor until after finalizing the life factor at the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting. As indicated in the last item, the Working Group adopted a motion of retaining the 45% life RBC factor for all residual tranches for year-end 2024. He stated that since the Working Group and the Task Force do not have enough time to review the factors for property and health companies, he recommended the Task Force consider retaining the 20% charge for year-end 2024 reporting until further review of this issue. Botsko said he also anticipates that the ultimate factor will be consistent across the RBC formulas, with adjustments for a particular type of insurance.

Chou made a motion, seconded by Walker, to adopt proposal 2024-18-CA (Attachment XX). The motion passed unanimously.

11. Discussed the Possibility of Establishing a New Working Group to Evaluate the Non-Investment Risk Issues

Botsko said, as indicated during the Task Force's April 30 meeting, that the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup had a robust discussion before the Ad Hoc Subgroup was disbanded. He said one of the key items identified by the Ad Hoc Subgroup that requires further review is the possibility of removing the total adjusted capital (TAC) and authorized control level (ACL) amounts in the annual statement's five-year historical data page. In addition, Botsko said he thought some RBC formulas, factors, and methodologies have not been reviewed since they were developed. He asked the Task Force to consider establishing a subgroup to: 1) review the possibility of removing the TAC and ACL amounts in the annual statement's five-year historical data page; 2) re-evaluate some of the missing non-investment risks to determine whether the Task Force should now include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory

methods; and 3) review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made. Yanacheak said he supports establishing this new working group to review different RBC issues across all formulas, such as preamble discussion. Botsko encouraged all the interested parties to provide thoughts on the potential group's charges at the Summer National Meeting.

12. Discussed a Referral from the Statutory Accounting Principles (E) Working Group Regarding the Investment in Tax Credit Structures

Bruggeman said this March 2024 referral communicates that the Statutory Accounting Principles (E) Working Group adopted revisions to *SSAP No. 93* to expand and revise the guidance for investments in tax credits. Pursuant to the revisions, which go into effect Jan. 1, 2025, all investments that predominantly provide tax credits or other tax benefits, regardless of whether in the form of debt or equity, will be in the scope of *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*. This expansion from the prior guidance limited the scope to low-income housing tax credits. With the revisions, modified blanks changes have also been proposed to rename and revise the reporting lines to reflect the tax credit investments. During the Blanks (E) Working Group's May 23 meeting, the reporting revisions were not adopted but were deferred to allow further comment from interested parties. As shown in the attachment, the reporting line revisions will impact the RBC reporting lines, either directly for P/C companies and health companies or through AVR for life companies. In addition to the reporting line revisions, the proposal will eliminate the federal guaranteed reporting line, as federal tax credit investments are not permitted to have the extent of guarantees supporting that classification under current tax law. As the blanks reporting revisions have not yet been adopted, this is just an update to the Task Force on the pending revisions. Further communication will inform the Task Force once the reporting revisions are adopted and indicate whether there are changes from the current exposure that should be considered for RBC purposes.

13. Discussed Other Matters

Botsko said the Capital Adequacy (E) Task Force plans to meet at the Summer National Meeting to continue discussing outstanding issues.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/June 28 CADTF minutes.docx

Draft: 5/29/24

Capital Adequacy (E) Task Force
Virtual Meeting
April 30, 2024

The Capital Adequacy (E) Task Force met April 30, 2024. The following Task Force members participated: Judith L. French, Chair, Tom Botsko, Matt Peters, Dwight Radel, Whitney Fitch, Tim Biler, Daniel Bradford, and Dale Bruggeman (OH); Doug Ommen, Vice Chair, represented by Mike Yanacheak, Carrie Mears, Kevin Clark, and Kim Cross (IA); Lori K. Wing-Heier represented by David Phifer and Kevin Richard (AK); Mark Fowler represented by Charles Hale and Kristina Jones (AL); Ricardo Lara represented by Mike Peterson, Rabab Charafeddine, and Kim Hudson (CA); Michael Conway represented by Mitchell Bronson, Eric Unger, and Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou and Sarah Mu (CT); Karima M. Woods represented by Howard Liebers (DC); Michael Yaworsky represented by Jane Nelson, Virginia Christy, and Ainsley Hurley (FL); Ann Gillespie represented by Vincent Tsang and Beth Sill (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker and Sarah Smith (KS); Sharon P. Clark represented by Russell Coy (KY); Kathleen A. Birrane represented by Greg Ricci (MD); Chlora Lindley-Myers, Debbie Goeller, John Rehagen, Laurie Pleus, Julie Lederer, and Danielle K. Smith (MO); Mike Causey represented by Jessica Price and Teresa Browning (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Michael Muldoon and Lindsay Crawford (NE); D.J. Bettencourt represented by Jennifer Li and Sandra Barlow (NH); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Jordan Lumpkin, Steve Ross, Nick Stosic, and Dede Benissan (NV); Glen Mulready represented by Andrew Schallhorn (OK); Michael Wise represented by Will Davis and Ryan Basnett (SC); Cassie Brown represented by Miriam Fisk (TX); Mike Kreidler represented by Steve Drutz and Jay Bruns (WA); and Nathan Houdek, Amy Malm, and Michael Erdman (WI).

1. Adopted Proposal 2024-04-L (TAC for Non-Admitted Affiliate)

Botsko said proposal 2024-04-L adds a line to LR033, Calculation of Total Adjusted Capital (TAC), to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal does not change the treatment but makes the life formula consistent with the other risk-based capital (RBC) formulas. The Life Risk-Based Capital (E) Working Group agreed to expose the proposal for a 30-day public comment period during its Jan. 25 meeting. No comments were received.

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-04-L (Attachment XX). The motion passed unanimously.

2. Adopted Proposal 2024-05-L (BA Mortgages Omitted AVR Line)

Botsko said proposal 2024-05-L adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. This proposal does not include a factor but facilitates the application of one specific to this category if appropriate. The Life Risk-Based Capital (E) Working Group agreed to expose the proposal for a 30-day public comment period during its Jan. 25 meeting. One comment was received. Botsko also indicated that a new proposal, 2024-17-L, which adds a factor for this new line, is currently exposed for a 30-day public comment period ending May 28.

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-05-L (Attachment XX). The motion passed unanimously.

3. Adopted Proposal 2024-08-CA (Column 12 Affiliated Investment)

Botsko said the purpose of proposal 2024-08-CA is to remove the reference to “H0 Component” and “R0 Component” from the Column 12 heading on pages XR002 and PR003, respectively. He stated that the “H0” and “R0” references are misleading because only affiliate types 1, 2, 5, and 6 flow into H0 and R0, while all other affiliate types flow into H1 and R2. He stated that the Task Force exposed this proposal for a 30-day public comment period at the Spring National Meeting. No comments were received.

Chou made a motion, seconded by Kaumann, to adopt proposal 2024-08-CA (Attachment XX). The motion passed unanimously.

4. Exposed Proposal 2024-09-CA (Underwriting Risk Investment Risk Factor)

Drutz said the purpose of this proposal is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. This proposal was originally exposed by the Health Risk-Based Capital (E) Working Group for a 32-day comment period ending March 25. No comments were received. Drutz also stated that the Working Group referred the proposal to the Task Force as the proposal affects all three lines of business. He also indicated that the proposed changes will result in a decrease of between 0.4% and 1.2% for comprehensive medical, Medicare supplement, and dental and vision underwriting risk factors, depending on the line of business and the tier of revenue.

The Task Force agreed to expose proposal 2024-09-CA (Attachment XX) for a 30-day public comment period ending May 30.

5. Adopted Proposal 2024-10-P (PR019 Other Health Line)

Botsko said proposal 2024-10-P would address the current double-counting issue for companies with stop-loss premium, as the stop-loss premium is expected to be entered on line 9 of PR019. He also stated that the Property and Casualty Risk-Based Capital (E) Working Group exposed this proposal for a 30-day public comment period at the Spring National Meeting. No comments were received.

Chou made a motion, seconded by Eft, to adopt proposal 2024-10-P (Attachment XX). The motion passed unanimously.

