



September 29, 2026

Commissioner Jon Godfread (ND), Chair
Commissioner Nathan Houdek (WI), Co-Vice Chair
Commissioner Doug Ommen (IA), Co-Vice Chair
Risk-Based Capital Model Governance (EX) Task Force
National Association of Insurance Commissioners

Re: [Exposure of Gaps & Inconsistencies](#)

Dear Commissioners Godfread, Houdek, and Ommen:

On behalf of the American Academy of Actuaries'¹ Cross-Practice Risk-Based Capital (RBC) Task Force (Academy), we appreciate the opportunity to provide comments to the RBC Model Governance (EX) Task Force (MoGo Task Force) on the Gaps & Inconsistencies (Exposure) shared at the Summer National Meeting by Bridgeway Analytics. This is an important conversation, and we offer the following comments for your consideration.

We reviewed the list of gaps and inconsistencies covering the RBC components outlined in the Bridgeway presentation in light of [the Principles for RBC Requirements adopted in December 2025](#). As the MoGo Task Force has expressed the desire to develop a two-year priority agenda, it would be helpful to clarify the purpose of the two-year period by:

- setting benchmarks for completion of the tasks associated with each priority;
- prioritizing intended start dates;
- supporting engagement by committees on topics that are considered priorities, e.g., Statutory Accounting Principles (E) Working Group (SAPWG) annual statement exhibits;
- serving as an endorsement of work planned or in-flight; and,
- supporting enhanced coordination.

As we've thought about the two-year horizon, we've identified several Academy projects that support the NAIC's work around RBC. Seeking this additional clarification to the agenda offers the MoGo Task Force, as well as the Academy and others, a perspective that can help support project prioritization and work timelines.

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

	Academy Committee	Current/Recent Academy Work
LRBC	C1 Subcommittee	Currently finalizing the CLO project and transitioning to a new asset class directed by the RBC Investment Risk & Evaluation (E) Working Group. Collateralized loan RBC charge to be finalized for YE 2027. This may impact timing for additional projects.
	C3 Subcommittee	Currently field-testing C3 revisions for fixed and variable annuities, as well as single-premium life products.
HRBC	Health Solvency & Financial Reporting Committee • Stop-Loss • Long-term care (LTC) • Managed Care	Three separate projects are currently in flight, with work on Stop-Loss and LTC slated to begin upon receipt of necessary data. Follow-on work from the 2025 H2 Underwriting Managed Care report currently underway.
CRBC	P&C RBC Committee	The P&C RBC Committee is updating premium and reserve risk calibrations using the latest available annual statement data. This effort builds upon the methodology published in the P&C RBC Committee's 2021 , 2023 , and 2025 reports.
Cross	Reinsurance Working Group (RWG)	The Academy has been addressing aspects of life reinsurance risk via AG 55. Currently the RWG is evaluating the treatment of reinsurance in all three RBC formulas to assess NAIC proposals and identify any additional gaps worth bringing to the NAIC's attention. With respect to P&C RBC, an actionable item relates to swing-rated arrangements, which don't have the same issues as other Bridgeway reinsurance RBC proposals.

General Considerations

One of the benefits of the MoGo Task Force is that it sits across the life, health, and P&C industries with respect to RBC considerations, allowing it to bring a cross-sector, cross-formula point of view. While we've noted that items on the Exposure list are currently targeted to specific sectors, there are a number that are cross-practice, which we would suggest warrant further consideration. Many are currently included in the list of gaps and inconsistencies, and we would encourage the MoGo Task Force to consider two new topics—interconnection between assets and liabilities and asset risk.

Interconnection between Assets and Liabilities

Assets and surplus may be treated differently by different sectors, or even across different lines of business within a sector (e.g., life versus a payout annuity or deferred annuity). The Academy has been discussing whether an asset- or surplus-based metric should be used. Is the concern to address assets over time that are used to meet obligations to policyholders? Or is it surplus deterioration? In either case, this represents a cross-sector inconsistency that may need to be

considered holistically.

Asset Risk

We also suggest considering how credit risk is structurally assessed across the different sectors. Exploring these existing structural variations could help ensure that similar credit exposures are treated consistently across the different sectors, minimizing the potential for unintended capital differences.

