

INSURANCEinvesting

The regulatory agenda is full

Highlights from the National Association of Insurance Commissioners (NAIC) Spring Meeting, held in San Diego on March 22-25, 2026.

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I got a wealth of information at the NAIC spring meeting in San Diego on items that could impact policy, capital and portfolio positing. There is a lot going on in the regulatory arena resulting in a meaty agenda. Many of the topics covered below are in discussion stages or are still out for comment.

I am frequently asked for insight into the NAIC CLO project which is top of mind because of the potential to impact RBC, as well as the potential for scope creep beyond BSLs. This was an item front and center at the meeting.

Other key topics included the framework for future adjustments to RBC, Collateral Loans, Long-term repos, ALM Derivatives, additional disclosures around FABNs, Economic Scenario Generator implementation for RBC C3, IMR and an educational session on RBC ratios and Impairment Risk.

At a glance

1. CLO C1 Factor Modeling update presented by the American Academy of Actuaries, with proposed factors for Broadly Syndicated Loan CLOs and exposure open through April 17.
2. RBC Model Governance Task Force advances framework for future RBC adjustments, with Bridgewater Analytics conducting a comprehensive gap analysis.
3. Collateral loans proposal moves from flat RBC factor to a look-through approach reflecting underlying collateral risk, with target adoption effective 12/31/2027.
4. Long-term repurchase agreements over one year adopted as admitted assets under revised statutory guidance.
5. Proposed SSAP 109 guidance for ALM derivatives would allow qualifying hedging derivatives to be carried at amortized cost with gains and losses deferred over time.
6. Additional disclosures proposed for Funding Agreement Backed Notes and similar funding agreement backed structures.
7. Economic Scenario Generator implementation for C3 RBC calculations continues, with interim changes targeting 2027 and NAER discount rate by 2028.

8. IMR Reinvestment Template recommended as a required component for admitting negative IMR balances.
9. IMR treatment in reinsurance collateral calculations deferred pending feedback from the Reinsurance Task Force.
10. American Academy of Actuaries study examines correlation between RBC ratios and insurer impairment, with Phase 2 findings expected by year-end 2026.

The details

Update on CLO C1 factor modeling

The American Academy of Actuaries presented an update of their work, presenting regression model findings and proposed factors for CLOs of Broadly Syndicated Loans (BSLs). C1 factors were regressed against security rating, reinvestment horizon, low quality (Baa3 and below) and low thickness ($\leq 4\%$). The Academy observed that most A/above CLOs do not experience losses until past the 99th percentile. Baa CLOs with tranche thickness $>4\%$ have average C1 factors $< 1\%$ (less than Baa bond factors) until the 99th percentile. All below IG rating CLO tranches experience losses at the 90th percentile.

As a result, at the Baa3 rating, implied factors vary based on thickness factors of 4%. Factors for thickness $<4\%$ increase by approximately 10% for ratings at Baa3 and below. The current exposure updated for the surcharge for thin tranches is open until April 17.

There was discussion about whether rating agency methodology comparability warrants separation between BSL and Middle Market Loan (MML) CLOs. Currently there is no plan to conduct a future study for MML CLOs.

Update on framework for future RBC adjustment process

RBC has had a series of incremental changes and parameter updates over the past 30 years, which have resulted in gaps and inconsistencies.

The Risk-Based Capital (RBC) Model Governance Task Force is conducting a comprehensive gap analysis and consistency assessment of the RBC framework, with a goal to develop a process for analyzing retrospective and prospective adjustments to RBC, and to set priorities for developing and implementing the RBC adjustment process.

Bridgewater Analytics is conducting this study on behalf of the NAIC. They have received twelve comment letters, with most comments relating to the treatment of investments. The task force asked for guidance from the NAIC and will continue work on the framework.

Collateral loans

Proposal 2025-16L addresses capital requirement factors for collateral loans, specifically those backed by JV/LP/LLC interests. It moves from a flat RBC factor (typically 6-7% C1) to a look-through approach reflecting the risk of the underlying collateral and introducing an adjustment for overcollateralization. Industry was generally supportive of look-through treatment, reduction in RBC for overcollateralization, fallback to 3% charge if loan level data is unavailable and maintaining 6.8% factor for other collateral loans. ACLI supports a look through approach with a reduction for over-collateralization, proposing a 5-tier overcollateralization/LTV based adjustment to the base factor. The chair proposed to expose the ACLI granular proposal for 23 days. Adoption will be year-end 2027. Target effective date is 12/31/2027.