6. Adopted Proposal 2024-11-P (2024 and 2025 Underwriting Risk Lines 4 and 8 Factors)

Botsko said that at the Spring National Meeting, the Property and Casualty Risk-Based Capital (E) Working Group agreed to expose the: 1) 50% indicated change with capped international and product liability lines in 2024, and 100% indicated change with capped international and product liability lines in 2025 for reserve factors; and 2) 50% indicated change with capped financial mortgage guaranty line in 2024, and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors (Attachment XXX) for a 30-day public comment period. No comments were received.

Malm made a motion, seconded by Chou, to adopt Proposal 2024-11-P (Attachment XX). The motion passed unanimously.

7. Exposed Proposal 2024-13-CA (Receivable for Securities Factors)

Botsko said the intent of proposal 2024-13-CA is to provide a routine three-year update to the receivable for securities for all three lines of business by using a weighted average methodology. He also stated that the proposed factors are consistent with the past factors.

The Task Force agreed to expose proposal 2024-13-CA (Attachment XX) for a 30-day public comment period ending May 30.

8. Exposed Proposal 2024-16-CA (Revised Preamble)

Botsko said the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup met several times between September 2023 and January 2024 to have a robust discussion on the preamble revisions among stakeholders. He stated that the intent of this proposal is to provide edits to the RBC preamble based on the Ad Hoc Subgroup's discussions to clarify and emphasize the purposes and intent of using RBC. Hemphill also indicated that it clarifies the *Risk-Based Capital for Insurers Model Act* (#312) and the *Risk-Based Capital for Health Organizations Model Act* (#315) around the purpose of RBC and what it is and is not designed to do.

The Task Force agreed to expose proposal 2024-16-CA (Attachment XX) for a 30-day public comment period ending May 30.

9. Forwarded a Referral Regarding the Issue of Asset Concentration to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko said that during the Spring National Meeting, the Task Force agreed to disband the Risk-Based Capital Risk Evaluation Asset Concentration Ad Hoc Subgroup and refer its outstanding issues to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. He also stated that the Task Force recommends the Working Group consider: 1) further investigating any potential asset concentration issues; 2) possibly modifying the structure and instructions for all lines of business; and 3) providing updates on this project at each national meeting until its completion.

The Task Force agreed to forward the referral to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

10. Referred Issues Regarding Geographic Concentration to the Catastrophe Risk (E) Subgroup

Botsko said that during the Spring National Meeting, the Task Force agreed to disband the Risk-Based Capital Geographic Concentration Ad Hoc Subgroup and refer its outstanding issues to the Catastrophe Risk (E) Subgroup. He also stated that the Task Force recommends the Subgroup consider: 1) further investigating all outstanding issues; 2) possibly modifying the property and casualty (P/C) RBC formula; and 3) providing updates on this project at each national meeting until its completion.

The Task Force agreed to forward the referral to the Catastrophe Risk (E) Subgroup.

11. Exposed a Referral from the Statutory Accounting Principles (E) Working Group Regarding the Investment in Tax Credit Structures

Botsko said the Task Force received a referral from the Statutory Accounting Principles (E) Working Group March 27 regarding the blank changes on investments in tax credit structures. These changes may include: 1) the re-

naming of the existing low-income housing tax credit investment lines in the RBC formulas to allow the expansion of including any type of state or federal tax credit program, assuming the investment meets the criteria described in paragraph two of *Statement of Statutory Accounting Principle (SSAP) No. 93R*; and 2) the need for a review to update factors and/or reporting lines. He encouraged all interested parties to review it. The Task Force will discuss it during its June meeting.

The Task Force agreed to expose this referral for a 30-day public comment period ending May 30.

12. Discussed the Possibility of Establishing a New Subgroup to Evaluate the Non-Investment Risk Issues

Botsko said, as indicated earlier, that the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup had a robust discussion before the Ad Hoc Subgroup was disbanded. He said one of the key items identified by the Ad Hoc Subgroup that requires further review is the possibility of removing the TAC and authorized control level (ACL) amounts in the annual statement's five-year historical data page. In addition, Botsko said he thought that some of the RBC formulas, factors, and methodologies have not been reviewed since they were developed. He asked the Task Force to consider establishing a subgroup to: 1) review the possibility of removing the TAC and ACL amounts in the annual statement's five-year historical data page; 2) re-evaluate some of the missing non-investment risks to determine whether the Task Force should now include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory methods; and 3) review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made. Botsko encouraged all the Task Force members to consider the possibility of establishing a new subgroup to handle these items and provide feedback in the upcoming meetings.

13. Adopted Proposal 2023-17-CR (Climate Scenario Analysis)

Chou said the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group met April 25 and April 23, respectively, to adopt this proposal. He stated that the Subgroup appreciates all the valuable comments submitted by different industry parties during the exposure period. After reviewing industry comments, the Solvency Workstream of the Climate and Resiliency (EX) Task Force and the Subgroup made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the line 7 question in PRO27BI, PRO27BII, PRO27CI, and PRO27CII. Hale said Commissioner Fowler suggested delaying the adoption for a few months to allow better enhancement to the proposal. Chou said a delay of a few months may not necessarily remove any uncertainty on top of the assumption. Rather, gathering the information will enable the state insurance regulators to further enhance the proposal. Eli Russo (NAIC) said the NAIC had already made changes to the Financial Analysis Handbook to allow state insurance regulators to start asking questions to dive deep into the catastrophe exposures. Russo also stated that the regulatory framework had been created to utilize this information.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, "the Associations") appreciated the modification of including a three-year sunset clause in the proposal. He stated that among the issues is that climate is not the primary driver of exposure to increasing hurricane loss costs; rather, it's inflation. Increased population and exposed areas are the key factors for the climate issue. He also indicated that projecting losses to the years 2040 and 2050 has little relevance to companies' current portfolio of exposures. Also, the scientific difference in risk between those time periods is minimal and poorly constrained. Broadie also said the Associations believed that the data from this proposal would not be comparable across companies and could not be meaningfully aggregated. In addition, the cost of the proposal will be significant in terms of both money and limited staff resources. He stated that the Associations came up with an alternative proposal, which they believe will be less expensive in providing state insurance regulators with

information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils. Lastly, Broadie said that given the short time period, the associations urge the Task Force either to adopt the industry alternative or to defer this item to the 2025 RBC reporting to give the industry additional time to collectively work together to identify a mutually agreeable scenario that will produce useful results. Kelly Hereid (Liberty Mutual Insurance) said the alternative comes from the most comprehensive review produced by scientific communities to date. Chou said the Subgroup plans to consider the revised proposal at this time. He reiterated that the intent of this proposal is to collect some useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. The Subgroup and the Solvency Workstream of the Climate and Resiliency (EX) Task Force have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also indicated that the Subgroup plans to re-evaluate the information in the future to determine whether further enhancement should be made on these pages.

Chou made a motion, seconded by Kaumann, to adopt proposal 2023-17-CR (Attachment XX). The motion passed.

14. Discussed Proposal 2024-02-CA (Residual Structure PC & Health)

Botsko said there has been a significant amount of discussion on this topic, especially during the prior two months in the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. He stated that the Task Force and the Working Group received different requests from interested parties for the delay in implementing the 45% charge for 2024 reporting. Botsko also indicated that the American Academy of Actuaries (Academy) is planning to provide updates on its research on this topic at the Summer National Meeting. He also stated that based on the currently available information, the impact on the P/C and health lines of business are minimal as the percentage of the residual tranches reported investment dollars are less than 0.5% of surplus, while on the life side, it is just under 2.0% of the surplus. Botsko asked all interested parties to consider the following options: 1) delaying implementation until the life residual tranche project is completed; 2) adopting the structure today, and deciding the charge during the Task Force meeting June 28; 3) adopting the structure today with the current charge of 20%; 4) adopting the structure today with the life charge of 45%; and 5) considering other options not listed above.

Botsko said the Task Force received eight comment letters (Attachments XX - XX) during the exposure period, mainly requesting the NAIC delay the implementation of the 45% RBC charge. While it is important to have consistency warranted in the RBC formulas, it is fine to have differences or even delays in implementing changes. He thought the first option was worth consideration until the Task Force obtained more information to make a better decision. He stated that as a reminder, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group has requested additional feedback regarding a one-year delay of the 45% charge for the residual tranches in the life RBC formula.