Variance/Covariance formula

We believe the MoGo Task Force should evaluate the Variance/Covariance formula, which combines risk charges across all three sectors simultaneously, considering the time horizon and calibrated security levels under each RBC formula. Within P&C, the formula combines overall premium and overall reserve risk, assuming independence. We suggest evaluating correlations at level-1 and level-2 risks across the practices, ensuring they are assessed separately and independent of the specific components under consideration.

The Academy has engaged on issues related to covariance in past years. Most recently, we provided an [update on correlation work that included covariance](#) to the NAIC's Life RBC Working Group in May 2025 and [in September 2025](#). The Academy's Health Practice Council also [commented on covariance in June 2011](#).

Long-Term Care (LTC) Risk Capital H2 charge

Given that LTC can be underwritten by life, health, and P&C insurers, we recommend an evaluation of the consistency of treatment across all three sectors, such that risk charges for LTC risks are treated coherently across sectors, without introducing an incentive for regulatory capital arbitrage.

Reinsurance

We observed that the Bridgeway presentation highlights the magnitude of industry involvement. However, RBC is fundamentally an individual company-level consideration designed to identify potentially weakly capitalized insurers relative to the risk they take. There are several considerations, such as collateral requirements in the non-reciprocal jurisdiction or over-collateralization, any recapture fees or surplus strain caused by a recapture, trust agreements, or rating agency scrutiny, which are not consistent across reinsured business. The relevant materiality question is whether, after considering collateral and other available protections, a cedant could face a meaningful need to restore capital and surplus if a reinsurer fails and the business is recaptured.

Gaps & Inconsistencies

Our specific feedback on the gaps and inconsistencies is provided in the table below. Given the dependencies for some of these projects, the table prioritizes work that can be done within the two-year timeframe.

RBC component	Description	Status & Notes on Timing
	Within the two-year timeframe	
RMBS and CMBS	1. RMBS & CMBS Intrinsic Price (IP) Designations have characteristics that deviate significantly from agency ratings, including having a maturity effect. 2. An assessment of whether corporate C1 bond factors are appropriate for Life RMBS and CMBS RBC is needed, with considerations for their unique structural features.	The Academy believes this proposal could be incorporated into existing structured securities work and could be started within the two-year timeframe.
Life principle-based capital (RBC C3)	While the current focus on revising C3 has been on fixed and variable annuities, and life products that are single-premium, there hasn't been a recent significant effort to align RBC C3 calibration for life products that are not single-premium. Life recurring-premium and other products are subject to static factors, which should be modernized and principle-based.	This work was deferred by the NAIC's Life RBC (E) Working Group to manage scope until further notice (see additional notes below). If the deferral is reversed, work could be started within the two-year timeframe.
Life RBC Covariance, including the treatment across asset classes, and the portfolio adjustment factor	Life RBC Covariance assumptions are coarse, generally set at 100% or 0%, which clearly don't reflect reality. Furthermore, the current simplistic structure does not lend itself to recognizing diversification or concentration risks across the broad set of assets that face disparate risks (e.g., corporate, municipal, and consumer backed securitizations). An assessment of the RBC Covariance structure (e.g., cross asset class) and parameters is needed.	The Academy provided an update on correlation work that included covariance to the Life RBC (E) Working Group. Additional work has been paused. If the work is resumed, next steps would include reviewing stakeholder feedback to improve the initial proposal. Additional work could be started within the two-year timeframe.
H2 Underwriting Risk	Underwriting risk factors need to be assessed and updated, including diversification credit, stop-loss, LTC, and managed care credit.	The Academy provided analysis of H2 managed care risk factors in April 2025 (see additional notes below). Work on this project continues. Stop-loss and LTC work will begin upon receipt of data and could start within the two-year timeframe.