Long-term repos now admitted assets

The NAIC adopted a revision to statutory guidance allowing long-term repurchase agreements (over one year) to be admitted assets. Reverse repurchase agreements continue to be non-admitted. There is also a broader item still pending that will further review securities lending and repurchase agreements for converging guidance and disclosures.

Asset liability management (ALM) derivatives

The NAIC drafted proposed SSAP guidance (SSAP 109) and an issue paper for interest rate hedging derivatives used for ALM, to allow qualifying hedging derivatives to be carried at amortized cost, with realized gains/losses taken over time as deferred liabilities, not IMR. There will be a one-time conversion for transition to the new accounting. If programs become ineffective, gains/losses will no longer be deferred.

Disclosure of FABNs and similar structures

The NAIC received a referral to incorporate additional disclosures for Funding Agreement Backed Notes (FABNs) and other funding agreement backed structures. The disclosures recommend capturing the total of all funding agreements that back SPV issuances, with reporting based on the type of agreement, whether the SPV-issued debt instruments are puttable, and if terms of the debt agreement differ from the backing funding agreement. The disclosures would also capture information on the maturity distribution, whether the funding agreement is fixed or floating rate, currency denominations, and whether foreign currency exposure is hedged.

Economic Scenario Generator (ESG) implementation

Discussions are continuing at the Life RBC Working Group to effectuate the ESG for C3 RBC calculations this year-end. This has been in development for five years. The ESG has already been adopted for statutory reserves beginning January 1, 2026.

A prior proposal bundled other measures (VA risk metric, discount rate for fixed annuities) which have been tabled. The current focus is solely updating the generator for C3. Two main changes were proposed. 1) replacing the 1-year Treasury with the 10-year Treasury (for

alignment with actual investment portfolio practices). Substitute the 105% factor with an 85 basis point net spread. There was some industry concern about applying the 85 basis point spread as an interim step. The ultimate goal is to have the Net Asset Earned Rate (NAER) as the discount rate. There was consensus that the interim change should be limited and short-term, targeting likely implementation for 2027 and aiming for NAER by 2028. The revised amendment will be exposed for a 23-day comment period.

IMR – proof of reinvestment

The NAIC recommended adopting the concept of an IMR Reinvestment Template as a required component to admit negative IMR. Companies that do not complete the template will not be able to use realized losses from qualifying fixed income investment sales to move into, or increase, a negative IMR balance. This process is detailed within the proposed IMR guidance. Companies would allocate realized gains and losses from qualifying fixed income investment sales to IMR throughout the year. Net realized losses that increase a negative IMR balance, that are not supported by the proof of reinvestment would be eliminated at year-end. The updated IMR materials will be subsequently exposed prior to adoption.

IMR impact to reinsurance collateral

Clarifies how IMR should be reflected in collateral calculations for reinsurance credit. Current practice includes only positive IMR, an “asymmetrical approach”, where positive IMR increases collateral requirements, but negative IMR does not decrease collateral requirements. The ACLI recommended an “symmetrical approach”, including both positive and negative IMR (increasing and decreasing policy reserves), as it is consistent with the prudent use of reinsurance as a risk-management tool and better aligns the market value of assets and liabilities. This item was deferred pending feedback from the Reinsurance Task force.

RBC ratios and impairment risk

The American Academy of Actuaries has a project underway to evaluate the relationship between RBC ratios and the probability of insurer impairment. Key early findings: for companies of all sizes, the correlation between RBC factor and impairment is very weak. If you remove small companies and companies that are extremely well capitalized (RBC ratio > 1,000%), the predictability increases significantly. Five-year probability of impairment is about 7% at a low RBC level (300%), dropping to less than 2% for RBC levels above 700%, and essentially zero for RBC levels above 1,000%. Next Steps: Phase 2 of the study will add further control factors. Final results will be available by the year-end 2026.

I find these NAIC meetings fascinating. It is a great way to see the regulatory sausage being made and to connect with those shaping policy. The regulatory agenda is full. Many of these items are still out for comment.

Happy to engage further with anyone interested in a deeper discussion around these important regulatory developments.

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