Joe Engelhard (Alternative Credit Council—ACC) said three basic points that the ACC wanted to make are: 1) that the RBC investment charges should use historical track record and proper analysis; 2) there are only two internal studies on equity and residual tranches; and 3) it is unclear what is the insurance exposure for the asset-backed securities (ABS) residuals. Broadie said the APCA supports Connecticut's comment that the current factor should not be changed at this time. Bryan Bashur (Americans for Tax Reform—ATR) said it would not be prudent to move forward with this proposal when the Investment Risk and Evaluation (E) Working Group continues to deliberate on this issue. Mariana Gomez (American Council of Life Insurers—ACLI) said the ACLI endorsed a delay and the comments made by APCA. Chou said Connecticut recommended delaying the implementation as this proposal is not for informational purposes only. He stated that accuracy, consistency, and materiality are the key factors that the Task Force should consider for this issue. Walker said Texas supports adopting the structural changes but

defers consideration of the factor until after the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting May 22.

Walker made a motion, seconded by Schallhorn, to adopt the proposal 2024-02-CA (Attachment XX) structural change, leave the risk charge blank for now, and defer consideration of the risk charge until after the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's May 22 meeting. The motion passed.

15. Discussed Other Matters

To provide sufficient time to study the meeting materials, Botsko urged all interested parties to submit their comment letters on or before the comment deadline. He also asked that interested parties email NAIC staff to request an extension and clearly indicate the submission date in the email.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/April 30 CADTF minutes.docx

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Draft: 3/20/23

Capital Adequacy (E) Task Force
Phoenix, Arizona
March 17, 2024

The Capital Adequacy (E) Task Force met in Phoenix, AZ, March 17, 2024. The following Task Force members participated: Judith L. French, Chair, represented by Tom Botsko (OH); Doug Ommen, Vice Chair, represented by Mike Yanacheak and Kevin Clark (IA); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Carolyn Morgan and Jane Nelson (FL); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt (KS); Sharon P. Clark represented by Jeff Gaither (KY); Kathleen A. Birrane represented by Dmitriy Valekha (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson and Lindsay Crawford (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by John Sirovetz (NJ); Glen Mulready represented by Andrew Schallhorn (OK); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Rachel Hemphill and Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating was: Troy Downing represented by Erin Snyder (MT).

1. Adopted its Jan. 31, 2024, and 2023 Fall National Meeting Minutes

Botsko said the Task Force met Jan. 31, 2024, and Dec. 2, 2023. During its Jan. 31, 2024, meeting, the Task Force took the following action: 1) adopted proposal 2023-16-CR (2023 U.S. and Non-U.S. Catastrophe Risk Event Lists); 2) exposed: a) proposal 2024-02-CA (Residual Structure PC & Health); and b) proposal 2024-06-CA (Repurchase Agreements PC & Health) for a 30-day public comment period that ended March 2, 2024. He stated that the Task Force received no comments during the exposure period.

Kaumann made a motion, seconded by Eft, to adopt the Task Force's Jan. 31, 2024, (**Attachment XXX**) and Dec. 2, 2023 (*see NAIC Proceedings – Fall 2023, Capital Adequacy (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Health Risk-Based Capital (E) Working Group

Drutz said the Health Risk-Based Capital (E) Working Group met Feb. 22 and took the following action: 1) adopted its Nov. 8, 2023, minutes, which included the following action: a) adopted its July 25 minutes; b) adopted proposal 2023-11-H for page XR014 Fee-For-Service and Other Risk Revenue for Medicare and Medicaid; c) received an update from the American Academy of Actuaries (Academy) on the health care receivables and H-2 Underwriting Risk Review projects; d) discussed pandemic risk and heard a presentation from the Texas Department of Insurance (TDI); e) received an overview of the Risk Evaluation Ad Hoc group; and f) discussed questions on the 2022 health risk-based capital (RBC) statistics; 2) exposed proposal 2024-09-CA (Underwriting Risk Investment Income Adjustment Factors); 3) discussed comments received on the Academy health care receivables presentation; 4) discussed pandemic risk and agreed to send a referral to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; and 6) received an update on the Academy H-2 Underwriting Risk Review project.

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B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow said the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met March 17 and took the following action: 1) adopted its 2023 Fall National Meeting minutes; 2) received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group; 3) received an update from the Academy on asset-backed securities (ABS) RBC as well as its plan to review the Oliver Wyman residual study; 4) discussed residual tranches; and 5) discussed next steps and requested feedback on a memorandum detailing the projected next project to review registered and diversified funds and the way to move forward on this initiative.

C. Life Risk-Based Capital (E) Working Group

Barlow said the Life Risk-Based Capital (E) Working Group met March 17 and took the following action: 1) adopted its 2023 Fall National Meeting minutes; 2) adopted its Jan. 25, 2024, minutes, which included the following action: a) discussed the American Council of Life Insurers' (ACLI's) repurchase agreements proposal; b) discussed the proposal to add a line for total adjusted capital (TAC) adjustment for non-admitted affiliates; and c) discussed the proposal to add a line to Schedule BA mortgages for omitted asset valuation reserves (AVRs); 3) received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup; 4) heard a presentation from the Academy on C-3 risks and potential covariance calculation changes in the life RBC formula; and 5) exposed the repurchase agreement proposal with changes requested by the ACLI for a 30-day public comment period ending April 15.

D. Property and Casualty Risk-Based Capital (E) Working Group

Botsko said the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup met March 17 and took the following action: 1) adopted their Jan. 30 minutes, which included the following action: a) adopted proposal 2023-16-CR (2023 Cat Event List); 2) adopted the Catastrophe Risk (E) Subgroup's Jan. 29 minutes, which took the following action: a) exposed proposal 2023-17-CT (Climate Scenario Analysis); b) discussed severe convective storm peril impact analysis; c) discussed wildfire peril impact analysis; and d) heard updates on the Geographic Concentration Ad Hoc Subgroup; 3) adopted their 2023 Fall National Meeting minutes; 4) adopted proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory); 5) adopted proposal 2024-01-P (Schedule P Short Tails); 6) adopted proposal 2023-14-P (Pet Insurance); 7) adopted proposal 2023-15-CR (Convective Storm for Information Purposes Only Structure); 8) adopted the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's working agenda; 9) exposed proposal 2024-10-P (Other Health) for a 30-day public comment period ending April 17; 10) re-exposed proposal 2023-17-CR (Climate Scenario Analysis) for a 22-day public comment period ending April 8; 11) discussed the wildfire peril and convective storm peril impact analysis; and 12) discussed underwriting risk factors and investment income adjustment factors.

Davis made a motion, seconded by Yanacheak, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment **Three**), the Life Risk-Based Capital (E) Working Group (Attachment **Four**), the Property and Casualty Risk-Based Capital (E) Working Group (Attachment **Five**), and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment **Six**). The motion passed unanimously.

3. Received Updates from its Ad Hoc Subgroups

A. Risk-Based Capital Purposes and Guidelines Ad Hoc Subgroup

Hemphill said this ad hoc subgroup met several times between September 2023 and January 2024. She stated that the meetings included robust discussion among stakeholders and comments and suggested alternatives were

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solicited from the entire subgroup. Hemphill also said two key items identified by the Subgroup that require further review by the Task Force are: 1) the preamble with suggested revisions; and 2) the possibility of removing the TAC and authorized control level (ACL) amounts in the annual statement's five-year historical data page. Bryan Bayerle (ACLI) commented that it could potentially reduce the transparency of the RBC ratio. He said that the ACLI is looking forward to working with the Task Force to address this item as a significant number of issues could potentially be produced, particularly with respect to the five-year trend.

B. Asset Concentration Ad Hoc Subgroup

Clark said the Asset Concentration Ad Hoc Subgroup met three more times after the 2023 Fall National Meeting. The Ad Hoc Subgroup accomplished two things during the meetings: 1) further refinement of the decision tree to evaluate when an asset concentration element may warrant an RBC solution; and 2) walked through an example of the flow chart using sector/industry concentration. He also mentioned that several refinements were made to the flowchart.

C. Geographic Concentration Ad Hoc Subgroup

Chou said that in the past few months, the Ad Hoc Subgroup heard several presentations from different rating agencies as well as the Florida and Louisiana Departments of Insurance (DOIs) on how they measure the geographic concentration issue. He stated that the Ad Hoc Subgroup received valuable feedback on these presentations.