P&C Rcat correlation	Correlations among hurricane, wildfire, and severe convective storm risks need to be assessed and the Rcat calculation formula updated accordingly.	The Academy is in the very early stages of correlation analysis. Data will be analyzed and recommendations for use in the RBC formula will be offered. This work can be started upon receipt and analysis of data, which would likely be within the two-year timeframe. Support is available to estimate the correlations between perils based on expert judgment.
Outside the two-year timeframe		
Life residential mortgage loans	Residential mortgages can range from a few hundred thousand to several hundred million dollars, with properties that can face significant differences in their risk characteristics. An assessment of whether the current 68 bps charge (~A-rated corporate bond), which was not empirically based, accurately reflects the risks is needed.	While this issue needs to be revisited, waiting for the pending Statutory Accounting Principles (E) Working Group residential mortgages proposal to be finalized is recommended. The proposal will determine accounting classifications and what data is available in the schedules, which will then inform the RBC framework.
Life RBC factor-designation grid mismatch	Schedule D-1 bonds use the granular 20-class C1 grid. Schedule BA fixed income is charged the coarse pre-2021 6-class grid and the 2021 PAF, which should be assessed for possible update.	Revisiting all areas in the Life RBC instructions where a 6-class grid is used, for example, Preferred Stock, Surplus Notes, Capital Notes, and Derivatives, is recommended. Considering any dependencies upon Statutory Accounting Principles (E) Working Group and the Securities Valuation Office changes to underlying classifications in Schedule BA is also reasonable.
Life investment valuation-basis mismatch	Applying bond and mortgage factors to Schedule BA debt may not be appropriate, which needs to be reviewed, given mismatched valuation. For example, Schedule B mortgages, generally measured at amortized cost, while Schedule BA funds are measured under the U.S. GAAP equity method.	There is potential volatility with this component, and it may not necessarily be within the RBC Working Groups' respective purviews. The Academy agrees with the assessment of the existing mismatch in accounting, where Schedule B is on a book value basis and Schedule BA is market-to-market, which violates the RBC principle proposed by the Academy where capital charges should follow accounting. The existing valuation mismatch should be addressed.

Life reinsurance transactions	While RBC includes a reserve credit and recoverables charge, they are coarse. In addition, the use of arrangements in non-Reciprocal jurisdictions has grown. Thus, the need to assess risks and RBC treatment.	The Academy is starting work to evaluate the RBC treatment of reinsurance by determining the existence of genuine gaps and inconsistencies before quantifying RBC factors for any identified issues. Given the current sparsity of data, working through these steps and finalizing recommendations will require significant time (see comments below).
P&C reinsurance transactions	While RBC includes a counterparty recoverables charge, by credit quality and collateral, arrangements in non-Reciprocal jurisdictions and nontraditional reinsurance have grown. Thus, the need to assess risks and RBC treatment.	The life reinsurance comments apply equally to the P&C issues surrounding the counterparty recoverables charge, by credit quality and collateral, and arrangements in non-Reciprocal jurisdictions. This is less true for the swing-rated excess of loss arrangements where development of RBC factors can commence first. (see comments below).

Life Principle-Based Capital (RBC C3)

As noted in Bridgeway’s presentation, the [Academy is field testing](#) revisions to fixed and variable annuities and life products that are single-premium. Bridgeway also noted that “there hasn’t been a recent significant effort to align RBC C3 calibration for life products that are not single-premium. Life recurring-premium and other products are subject to static factors, which should be modernized and principle-based.” Such alignment was [proposed in March 2025](#).

H2 Underwriting Risk

The underwriting risk factors in the Health RBC formula need to be assessed and updated. The Academy provided [its analysis of H2 risk factors](#) in April 2025, which are currently under consideration by the NAIC. The NAIC is also considering the implementation timeline and whether a phase-in approach will be used.

A critical additional gap is the lack of diversification credits in the H2 formula. Currently, the H2 factors are calculated by line of business and then added together. Diversification may result in significant credit for multi-line entities. The NAIC should continue to evaluate the potential need for a diversification credit in the health context in the future.

We agree that managed care credit factors should be updated as well, which was included in the April 2025 comments. With this additional reporting detail implemented for at least three years, further analysis could be performed to update the managed care credits under an expanded set of

categories. Implementing these factors should be coordinated with a periodic update of the H2 risk factors (say, with one of the triennial updates), as it is critical that they be calibrated so that the aggregate impact of the H2 risk factors and managed care credits is neutral across U.S. health insurance companies. Moreover, an impact analysis should be performed to test the impact of updated managed care credits by sector, size of company, and other categories, to ensure the changes are as intended and to consider whether a phase-in is appropriate.

The gap analysis also identified LTC and stop-loss as lines of business that do not have specific H2 risk factors in the Health RBC formula. These lines of business were considered out of scope for the initial H2 analysis produced in 2025, which addressed risk factors for lines of business on HRBC XR013/XR014. In order to develop specific factors for these lines of business, there should be an assessment of the current level of reporting detail in the Health Annual Statement and whether it can support the historical analysis of H2 risk and its implementation within the RBC formula.

