Key Regulatory Takeaways for Insurers

As the end of the first quarter of 2026 approached, National Association of Insurance Commissioners (NAIC) regulators and industry parties convened on the West Coast to discuss key trends affecting insurers. Between San Diego's famous fish tacos and whale sightings, attendees received updates on the CLO Factor Modeling Project and the Risk-Based Capital (RBC) Ratio and Impairment Analysis Project, discussed strain on the Securities Valuation Office (SVO) amid a surge in filings, and reviewed clarifications to reporting under the Principles-Based Bond Definition (PBBD) framework, among other topics.

CLO RBC Framework Nears Finalization

The American Academy of Actuaries (AAA) presented progress on the CLO C-1 Factor Modeling Project at several sessions. Their latest analysis suggests that most senior (A2 and above) CLO tranches would receive lower RBC charges than under the current framework, while below investment-grade (IG) tranches would face higher charges.

For securities rated Baa3 and below, a key debate is whether credit ratings alone sufficiently capture risk, or whether incorporating tranche thickness would yield a more accurate measure. If the latter approach is adopted, tranches that represent less than 4% of a deal would incur higher RBC charges. Given that the methodology is still under debate, the NAIC will likely adopt a "Phase 1" approach for 2026 based solely on credit ratings, followed by a potential "Phase 2" in 2027 that incorporates tranche thickness.

Implied Factors

Moody's Rating	Tranche Thickness >4%	Tranche Thickness ≤4%	Moody's Rating	Tranche Thickness >4%	Tranche Thickness ≤4%
Aaa	0.03%		Ba1	12.59%	22.39%
Aa1	0.04%		Ba2	20.93%	30.72%
Aa2	0.04%		Ba3	23.28%	33.08%
Aa3	0.04%		B1	26.04%	35.84%
A1	0.14%		B2	35.20%	44.99%
A2	0.14%		B3	47.32%	57.12%
A3	1.45%		Caa1	48.12%	58.92%
Baa1	1.81%		Caa2	55.20%	64.99%
Baa2	2.70%		Caa3	70.82%	80.61%
Baa3	2.73%	12.52%			

As the NAIC and AAA conclude their work on broadly syndicated loans (BSL) CLOs, a key question is whether the analysis could be extended to Middle Market CLOs. The AAA has indicated that they would like to use a similar framework, but they may face data limitations due to the market's smaller and less transparent nature.

RBC Ratios Demonstrate Predictive Value

The NAIC previously directed the AAA to analyze if the RBC framework is fulfilling its intended purpose and effectively predicting insurer impairment risk. The results showed a strong correlation between RBC ratios and impairment probability over 1–5-year horizons, once small insurers with volatile RBC ratios and large insurers with the highest RBC ratios were excluded.

Across all lines of business, as RBC levels increased, impairment probability decreased for all horizons, signaling that the RBC methodology is working. For life and health, shorter time horizons were associated with a higher impairment probability. For P&C, once RBC ratios exceeded 400, impairment probability increased with longer time horizons. For all business lines and time horizons, once RBC exceeded 1400, impairment probability was effectively 0%, and RBC levels no longer provided additional predictive value.

Probability of Impairment by RBC level and Forecast Horizon (years)

ACL RBC	P&C					Life					Health				
1500	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1400	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1300	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1200	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1100	0%	0%	0%	1%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
1000	0%	0%	1%	1%	2%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
900	0%	1%	1%	2%	2%	1%	1%	0%	0%	0%	0%	1%	0%	0%	0%
800	0%	1%	2%	3%	3%	1%	1%	0%	0%	0%	0%	1%	0%	0%	0%
700	1%	2%	3%	4%	5%	1%	2%	0%	0%	0%	1%	1%	0%	0%	0%
600	2%	4%	5%	6%	6%	2%	3%	0%	0%	0%	1%	2%	0%	0%	0%
500	3%	7%	8%	9%	9%	3%	4%	0%	0%	1%	3%	3%	1%	0%	0%
400	7%	12%	13%	13%	12%	5%	5%	0%	1%	1%	5%	5%	2%	0%	0%
300	14%	21%	20%	18%	16%	8%	7%	1%	1%	2%	9%	7%	4%	2%	3%
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

Forecast Horizon (years)

As of 3/23/26. Sources for both top right and bottom right tables: National Association of Insurance Commissioners and American Academy of Actuaries. The bottom right table is a heat map illustrating the probability of impairment for each forecast horizon and RBC level. Color shading represents relative risk intensity, with darker red indicating higher modeled impairment likelihood and lighter tones indicating lower risk. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.

SVO Capacity Pressured by Continued Growth in Filings

The director of the SVO provided the mandatory annual update on Carry-Over filings, defined as filings on insurer-owned assets that were sent to the SVO but not completed by the office by year-end. Between 2024 and 2025, the SVO saw a nearly 20% increase in filings, primarily due to Private Letter Rating (PLR) filings rising by 49%. In the last three years, PLR filings have surged by over 500%.

As a result, the 2025 carry-over rate rose to 9.3% representing an increase from prior years. Excluding PLRs, the carry-over filing percentage for traditional SVO filings reached 19.7% – nearly double the traditional 10% threshold used to indicate resource constraints on analytical SVO staff.

The SVO has been deferring an increasing amount of work on traditional filings to prioritize timely NAIC designations for PLR securities and avoid potentially punitive capital treatment due to backlogs. As PLR volume continues to grow, both regulators and insurers may face reduced availability of updated NAIC designations for traditional assets at year-end, as well as an increased risk that not all PLRs are processed in time to meet year-end deadlines.

Alternatives and Crypto Remain a Regulatory Focus

As the balance of alternative investments continues to grow in insurer portfolios, the Statutory Accounting Principles Working Group (SAPWG) directed NAIC staff to work with a targeted industry focus group to develop revisions to SSAP 48 (Joint Ventures, Partnerships and Limited Liability Companies). This principle is aimed at resolving inconsistencies across accounting guidance, and its underlying intent is to prevent overstating collateral value and reinforce look-through transparency.

The NAIC is monitoring discussions of cryptocurrency treatment at the International Association of Insurance Supervisors (IAIS). The IAIS is considering whether to classify crypto assets as intangible assets under the Insurance Capital Standard, or to exclude them from qualifying capital resources. Currently, the NAIC is not planning to adopt this standard, and affirmed that directly held crypto assets remain non-admitted. The NAIC continues to monitor the IAIS for future changes to their approach, which may impact US insurers.

PBBD Guidance: Further Clarifications

SAPWG sponsored further clarifications to instructions related to Principles-Based Bond Definition (PBBD) reporting.

Payment Due at Maturity: The working group clarified that this field refers to the contractual payment due at the legal maturity date. They will be incorporating guidance to limit duplicative reporting, particularly for security types where par is expected at maturity.

Within ABS, this field is only required for items classified as Financial ABS – Not Self-Liquidating, Non-Financial ABS – Practical Expedient, and Non-Financial ABS – Full Analysis. For Issuer Credit Obligations, this reporting requirement is limited to assets reported as Single Entity Backed Obligations.

Origination Balloon Payment Percentage: SAPWG clarified that this field should include the percentage of contractual balloon payment due at legal maturity based on the original outstanding principal amount. Origination data should be used where available; otherwise, acquisition-date information may be used for securities purchased in the secondary market if origination data is unobtainable with best efforts. If the security has no balloon payment, 0% should be reported.

Schedule BA Maturity Date: Maturity date reporting shall only be required for investments on Schedule BA that have a contractual stated maturity date, impacting reporting for BA security types including, but not limited to, non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits.

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