Botsko said the Task Force appreciates all the Ad Hoc Subgroups' efforts in reviewing these outstanding issues (Attachment XXX). He recommended that the Task Force consider the following plan: 1) disbanding all three Ad Hoc Subgroups, as well as the Risk Evaluation Ad Hoc Group; 2) referring the asset concentration and geographic concentration issues to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Catastrophe Risk (E) Subgroup, respectively, for further review of all outstanding issues; 3) continuing review of the purposes and guidelines issues and, if necessary, establishing a formal Subgroup to review not only purposes and guidelines issues but also any non-investment risk issues related to all three lines of business; and 4) exposing the revised preamble during its meeting in April. Without hearing any objections, the Task Force agreed to the suggested plan.

4. Adopted Proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory)

Chou said the purpose of this proposal is to collect additional information from insurers on the structure of their catastrophe reinsurance program on an annual confidential basis. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period that ended Jan. 30, 2024. Chou said the Subgroup received one comment letter from the joint trades during the exposure period.

Chou made a motion, seconded by Rehagen, to adopt proposal 2023-13-CR (Attachment XXX). The motion passed unanimously.

5. Adopted Proposal 2023-14-P (Pet Insurance)

Botsko said proposal 2023-14-P would remove pet insurance from the inland marine line of business and add a new line of business to PR035, PR038, PR123, PR223, PR307, PR700, and PR701 to be consistent with the change in the annual statement. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period at the 2023 Fall National Meeting. No comments were received.

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Davis made a motion, seconded by Yanacheak, to adopt proposal 2023-14-P (Attachment XXX). The motion passed unanimously.

6. Adopted Proposal 2023-15-CR (Convective Storm for Informational Purposes Only Structure)

Chou said this proposal provides the structure change for adding severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period at the 2023 Fall National Meeting. No comments were received.

Chou made a motion, seconded by Malm, to adopt proposal 2023-15-CR (Attachment XXX). The motion passed unanimously.

7. Adopted Proposal 2024-01-P (Schedule P Short Tails)

Botsko said that on Feb. 21, the Blanks (E) Working Group adopted blanks proposal 2023-16BWG, which changes Schedule P short-tail lines to show 10 years of data beginning in 2024 reporting. He stated that the Risk-Based Capital Schedule P formulas will require to be updated to reflect the changes in the annual statement. Botsko said the Property and Casualty Risk-Based Capital (E) Working Group exposed proposal 2024-01-P for a 30-day public comment ending Feb. 24, 2024. No comments were received.

Chou made a motion, seconded by Eft, to adopt proposal 2024-01-P (Attachment XXX). The motion passed unanimously.

8. Adopted its Working Agenda

Botsko summarized the changes to the Task Force's 2024 working agenda (Attachment XXX), which included the following substantial changes in Health Risk-Based Capital (E) Working Group section: 1) removing "work with the Academy" language in item X4; and 2) removing item X7. He also stated that the following changes are included in the property and casualty (P/C) section: 1) changing the expected completion date to "2025 Summer" in item P5; 2) adding a hyperlink for the referral to the Academy in item P3; and 3) adding two items for the Subgroup and one item for the Working Group in the "New Item" section. Botsko said there are no changes for the Life Risk-Based Capital (E) Working Group. Barlow said that, as discussed earlier, the item of asset concentration refinements has been referred to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. Botsko said it will be reflected in the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's new item sections, and this update will be considered at the Summer National Meeting. Regarding the Capital Adequacy (E) Task Force section, Botsko said the comment column was updated for CA1 through CA4. He also said five items were added to the Task Force's new item section.

Commissioner Schmidt made a motion, seconded by Kaumann, to adopt the Task Force's revised 2024 working agenda (Attachment Ten). The motion passed unanimously.

9. Exposed Proposal 2024-08-CA (Col 12 Affiliated Investment)

Botsko said the purpose of this proposal is to remove the reference to "H0 Component" and "R0 Component" from the Column 12 heading on pages XR002 and PR003, respectively. He stated that the "H0" and "R0" references are misleading because only affiliate types 1 and 2 flow into H0 and R0, while affiliate types 3-9 flow into H1 and R2.

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The Task Force agreed to expose proposal 2024-08-CA (Attachment XXX) for a 30-day public comment period ending April 16.

10. Received an Update from the Health Risk-Based Capital (E) Working Group on the H2 Component Project

The Health Risk-Based Capital (E) Working Group has been working with the Academy over the last two years to comprehensively review the H2-Underwriting Risk component. This review looks primarily at comprehensive medical (individual and group); dental and vision; Medicaid; Medicare supplement; Medicare Advantage; and stand-alone Medicare Part D/prescription drug plan (PDP) coverage. The Academy has broken this into three separate tracks: Track 1 is looking at structural changes; Track 2 is modeling and analyzing the factors; and Track 3 is looking at the managed care credit. These changes are anticipated to affect the structure and factors on pages XR013 through XR015 in the health RBC formula. The life and P/C RBC formulas currently utilize the factors from the health RBC formula and share a similar structure to the health formula. As such, the Task Force is working diligently with the Academy to ensure that any changes made to the health RBC formula can be carried over into the P/C and life RBC formulas.

11. Exposed the Collateral Loan Memorandum from the Statutory Accounting Principles (E) Working Group

Julie Gann (NAIC) said the purpose of this referral (Attachment XXX) is to inform the Task Force of potential revisions on Schedule BA collateral loans disclosures and reporting lines to quickly identify the type of collateral in support of admittance of collateral loans in scope of *Statement of Statutory Accounting Principles (SSAP) No. 21R—Other Admitted Assets*. She also said the memorandum dated Jan. 30 is the notice of the discussions that the Statutory Accounting Principles (E) Working Group had at that time. Gann stated that an updated referral regarding the recent actions of the Working Group was sent to the Life Risk-Based Capital (E) Working Group Feb. 29. It indicated the possibility of more granular reporting on the type of collateral loans on Schedule BA, as the Statutory Accounting Principles (E) Working Group is currently exposing the expanding structure and requesting comments from state insurance regulators and industry on whether collateral loans backed by certain types of collateral should flow through the AVR for RBC impact. She also recommended the Task Force expose both referrals at the same time to provide interested parties with a better understanding of the entire discussion.

The Task Force agreed to expose this referral for a 45-day public comment period ending May 1.

12. Exposed Proposal 2024-02-CA (Residual Structure PC & Health)

Botsko said that during its Jan. 31 meeting, the Task Force asked the interested parties to consider a couple of options: 1) following the life RBC structure and keeping the current 20% charge; 2) following both life RBC structure and charge, which is 45% for 2024 reporting; or 3) waiting until the Working Group completes its analysis and studies before proposing any changes to the P/C and health RBC formulas. In addition, the updated exhibit (Attachment XXX) is included in the materials. Botsko also stated that this proposal was exposed for a 30-day public comment period and received no comments. Chou said that he recommended the Task Force choose the third option. Yanacheak said he is inclined to adopt the structure, as it gives the Task Force the greatest flexibility to change the factors. Barlow said he supports adopting the structure with a 45% charge, consistent with the life approach. Drutz and Hemphill agreed with Barlow.

Yanacheak made a motion, seconded by Drutz, to expose proposal 2024-02-CA with a 45% charge for a 30-day public comment period ending April 16. (Attachment Ten). The motion passed unanimously.

13. Exposed the Repurchase Agreement RBC Proposal Referral from the Life Risk-Based Capital (E) Working Group

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Botsko said that on Jan. 25, the Task Force received a referral from the Life Risk-Based Capital (E) Working Group. He stated that the Working Group is currently reviewing the treatment of repurchase agreements with the ACLI. Botsko stated that the Life Risk-Based Capital (E) Working Group is asking the Task Force to consider the possible application to the other RBC formulas. He said the Task Force will closely monitor the development of this issue.