Life Reinsurance Transactions and P&C Reinsurance Transactions

Life Reinsurance Transactions

With respect to life reinsurance transactions and the effort level identified in Bridgeway's presentation, the Academy agrees with the assessment that this item's effort level is "Significant." There is no rating- or collateral-graduated structure at all, unlike P&C's R3. Building that from scratch, plus quantifying "risk of needing to recapitalize Capital & Surplus on recapture" (a capital-adequacy question, not a recoverables question), is a bigger lift than the P&C analog. This is partially due to the long-term nature of annuity and life business as compared to P&C. There is also the question of the sparsity of data to base a new factor. In the past few decades, there have been very few life and annuity reinsurance breaches where a forced recapture occurred. The capital and surplus strain impact of the few situations where forced recapture did occur may be difficult to determine. While Actuarial Guideline LV (AG 55) provides some insight into the issue, those insights focus on reserves and capital implications are a secondary concern. It explicitly does not analyze the total assets supporting a transaction. That's a genuine data gap, not merely a modeling gap, and addressing it will require significant time, potentially over multiple years. To put this in perspective, obtaining the missing data first requires agreement on what data would be most useful to quantify the risk. Then there needs to be formulated a data request which can obtain this data. This data request would then be required to be completed by companies and finally it would need to be analyzed. A similar process with AG 55 took 18 months from proposal to NAIC adoption, followed by another year to complete preliminary analysis. This reinforces our belief that it will take significant time to create new RBC factors.

We also note an important sequencing consideration. The MoGo Task Force is still working through whether this represents a material gap, the nature and scope of the potential gap, what data would be needed to evaluate it, and where it should rank against other RBC priorities. Simultaneously, the Life RBC Working Group has been directed to develop a recapture risk

factor and counterparty risk treatment on an accelerated timetable. In our view, the comments above should inform how any RBC solution is designed. Building a factor before the underlying risk, materiality, data, existing mitigants, and scope have been sufficiently evaluated risks could compromise the integrity and appropriateness of the work product.

With respect to materiality, it is possible that the life RBC initiative outlined by Bridgeway is material, but the headline \$135B of non-reciprocal reserve credit plus ModCo reserve deposits should not be treated as a proxy for unmitigated counterparty or collectability risk. Further, as stated previously, RBC is an insurer-level and not an industry-wide factor. To determine an individual company's exposure, one must look at the impact of a recapture. Items to consider are the quantity and quality of the collateralized assets and the magnitude of any recapture fee, if any, that would change hands upon a recapture.

Pages 16–20 of the Bridgeway presentation recognize that life reinsurance is already subject to multiple layers of oversight, including transaction-specific safeguards such as collateral levels, investment guidelines, jurisdictional requirements, and ongoing supervisory tools that provide RBC-type protections. These protections must be considered before concluding that similar reserve-credit balances present similar risk. Life reinsurance recoverables should not be the focus of this effort because they are relatively small and generally settle quickly. The more relevant question is whether, after accounting for collateral and the other supervisory protections already available, a cedent could face a meaningful need to restore Capital & Surplus upon recapture if a reinsurer defaults. The Capital & Surplus impact associated with the headline \$135B—not the \$135B itself—is the value that should be discussed. More information and analysis are needed to determine this lower figure and, once established, to assess its materiality and the associated true collectability.

Accordingly, the existence and materiality of an RBC gap should be established before the design and calibration of a new capital charge are substantially advanced. The size or growth of the underlying reinsurance market, standing alone, does not establish the magnitude of the capital risk that an RBC factor would be intended to address.

As stated, RBC is intended to identify potentially weakly capitalized insurers and facilitate timely regulatory action for companies with low capital balances relative to the underlying risks. Updates should be made primarily where potential adjustments are material to solvency. We encourage equal capital applying to equal risk, with consistent statistical safety levels and time horizons for comparable risks. While we support the principle of equal capital for equal risk, as noted in our [comments on the Principles adopted in December 2025](#), we also recognize that this concept allows for appropriate flexibility. Alternative treatments may be warranted when there are substantial differences in the nature of the risk, naturally reflecting the distinct business models of life, health, and P&C insurers. Implementing RBC changes needs to factor in the materiality, scope, data sufficiency, existing risk mitigants, and the nature of the underlying risks before determining any such change.

