

**MEMORANDUM**

To: Interested Regulators and Interested Parties

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

Date: February 9, 2025

Re: Risk-Based Capital (RBC) Model Governance (EX) Task Force

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**Overview**

This memorandum provides background for the work related to the Risk-Based Capital (RBC) Model Governance (EX) Task Force as well as the 2025 goals and proposed charges. The work of this Task Force will align with the NAIC’s 2025 strategic roadmap and the RBC components of the Financial Condition (E) Committee’s “Framework for Regulation of Insurer Investments – A Holistic Review.”

**Background**

The prolonged low-interest rate environment that has existed since the Global Financial Crisis (GFC) of 2007–2009 created an industry trend to search for yield in investment portfolios and a material shift in the complexity of insurers’ investment strategies, resulting in more market and credit risk than historically normal. Traditional banks have also retreated from providing credit due to stricter post-GFC regulations and there has been a notable increase in private capital. These factors have contributed to insurers now serving as a growing source of real economy financing.

RBC is a tool used by regulators to identify weakly capitalized insurance companies. In doing so, RBC quantifies the risks taken by insurance companies by establishing minimum levels of required capital necessary to absorb those risks. Failure to hold certain prescribed levels of capital results in regulatory action in accordance with the level of capital shortfall. Capital requirements are generally calibrated to a targeted level of statistical safety, established to cover losses associated with a given risk within a desired level of confidence.

The RBC Model Governance (EX) Task Force will be tasked with developing guiding principles for updating the RBC formulas to address current investment trends with a focus on more RBC precision in the area of asset risk and to ensure that insurance capital requirements maintain their current strength and continue to appropriately balance solvency with the availability of products to meet consumer needs.

**2025 Goals**

The RBC Model Governance (EX) Task Force seeks to accomplish the following in 2025:

1. Develop guiding principles for future RBC adjustments.
2. Perform a comprehensive gap analysis to identify inconsistencies and prioritize solutions where appropriate.
3. Design an education and messaging campaign to highlight the RBC framework's strengths.

Guiding principles should be established by the Task Force to be used for current and future work to update the RBC formulas. With regards to current work, in 2022, the Financial Condition (E) Committee directed the life risk-based capital formula to be updated to reflect an increase in tail risk that exists for newer asset-backed securities, including residual investments. As the work of updating the RBC formula was undertaken by the relevant RBC working groups, differences of opinion on threshold questions and underlying data may have led to confusion among both regulators and other stakeholders. Principles will help address these types of situations in the future.

To avoid similar confusion for work related to RBC, the principles will answer the following questions:

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

As it pertains to performing a gap analysis, the Task Force will engage with relevant stakeholders and subject matter experts to develop a list of gaps within RBC formulas, as well as consider the lack of consistency that currently exists within the methodologies of current life asset risks. Although the reasons for such inconsistencies may be valid, the gap analysis should identify where these inconsistencies exist, whether more consistency would help improve the level of precision sought in this project, and whether new methodologies are needed.

Finally, with respect to the education and external messaging efforts, as the insurance market has become more global and large insurers have become internationally active, there has been an increase in the need for global insurance supervisors to understand differences across regulatory jurisdictions to effectively supervise these groups. Through these collaborative efforts, U.S. regulators and NAIC staff continue to engage with international stakeholders in efforts to improve understanding and knowledge of the U.S. state-based regulatory system, including the role of RBC. In short, this initiative will not only serve as an opportunity for an update to RBC governance; it is also an opportunity to define and communicate the strengths of the RBC framework to a global audience.

### **Role of External Consultants**

An external consultant will be hired by the NAIC to provide objective analysis and technical expertise, ensuring that existing NAIC resources are minimized for this project to prevent detracting from existing priorities.

### **Draft Proposed 2025 Charges**

1. Develop a set of guiding principles for the RBC framework to ensure a consistent approach to future RBC adjustments. These principles will serve as a strategic foundation to ensure that all revisions to the RBC framework are enhancements that uphold its integrity, adaptability, and global competitiveness and further the principle of “Equal Capital for Equal Risk.”
2. Complete a comprehensive gap analysis and consistency assessment to identify and inventory gaps that exist and establish a plan for addressing identified gaps and potential inconsistencies that improve the framework.
3. Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.

4. Facilitate and oversee coordination and alignment among all NAIC committees/task forces/etc. related to this initiative and implementation of the guiding principles, including the Life Actuarial Task Force (LATF), the Capital Adequacy Task Force (CATF), the Accounting Practices and Procedures Task Force (APPTF), and the Valuation of Securities Task Force (VOSTF). The work of this Task Force will not result in the work of other RBC-related committees/task forces/etc. being paused or stopped.
5. Create a process for analyzing both retrospective and future adjustments to RBC, incorporating regular reviews of RBC outcomes and ensuring future adjustments are made in alignment with guiding principles. This process will facilitate ongoing improvements to ensure the framework remains responsive to emerging risks and market trends, enabling the RBC framework to adapt proactively.

If there are any questions regarding this memorandum, please contact NAIC staff (Dan Daveline at [ddaveline@naic.org](mailto:ddaveline@naic.org)) for further clarification.