The Task Force agreed to expose this referral for a 30-day public comment period ending April 16.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-1-Spring/March 17 CADTF minutes.docx

*Virtual Meeting***HEALTH RISK-BASED CAPITAL (E) WORKING GROUP**

July 25, 2024

Summary Report

The Health Risk-Based Capital (E) Working Group met July 25, 2024. During this meeting, the Working Group:

1. Adopted its June 24, June 6, and April 16 minutes, which included the following action:
 - A. Adopted its Feb. 22 minutes.
 - B. Referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force.
 - C. Heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2 – Underwriting Risk review projects.
 - D. Exposed a referral letter on pandemic risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group.
 - E. Discussed the excessive growth charge.
 - F. Exposed proposal 2024-12-H for a 30-day public comment period ending May 16.
 - G. Exposed proposal 2024-12-H (MOD) for a 14-day public comment period ending June 20.
 - H. Adopted proposal 2024-12-H (MOD) by e-vote June 24.
2. Adopted the 2024 health risk-based capital (RBC) newsletter.
3. Adopted the 2023 health RBC statistics.
4. Received an update from the Academy on the H2 – Underwriting Risk review project. Steve Guzski (Academy) discussed the progress and completion timeline of the project. The Working Group offered additional resources as needed for the Academy to complete the project.
5. Directed NAIC staff to forward a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group.
6. Adopted its 2024 working agenda.

*2024 Summer National Meeting
Chicago, Illinois*

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Wednesday, August 14, 2024
8:00 – 9:00 a.m.

Meeting Summary Report

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group met Aug. 14, 2024. During this meeting, the Working Group:

1. Adopted its Spring National Meeting minutes.
2. Adopted its June 21, May 22 and April 12 minutes. During these meetings, the Working Group took the following action:
 - A. Discussed a review of year-end 2023 data reported for residual tranches.
 - B. Heard a presentation from the NAIC's Structured Securities Group.
 - C. Discussed comment letters received on Oliver Wyman's residual tranche risk analysis.
 - D. Discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% risk-based capital (RBC) factor for residual tranches.
 - E. Discussed comment letters received on proposal 2024-19-I and other potential alternative proposals.
 - F. Discussed the American Council of Life Insurers' survey data on residual ownerships by life insurers.
 - G. Voted to retain the original adoption of the 45% charge to be applied to all residuals.
3. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
4. Heard an update from the American Academy of Actuaries on structured securities RBC project.
5. Discussed referrals that are related to funds and discussed moving forward in considering RBC formula and instruction changes to reflect SVO-assigned designations in SEC-registered funds as well as to review and consider convergence with exposure aggregations for funds consistently with the Supplemental Investment Risk Interrogatory (SIRI).
6. Adopted its 2024 working agenda.

*2024 Summer National Meeting
Chicago, Illinois*

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Wednesday, August 14, 2024
9:00 – 10:00 a.m.

Meeting Summary Report

The Life Risk-Based Capital (E) Working Group met Aug. 14, 2024. During this meeting, the Working Group:

1. Adopted its Spring National Meeting minutes.
2. Adopted its June 18 and April 19 minutes. During these meetings, the Working Group took the following action:
 - A. Adopted proposal 2024-15-L to address collateral loans.
 - B. Adopted proposal 2024-17-L to add a factor for omitted Schedule BA mortgages.
 - C. Adopted proposal 2024-04-L to add a line for total adjust capital (TAC) adjustment for non-admitted affiliates.
 - D. Adopted proposal 2024-05-L to add a line to Schedule BA mortgages for omitted asset valuation reserve (AVR).
 - E. Discussed covariance.
 - F. Discussed C-3 risk.
 - G. Discussed proposal 2024-03-L (repurchase agreements).
 - H. Discussed proposal 2024-07-L (other long-term assets).
3. Received updates from its subgroups.
 - A. Generator of Economic Scenarios (GOES) (E/A) Subgroup
 - B. Longevity Risk (E/A) Subgroup
 - C. Variable Annuities Capital and Reserve (E/A) Subgroup
4. Adopted the 2024 life risk-based capital (RBC) newsletter.
5. Adopted its 2023 life RBC statistics.
6. Received a referral from the Statutory Accounting Principles (E) Working Group for investments in tax credit structures.
7. Discussed the Schedule BA proposal for non-bond debt securities.
8. Adopted its working agenda.

*2024 Summer National Meeting
Chicago, Illinois*

**JOINT MEETING OF THE PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP
AND CATASTROPHE RISK (E) SUBGROUP**

Wednesday, August 14, 2024
10:00 – 11:00 a.m.

Meeting Summary Report

The Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup met Aug. 14, 2024. During this meeting, the Working Group and Subgroup:

1. Adopted the Property and Casualty Risk-Based Capital (E) Working Group's June 17 and April 25 minutes. During these meetings, the Working Group took the following action:
 - A. Adopted proposal 2023-14-P (Underwriting Risk Line 1 Factors), which it had exposed for a 30-day public comment period that ended May 25.
 - B. Adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8. However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting.
 - C. Adopted proposal 2024-10-P (Other Health Line), which it had exposed for a 30-day public comment period that ended April 16.
 - D. Adopted proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors), which it had exposed for a 30-day public comment period that ended April 16.
 - E. Discussed potential modifications in the risk-based capital (RBC) statistics.
 - F. Discussed the study of flood risk in the Catastrophe Risk (E) Subgroup.
 - G. Heard updates from the American Academy of Actuaries (Academy) on its current underwriting risk projects.
2. Adopted the Catastrophe Risk (E) Subgroup's June 10 and April 23 minutes. During these meetings, the Subgroup took the following action:
 - A. Adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8.
 - B. Exposed a referral from the Capital Adequacy (E) Task Force regarding the geographic concentration issue.
 - C. Discussed wildfire peril impact analysis.
 - D. Discussed CoreLogic's wildfire model review.
 - E. Discussed the possibility of adding flood period to the Rcat component.
 - F. Heard an update regarding severe convective storm peril.
3. Adopted its Spring National Meeting minutes.
4. Adopted its 2024 newsletter for adopted proposals to the 2024 property/casualty (P/C) RBC formula.
5. Discussed 2023 RBC statistics.

6. Discussed their working agenda.
7. Discussed the geographic concentration issue.
8. Heard updates on the severe convective storm peril.
9. Discussed the Wildfire Peril Impact Analysis.
10. Discussed the CoreLogic Wildfire Model Review.
11. Discussed the possibility of adding flood peril to the Rcat component.
12. Discussed how to handle the flood peril with the Florida Commission on Hurricane Projection Loss Methodology (FCHLPM).
13. Heard an update from the Academy on current and future research topics.

Priority 1 – High Priority
 Priority 2 – Medium Priority
 Priority 3 – Low Priority

**CAPITAL ADEQUACY (E) TASK FORCE
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2024**

2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	1	2023-2024 or later	1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L3	Life RBC WG	1	2023-2024 or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the updated longevity factors and consider expanding the scope to include all payout annuities.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L4	Life RBC WG	1	2023-2024 or later	Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions, and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L5	Life RBC WG	1	2023-2024 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities with consideration of contingent deferred annuities as well	AAA		
L6	Life RBC WG	1	2023-2024 or later	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted. <u>Deliberate the relevant weights assigned to various risk components.</u>			
L7	Life RBC WG	1	2023 or later	Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps.			
New Items – Life RBC							
<u>L7</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>In light of SAPWG INT to permit admittance of negative IMR, SAPWG requested CADTF to consider:</u> <u>1. The elimination of any admitted net negative IMR from Total Adjusted Capital (TAC).</u> <u>2. Sensitivity testing with and without negative IMR.</u>	<u>_____ CADTF</u>		
<u>L8</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>Develop a structure proposal to reflect the split of the Annual Statement, Schedule D, Part 1 into two schedules pursuant to the SAPWG adopted bond project.</u>	<u>_____ CADTF</u>		
<u>L9</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>Consider SAPWG Referral for Investments in Tax Credit Structures</u>	<u>_____ SAPWG</u>		

