May 8, 2025

Mike Yanacheak
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Proposal 2024-16-CA (Revised Preamble)

Dear Chair Yanacheak,

On behalf of the Risk Management and Financial Reporting Practice Council's Prudential Regulation Committee (the Committee) of the American Academy of Actuaries,[1] I appreciate the opportunity to provide input to the Capital Adequacy Task Force (CADTF) on the re-exposed revisions to the Risk-Based Capital Preamble, 2024-16-CA (the Re-exposure). The Academy's mission is to serve the public and the U.S. actuarial profession. As part of that mission, the Academy has historically closely collaborated with the NAIC and state regulators in updating components of the NAIC's risk-based capital (RBC) framework to maintain it as an appropriate solvency monitoring tool. The Committee provided comments on the initial 2024-16-CA exposure in 2024, and this letter reiterates those comments and responds to the additional questions in the Re-exposure.

The Use of RBC Information

The Committee appreciates the edits in the Re-exposure regarding certain misuses of RBC, such as use for ranking individual companies or for detailed comparisons. While we recognize that there are instances in which public data can be used for purposes that are not appropriate, the edits to the Preamble, in our view, go too far in critiquing nonregulator use of publicly available RBC information and in critiquing any use beyond identifying potentially weakly capitalized companies.

We understand and agree with the additions made in section E about RBC being developed and calibrated for its primary use. However, we disagree with the implication that any nonregulator use of RBC is inappropriate, including the use of RBC information outside of specific RBC action levels. For example, excess capital above the defined Authorized Control Level RBC provides useful information for company management and is regularly used by those focused on financial management and solvency risk, including actuaries. Part of sound risk management involves an assessment of statutory-required and available capital levels in baseline and stressed conditions which can inform risk-based decision making. In addition, some companies can reasonably use RBC as their primary capital management tool to the extent that they have performed an analysis and determined that it effectively captures their solvency risks. Finally, the public at large may also benefit from understanding to what extent a given company's capitalization exceeds a regulatory action level.

[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.

We also observe that RBC is utilized within other regulatory review tools such as Own Risk Solvency Assessment (ORSA) and Group Capital Calculation (GCC), and the added language in Section E appears inconsistent with this practice of regulators using RBC for broader purposes. For GCC specifically, the excess relative ratio scaling approach adopted by the NAIC indicates that capital levels above minimum requirements are relevant for understanding group solvency. As such, we believe the emphasis on RBC as solely identifying potentially weakly capitalized companies is too narrow, and we recommend tempering the language in Section E.

Question 2 of the Re-exposure requests examples of how RBC ratios are used beyond their primary purpose for regulators to identify potentially weakly capitalized companies. As noted earlier, companies use RBC ratios in baseline and stressed conditions to inform risk-based decision making, and some companies use RBC as their primary capital management tool. From our perspective, these examples are reasonable uses of RBC information, and the edits to the preamble could be interpreted to dissuade such uses.

The Benefits of RBC

We also observe that the proposed edits emphasize some of the misuses of RBC without fully highlighting the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general. The proposed changes to paragraphs 11 and 14 and the new Section E may be interpreted by some readers as critical of RBC generally. While we understand the purpose of these paragraphs in terms of outlining RBC's limitations, they may call into question the perceived validity and reliability of RBC when it has worked well for its purpose for many years.

Question 1 of the Re-exposure asks whether there are any objections to adopting the proposed edits as-is. In addition to acknowledging the other valid uses of RBC noted earlier, we suggest the CADTF include in Section E (paragraphs 18-21) a presentation that identifies the value that RBC has provided to date alongside critiques that have been raised regarding other uses of RBC. For example, the overarching statements in paragraphs 18 (e.g., "Any other application of RBC would be inappropriate…") and 20 (e.g., "RBC requirements are not appropriate to evaluate the relative or absolute level of risk…") could be replaced by statements that better communicate and/or balance the strength of the RBC framework to external stakeholders.

The Importance of Public RBC Disclosures

While we understand that the Re-exposure does not include edits to the 5-year Historical Data page in the Annual Statement Blanks, the past discussion at the CADTF and the proposed edits to the Preamble could be interpreted to advocate for the potential removal of public RBC disclosures. We emphasize that a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime. RBC, in addition to assisting regulators in identifying weakly capitalized companies, has also provided a general and consistent way for other stakeholders to obtain a high-level understanding of a company's solvency position, which promotes public confidence in the insurance system in the United States. In effect, we believe the public disclosure of the RBC level of individual insurance companies has been beneficial to policyholders, consumers, and other external stakeholders.

*****

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's Risk Management and Financial Reporting policy project manager, at behnke@actuary.org.

Sincerely,

Dana Hunt MAAA, FSA
Chairperson, Prudential Regulation Committee
American Academy of Actuaries