The key policy question with respect to this reinsurance issue should be whether the available

tools, together with transaction-specific protections, are insufficient for a particular transaction or class of transactions. Commissioners may also wish to distinguish the question of non-reciprocal jurisdiction exposure from the separate issue of affiliated or captive transaction exemptions, because broader offshore growth may be driven as much by structure and affiliation as by jurisdictional status. To ground the analysis of counterparty risk in established professional frameworks, the MoGo Task Force can look to [Actuarial Standard of Practice No. 11, Section 3.5](#). While ASOP No. 11 does not provide empirical data or statistical calibration tables, it outlines critical qualitative considerations and risk elements—such as collateral provisions, trust agreements, and financial strength—that define how actuaries comprehensively evaluate counterparty risk.

P&C Reinsurance Transactions

With respect to P&C reinsurance transactions, we agree that the effort is “Significant,” but suggest that the work be split into two tracks with different difficulty levels, rather than treating it as one item. The first would be non-reciprocal jurisdiction visibility, which builds on P&C’s existing R3 charge (already graduated by rating and collateral) rather than building it from scratch. That makes this a lower effort than the comparable life item; however, there are still significant data issues. The second track would be swing-rated excess-of-loss/captive arrangements, which are specific, already well-understood structure (rate swings, loss caps, multi-year windows, conversion-factor fees). Since this has already been characterized clearly, this could move faster as a targeted fix.

We agree that materiality is present, with the same nuance as the life item. The \$42B in non-reciprocal ceded reserve credit is small next to \$1.397T (U.S.-domiciled) and \$184B (reciprocal), but it has more than doubled since 2016, so it is a growth trend. Industry commenters disagree on where the real risk sits. Some say aggregate non-reciprocal exposure isn’t the concern and that focus should instead go to lightly capitalized primary insurers dependent on a single non-reciprocal reinsurer. That is a concentration-risk argument, not an aggregate-dollars one. More data is needed before narrowing the scope. This overlaps heavily with the Academy’s existing work on the R3 reinsurance credit-risk charge, so it is a refinement of territory the Academy has covered.

We note one notable limitation: the presentation says retrocession data for non-reciprocal jurisdictions “isn’t readily available” and ILS/sidecar visibility is similarly limited. Parts of this analysis can’t be finished until that data exists. We recommend that the MoGo Task Force factor this in when sequencing this item versus the swing-rated piece, which doesn’t have the same data gap.

The swing-rated excess-of-loss issue is likely the most concrete, actionable item on the full 10-item list. It’s not a jurisdictional-visibility problem, it’s a specific arrangement design (loss caps + multi-year windows + loss-conversion “fees”) that gives more RBC credit than the risk actually transferred, in scenarios so extreme that a reinsurer shortfall would already mean the cedent is insolvent. We recommend flagging this as a separate, faster-moving item, distinct from the broader non-reciprocal jurisdiction question. We also recommend this be prioritized over other

topics, including those that may be held up by data-availability problems, e.g., retrocessions and ILS/sidecars.

One structural point for the MoGo Task Force to consider. As noted in the Bridgeway presentation, the drafting process has not resolved a genuine underlying tension: Is the primary risk “non-reciprocal jurisdiction exposure in aggregate” or is it “concentration risk at thinly-capitalized single-reinsurer-dependent cedents?” Those point to different factor designs (a blanket jurisdictional charge vs. a concentration-triggered charge), and that scoping question should be settled or explicitly flagged as still open before either item gets whittled into the list for consideration and discussion at the Fall National Meeting in Dallas, since committing to a data-collection and methodology build without resolving that upstream question risks having to redo the work.

The same sequencing principle applies to the Life reinsurance item as well, where fundamental questions concerning the nature, materiality, measurement and scope of the identified risk remain under consideration even as work on a potential RBC treatment has already begun.

We appreciate the opportunity to provide these comments and look forward to the continued collaborative dialogue with you and other stakeholders as this work continues. If you have any questions or would like to discuss these comments further, please contact Katie Dzurec, Public Policy Outreach Director (dzurec@actuary.org).

Sincerely,

Dana Hunt, MAAA, FSA, FRM
Chairperson, Cross-Practice RBC Task Force
American Academy of Actuaries