<u>L10</u>	<u>Life RBC WB</u>	<u>1</u>	<u>2024 or later</u>	<u>Consider possible structural changes to account for reporting changes for collateral loans addressed through instructional changes for 2024 with the adoption of proposal 2024-15-L</u>			
2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – RBC IR & E							
Carryover Items Currently being Addressed – RBC IR & E							
IR1	RBC IRE	2	<u>2023-2024</u> or later	Supplementary Investment Risks Interrogatories (SIRI)	Referred from CADTF Referral from Blackrock and IL DOI	The Task Force received the referral on Oct. 27. This referral will be tabled until the bond factors have been adopted and the TF will conduct a holistic review all investment referrals.	1/12/2022 11/19/2020
IR2	RBC IRE	2	<u>2023-2024</u> or later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge. Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	Referred from CADTF Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	1/12/2022 10/11/2018
IR3	RBC IRE	2	<u>2023-2024</u> or later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (i.e., put option or forward contract) that are wrapped by a debt structure.	Referred from CADTF Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	1/12/2022 8/4/2019
IR4	RBC IRE	2	<u>2023-2024</u> or later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	Referred from CADTF Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending	1/12/2022 11/16/2018

							adoption of the bond structure and factors.	
New Items – RBC IR & E								
IR5			<u>2023-2024</u> or later	Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets).	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.		1/12/2022
IR6			<u>2023-2024</u> or later	Evaluate the appropriate RBC treatment of Residual Tranches.	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.		1/12/2022
IR7			2025 or later	Phase 2 Bond analysis - evaluate and develop an approach to map other ABS to current bond factors following the established principles from Phase I where the collateral has an assigned RBC. This project will likely require an outside consultant and the timeline could exceed 2-3 years.	Request from E Committee	Per the request of E Committee comments were solicited requesting the need for outside review.		1/12/2022
IR8	RBC IRE		<u>2023-2024</u> or later	Address the tail risk concerns not captured by reserves for privately structured securities.	Referral from the Macroprudential (E) Working Group			8/11/2022
New Items – RBC IR & E								
<u>IR9</u>	<u>RBC IRE</u>		<u>2024 or later</u>	<u>Develop a structure proposal to reflect the split of the Annual Statement, Schedule D, Part 1 into two schedules pursuant to the SAPWG adopted bond project for all lines of business.</u>	<u>CADTF</u>			
2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments		Date Added to Agenda
Ongoing Items – P&C RBC								
P1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:				
			Year-end 2024 or later	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.	Referral from the Climate and Resiliency Task	12/2/23 Proposal 2023-15-CR (Convective Storm for Informational)		4/26/2021

					Force. March 2021	<u>Purposes-Only Structure) was exposed for a 60-day comment period at the Joint P/C RBC and Cat Risk SG meeting. 03/17/24 Proposal 2023-15-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting 4/23/24 Proposal 2023-17-CR was adopted during April 23 interim Cat Risk SG meeting. 4/25/24 Proposal was adopted during the April 25 PCRBC WG interim meeting.</u>	
P2	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.			3/23/2023
Carryover Items Currently being Addressed – P&C RBC							
P3	P&C RBC WG	1	Year-end 2025 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsures that do not trigger growth risk in their own right. <i>Referral to the Academy:</i> https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2018%20Calls%20-%20PRBC/PCRBC/06_14/attC01_Growth%20Risk%20Referral%20to%20Academy.pdf	Referral from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
P4	P&C RBC WG	1	2024 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.		11/16/23 The Academy provided a presentation on their Underwriting Risk Report at the Joint	6/10/2019

						PCRBC And Cat Risk SG meeting. 3/17/23 Proposal 2024-11-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal 2024-11-P was adopted during the PCRBCWG interim meeting.	
P5	P&C RBC WG	1	2025 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
P6	Cat Risk SG	1	2025 Spring Meeting	Quantify the R5 Ex-cat Factors for wildfire peril (for informational purposes only) Evaluate the possibility of adding PR018A to determine the R5 <u>including excluding</u> the wildfire peril <u>in additional to earthquake, and hurricane.</u>			3/21/2023
P7	Cat Risk SG	2	2025 Spring Meeting	Evaluate the impact of flood peril to the insurance market			3/21/2023
P8	PCRBCWG	1	2024 Spring Meeting	Adding pet insurance line in the RBC PR017, 018, 035 and RBC Schedule P, parts due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.		12/2/23 Proposal 2023-14-P (Pet Insurance) was exposed for a 60-day comment period at the Joint P/C RBC and Cat Risk SG meeting. 2/21/24 Proposal 2023-01BWG was adopted at the BWG Interim Meeting. 3/17/24 Proposal 2023-14-P was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting	7/27/2023

P9	Cat Risk SG	1	2024 Summer Meeting	Create a new disclosure to collect more information of insurers catastrophe reinsurance programs. Referral from Reinsurance (E) Task Force: https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2024%20Calls%20-%20Joint/03_17_NM/Att2c_%20Referral%20from%20RTF%20to%20PCRBCWG%20(1).docx	Referral from Reinsurance (E) Task Force	11/16/23 Received a referral and proposal from RTF. 12/2/23 Proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory) was exposed for a 60-day comment period at the Joint PCRBC and Cat Risk SG meeting. 3/17/24 Proposal 2023-13-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.	2/20/2024
P10	PCRBCWG	1	2024 Summer Meeting	Update PR019, Line 25 Annual Statement Source and the Statement Value to avoid double-counting on Stop-Loss premium.		3/17/24 Proposal 2024-10-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal was adopted during 4/25 PCRBCWG interim meeting.	2/20/2024
P11	Cat Risk SG	1	2024 Summer Meeting	Create additional Rcat pages to collect commercial Cat modelers product information known as "Climate Conditioned Catalogs", which would provide an estimate of climate change for hurricane and wildfire.	From Solvency Workstream of the Climate & Resiliency (EX) Task Force	1/29/24 Proposal 2023-17-CR was exposed for a 30-day public comment period at the Cat Risk SG Interim Meeting on Jan. 29. 3/17/24 Proposal 2024-10-P was re-exposed for a 22-day public comment period during the	1/29/2024

							Spring National Meeting.	
P12	PCRBCWG	1	2024 Spring Meeting	Change the RBC Schedule P short-tail lines to vendor link, which will pull directly from the Annual Statement, Schedule P short-tail lines as the adopted blanks proposal 2023-16BWG modified the Schedule P short-tail lines to show 10 years of data beginning in 2024.			2/21/24 Blanks Proposal 2023-16BWG was adopted at the BWG meeting 3/17/24 Proposal 2024-01-P was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.	
New Items – P&C RBC								
P13P10	Cat Risk SGPCRBCWG	21	2025 Fall Meeting 2024 Summer Meeting	Consider: 1) further investigating all geographic concentration related issues, possibly modifying the property and casualty (P/C) risk-based capital formulas Update PR019, Line 25 Annual Statement Source and the Statement Value to avoid double-counting on Stop Loss premium.			6/10/24 Exposed a referral from the Task Force for a 30-day comment period ending July 10.	2/20/2024
2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source		Comments	Date Added to Agenda
Ongoing Items – Health RBC								
X1	Health RBC WG	Yearly	Yearly	Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification to the Comprehensive Medical, Medicare Supplement and Dental and Vision underwriting risk factors is required. Any adjustments will be rounded up to the nearest 0.5%.	HRBCWG		Adopted 2022-16-CA (YE-2023) Exposed 2024-09-CA (YE-2024) Adopted 2024-09-CA (YE-2024)	11/4/2021
X2	Health RBC WG	3	Ongoing	Continue to monitor the Federal Health Care Law or any other development of federal level programs and actions (e.g., state reinsurance programs, association health plans, mandated benefits, and cross-border) for future changes that may have an impact on the Health RBC Formula.	4/13/2010 CATF Call		Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes	

						to the health formula because of ongoing federal discussions and legislation.	1/11/2018
						Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	
Carryover Items Currently being Addressed – Health RBC							
X3	Health RBC WG	2	Year-End 2025 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA Adopted proposal 2023-01-CA	
X4	Health RBC WG	2	Year-end 2025 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.	HRBC WG	Adopted 2016-06-H Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group Adopted 2024-12-H (MOD)	
X54	Health RBC WG	1	Year-end 2025 RBC or later	Work with the Academy to perform a comprehensive review of the H2 - Underwriting Risk component of the health RBC formula including the Managed Care Credit review. (Item 18 above) Review the Managed Care Credit calculation in the health RBC formula - specifically Category 2a and 2b. Review Managed Care Credit across formulas. As part of the H2 - Underwriting Risk review, determine if other lines of business should include investment income and how investment income would be incorporated into the existing lines if there are changes to the structure.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	4/23/2021 12/3/2018

X6	Health RBC WG	1	Year-end 2025 or later	Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.	HRBCWG	Review if changes are required to the Health RBC Formula	4/7/2019
X75	Health RBC WG	3	Year-End 2025 or later	Discuss and determine the re-evaluation of the bond factors for the 20 designations.	Referral from Investment RBC July/2020	Working Group will use two- and five-year time horizon factors in 2020 impact analysis. Proposal 2021-09-H - Adopted 5/25/21 by the WG	9/11/2020
New Items – Health RBC							
2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Task Force							
CA1	CADTF	2	2023	Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016	Ad Hoc Group	Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023. Proposal 2022-09-CA was adopted at the 2022 Summer Meeting. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting. Proposal 2023-12-CA was adopted at the 2023 Fall Meeting. Editorial Proposal 2024-08-CA will be exposed on 3/17/24 for a 30-day public comment. Proposal 2024-08-CA was adopted at the	

						2024 Spring National Meeting. Proposal adopted during 4/30 TF interim meeting.	
CA2			Ongoing	All investment related items referred to the RBC Investment Risk & Evaluation (E) Working Group		Proposal 2024-02-CA (Residual Structure PC & Health) was exposed for comment ending Mar. 2. 3/17/24 – the TF exposed this proposal for a 30-day public comment period. 4/30/24- the RG adopted this structure proposal. 6/28/24-the TF adopted proposal 2024-18-CA to retain 20% charge for the	1/12/2022

							<u>Total Residual Tranches or Interests.</u>	
CA3	CADTF	3	Ongoing	Receivable for Securities factor			Consider evaluating the factor every 3 years. (2024, 2027, 2030 etc.) Factors will be exposed for comments in April 2024. <u>6/28/24 - the TF adopted proposal 2024-13-CA.</u>	
CA4	CADTF	1	2026 or later	Established the Risk Evaluation Ad Hoc Group to: a) Evaluate the RBC factors. b) Potentially develop an evaluating process. c) <u>a) Prioritize those factors that require reviewing.</u>			<u>7/26/23 - the Risk Evaluation Ad Hoc Group established 3 Ad Hoc Subgroups to focus on different issues: 1) RBC Purposes & Guidelines Ad Hoc Subgroup; 2) Asset Concentration Ad Hoc Subgroup; and 3) Geographic Concentration Ad Hoc Subgroup.</u>	<u>03/23/2023</u>
<u>CA54</u>	<u>CADTF</u>	<u>1</u>	<u>Ongoing</u>	<u>Update the annual investment income adjustment to the comprehensive medical, medicare supplement, and dental and vision factors.</u>			<u>4/30/24 - the TF exposed proposal 2024-09-CA for a 30-day public comment period.</u> <u>6/28/24 - the TF adopted the proposal.</u>	<u>4/30/2024</u>
CA5	CADTF	2	2024 or later	Evaluate if changes should be made in the RBC formula to reflect the split of the Annual Statement, Schedule D, Part 1 into two sections. <i>Referral:</i> SCDPT1	Blanks WG and SAPWG		<u>12/2/23 - the TF agreed to send a referral to the RBCIREWG to continue reviewing this issue.</u>	<u>12/2/2023</u>
CA6	CADTF	2	2024 or later	Evaluate if changes should be made in the RBC formula to reflect the possible changes in the Annual Statement, Schedule BA proposal for non-bond debt securities <i>Referrals:</i> SCBAPT1	Blanks WG and SAPWG		<u>12/2/23 - the TF received a referral from SAPWG regarding the possible</u>	<u>12/2/2023</u>

							Annual Statement reporting for debt securities that do not qualify as bonds on Schedule BA. TF agreed to forward the referral along with the ACLI comment to the RBCIREWG.	
CA7CA65	CADTF	2	2024-2025 or later	Evaluate if changes should be made in the RBC formula to reflect the possible changes in Schedule BA Collateral Loan reporting, including structural changes to RBC blanks and forecasting and changes of risk charges that commensurate with underlying collateral type. <i>Referral from Statutory Accounting Principles (E) Working Group:</i> https://naiconline.sharepoint.com/teams/FRSRBC/Capital%20Adequacy%20CapAd%20Task%20Force/2024%20Calls/03_17NM/Att14Collateral%20Loan%20Memo%20to%20Multiple%20Groups.docx			1/23/24 – the TF received a referral from SAPWG regarding collateral loan reporting changes 3/26/24 – the TF exposed this referral for a 45-day public comment period. 6/28/24 – the SAPWG provided updates on this project.	1/23/2024
CA8CA76	CADTF	2	2024 or later	Review the proposal from the ACLI to modify the treatment of repurchase agreements in the Life RBC formula to determine whether its possible application to P/C and Health formulas. <i>Referral from Life Risk-Based Capital (E) Working Group:</i> Att16_2024-06-CA Repurchase Agreements P&C and Health.pdf	Life RBC WG		1/25/24 – the TF received a referral from LRBCWG. Proposal 2024-06-CA (Repurchase Agreements PC & Health) was exposed for comment ending Mar.2. 3/17/24 – the TF exposed this referral for a 30-day public comment period.	1/25/2024
CA9	CADTF	2	2024 or later	Establish a long-term approach for the issue of the negative interest maintenance reserve (IMR) <i>Referrals:</i> Negative IMR	SAPWG		12/2/23 – the TF agreed to forward the referral to LRBCWG.	12/2/2023
Carryover Items Currently being Addressed – Task Force								

New Items –Task Force							
CA87	CADTF	1	2024 or later	<p>Review the possibility of establishing a new Working Group to evaluate the non-investment risk issues.</p> <p>a) Review the possibility of removing the TAC and ACL amounts I the annual statement’s five-year historical data page.</p> <p>b) Re-evaluate some of the missing non-investment risks to determine whether the Task Force should include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory methods.</p> <p>c) Review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made.</p>			4/30/2024
CA98	CADTF	2	2025 or later	Review the RBC Preamble to determine whether additional modification is required to clarify and emphasize the purposes and intent of using RBC.	RBC Purposes & Guidelines Ad Hoc Subgroup		4/30/2024
CA109	CADTF	2	2025 or later	Evaluate if changes should be made in the RBC formula to reflect the possible changes in the existing low-income housing tax credit investment lines in the RBC formulas to allow the expansion of including any type of state or federal tax credit program.	SAPWG	4/30/24 – the referral was exposed for a 30-day public comment period. 6/28/24 – the SAPWG provided updates on this project.	4/30/2024

Historical Comments:**P1:**

4/26/21 - The SG exposed the referral for a 30-day period.

6/1/21 - The SG forwarded the response to the Climate and Resiliency Task Force.

2/22/22 - The SG adopted proposal 2021-17-CR (adding the wildfire peril for informational purposes only). The SG continues reviewing other perils for possible inclusion in the Rcat.

8/11/22 – The TF adopted Proposal 2022-04-CR (2013-2021 Wildfire Event Lists)

9/26/22 – The SG formed an ad hoc group to conduct review on severe convective storm models.

7/18/23-The SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC, and Corelogic.

12/2/23-Proposal 2023-15-CR (Convective Storm for Informational Purposes Only Structure) was exposed for a 30-day comment period at the Joint P/C RBC and Cat Risk SG meeting.

CA1:

1. Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023.
2. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting.
3. Proposal 2023-12-CA was adopted at the 2023 Fall Meeting.
4. Editorial Proposal 2024-08-CA will be exposed on 3/17/24 for a 30-day public comment.

**PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S
CAPITAL ADEQUACY TASK FORCE IN CONNECTION WITH PROPOSED AMENDMENTS TO RISK-BASED CAPITAL
BLANKS AND INSTRUCTIONS**

The following establishes procedures and rules of the Financial Condition (E) Committee's Capital Adequacy Task Force (Task Force) and its Working Groups with respect to proposed amendments to the NAIC RBC Forecasting (blanks) and Instructions.

1. The Task Force may consider relevant proposals to change the RBC blanks and instructions at the national meeting or designated interim meeting as scheduled by the Task Force.
2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmt_e_capad.htm. All interested party proposals should be emailed to the appropriate NAIC staff support with a completed proposal form and mocked-up changes.

The following guidelines apply:

- ~~Although proposal shall be exposed throughout the year to allow ample time for consideration, A~~ any proposals that affects an RBC blank (e.g. all pages after LR001, PR001, XR001) must be exposed by the Task Force or its Working Groups ~~by no later than January-March 31~~ of the effective year of the change. ~~In only rare instances, where the structure change is urgent, may the exposure deadline be extended to March 15 for either the Task Force or Working Groups.~~ The proposal must be adopted by the Task Force no later than ~~April 30~~ May 15 of the effective year of the change.
- Any proposal that only affects the instructions or factors must be exposed by the Task Force / Working Group by ~~April 30~~ May 15 and adopted by the Task Force by June 30 of the current year.
- Only the Task Force may extend the June 30th adoption deadline for previously considered proposals ~~regarding instructions or factors~~ upon a ~~super majority (two-thirds)~~ consent of the Task Force members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high ~~and implementation by the RBC software vendors is feasible~~. The ~~super majority two-thirds~~ consent applies only in the instance of a Task Force vote that is outside of the standard RBC adoption deadlines (~~April 30~~ May 15 and June 30).

An illustration of the proposed change to the RBC blank, ~~factors~~, or instructions should accompany the Proposal Form. In addition, an impact analysis ~~will be required~~ is preferred for any factor change. If another NAIC Committee, Task Force or Working Group is known to have considered this proposal, that Committee, Task Force or Working Group should provide any relevant information.

The Task Force/Working Groups will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days to ensure adequate time to provide comment on any structural change, unless a shorter exposure is approved by the Task Force or Working Groups) or to reject the proposal. The comment period shall ends at least 3 business days prior to the next designated national or interim meetings of the Task Force/ Working Group. The Task Force/Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Task Force/Working Group if ~~there is general consensus among members that~~ the proposal has merit but warrants additional work or input. ~~However, the Task Force will limit the number of deferrals to two. The proposal must be acted upon after the second deferral, or absent action, the proposal is deemed to have been rejected and will be removed from the agenda.~~ The Task Force may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group, ~~the proposal will be reprioritized on the working agenda and it~~ will be considered again ~~in the form of a modified or new proposal~~ after comments/recommendations are received. The Task Force will review and adopt the working agenda at each National Meeting, if necessary, to ensure all items designated as a priority 1 are being addressed, to add or delete items that have been addressed or to reprioritize the remaining items on the working agenda.

3. Interested Party proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Task Force/Working Group if the proposal is filed at least ~~ten~~ fifteen business days prior to the meeting.
4. The NAIC staff support shall prepare the meeting materials including all suggested proposals. Interim meeting materials will be posted no later than three business days prior to the scheduled meeting on the NAIC website. Initial national meeting materials will be posted ten business days before the first day of each National Meeting on the NAIC website. Materials posted ten business days in advance of the National Meeting will not be printed for distribution.

5. At each meeting, the Task Force/Working Group will review comments that were received by the comment exposure due date for suggested proposals.
6. NAIC staff support will incorporate any non-substantiveeditorial changes discovered in the annual updates of the RBC formulas e.g., reference changes due to new SSAPs or annual statement references. ~~These changes will be reflected in RBC newsletters that will be presented to the Working Group for adoption at the Summer National Meeting.~~ NAIC staff support may also request that the Task Force/Working Group reconsider items adopted, if these items contain substantial errors-modifications.
7. The Task Force/Working Group may, when deemed necessary, appoint an Ad Hoc Group to study proposals and/or certain issues.
8. The NAIC will publish the RBC Forecasting and Instructions for the next subsequent year on, or about November 1 each year. The following documentation will be posted to the NAIC Web site:
 - RBC Proposals adopted by the Task Force (after each interim and National Meeting)
 - Annual RBC Newsletters (after Summer National Meeting)
 - Annual RBC Statistics (after Summer National Meeting)
 - Working Agenda (after each National Meeting)
 - Any subsequent corrections to these publications (as needed)

Draft: 8/14/24

Adopted by the Executive (EX) Committee and Plenary, Dec. xx, 2024

Adopted by the Financial Condition (E) Committee, Dec. xx, 2024

Adopted by the Capital Adequacy (E) Task Force, **TBD**

2025 Proposed Charges

CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Capital Adequacy (E) Task Force** will:
 - A. Evaluate emerging “risk” issues for referral to the risk-based capital (RBC) working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
 - B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
 - C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.

2. The **Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group** will:
 - A. Evaluate refinements to the existing NAIC RBC formulas implemented in the prior year. Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.
 - B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than ~~April 30~~May 15 of the reporting year, and any proposal that affects the RBC factors and/or instructions must be adopted no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by July 30, where the Capital Adequacy (E) Task Force votes to pursue by ~~super-majority (two-thirds)~~ consent of members.
 - C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.
 - D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.

3. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation

and determine if additional revisions need to be made.

- B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.
4. The **Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.
 5. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
 - A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
 - B. Continue to update the U.S. and non-U.S. catastrophe event list.
 - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
 - D. Evaluate the RBC results inclusive of a catastrophe risk charge.
 - E. Refine instructions for the catastrophe risk charge.
 - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
 - G. Evaluate other catastrophe risks for possible inclusion in the charge.
 6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
 - A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
 - i. Identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) for Insurers Model Act (#312)*.
 - ii. Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels.
 - iii. Documenting the modifications made over time to the formulas, including, but not limited to, an analysis of the costs in study and development, implementation (internal and external), assimilation, verification, analysis, and review of the desired change to the RBC formulas and facilitating the appropriate allocation of resources.
 7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.
 - B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
 - C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
 - D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
 - E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung

SharePoint/FRS-RBC/CADTF/Charges/2023~~4~~/2023-2024 Proposed Charges.docx

TO: Nathan Houdek (WI), Chair of the Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair of the Financial Condition (E) Committee
Cassie Brown (TX), Co-Vice Chair of the Financial Condition (E) Committee

FROM: Tom Botsko (OH), Chair of the Capital Adequacy (E) Task Force

DATE: July 31, 2024

RE: Request for a New Working Group

The Capital Adequacy (E) Task Force, along with the RBC working groups, are requesting a new working group be appointed to review non-investment related factors that affect the RBC formula. When necessary, other groups will be contacted for their expertise. This new working group, the Risk-Based Capital Risk Research (E) Working Group, would be charged with performing a comprehensive review of the RBC framework for all business types, which could include: 1) identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) Model Act* (#312); 2) assessing the impact and effectiveness of potential changes that would contribute to the identification of weakly capitalized companies (i.e., those companies at action level); and 3) documenting the modifications made over time to the formulas, including, but not limited to an analysis of the costs in:

- Study and development.
- Implementation (internal and external).
- Assimilation.
- Verification.

Since the inception of the RBC formulas in the early 1990s, many of the risk factors have not been evaluated/updated for the appropriateness of the initial risk charge.

We believe that a regularly scheduled analysis of these risk charges is necessary to maintain the accuracy of the formula and to stay current with economic conditions. We also understand that the Insurance Core Principles (ICPs) speak to the periodic review of the solvency framework. This proposed working group would work in parallel with these principles to review and maintain appropriate RBC charges.

Another important aspect of this working group would be to maintain documentation of the analysis and the background of the charge. At various times, the RBC working groups have reached out to the original members of the group that created the RBC formulas to better understand the thought process/reasons for some of the original charges.

As the proposals are discussed and adopted by this new group, they will move up to the Task Force for further discussion. The Task Force will then decide if this should be discussed and adopted at the Task Force level or be sent down to the individual RBC working groups. Each proposal will have different circumstances and will be handled accordingly.

As the insurance environment evolves both domestically and internationally, it is imperative that our organization stays current. The development of group capital within the NAIC is an indicator that our organization needs to maintain appropriate and current methodology.

Thank you for taking the time to review this request. We are available to discuss this with you at your convenience.

Please contact Eva Yeung, NAIC staff support for the Capital Adequacy (E) Task Force, at with any questions.

Cc: Dan Daveline; Eva Yeung; Maggie Chang; Kazeem Okosun Derek Noe; Dave Fleming; Julie Gann