November 4, 2026
VIA ELECTRONIC SUBMISSION

Chair and Members
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, Missouri 64106

Re: Asset-Backed Securities Reported in 2025 Statutory Filings (Schedule D, Part 1, Section 2) and Related Questions: Request to Defer Category Selection Until the NAIC Establishes a Defensible Sequencing Process

Dear Chair and Members of the Working Group:

Pinpoint Policy Institute is a nonpartisan, pro-growth 501(c)(4) nonprofit dedicated to free markets, limited government, and the rule of law. We comment on the staff summary titled *Asset-Backed Securities Reported in 2025 Statutory Filings, Schedule D, Part 1, Section 2, For All Types of Businesses* (the "Summary") and the three related questions the Working Group exposed for comment through November 5, 2026 (together, the "Exposure").[1]

The Working Group should select no ABS category for further risk-based capital ("RBC") evaluation until it can first demonstrate that current bond C-1 factors understate risk, that any error is material to solvency, or that RBC is the right tool to correct it. Selecting a target before answering those questions reverses the proper sequence: evidence should come first and category selection second. Under the American Academy of Actuaries' own threshold framework, the burden to justify a more exact RBC determination rests on the party seeking the change, not on the policyholders who would pay for it.[2] The Summary does not establish that risk. While it may be a useful resource to guide classification and further inquiry, it cannot rank assets by risk or replace the evidence the NAIC's own principles require.

If the Working Group proceeds despite the thin analytical record, it should confine the next phase to first applying the Academy's threshold framework, defining coherent asset categories, and explicitly assessing cost/benefit and market-wide effects. That phase should not presume that capital charges must increase.

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[1] NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, *Exposure Cover Question* (Oct. 6, 2026) (30-day public exposure period ending Nov. 5, 2026); NAIC staff, *Asset-Backed Securities Reported in 2025 Statutory Filings, Schedule D, Part 1, Section 2, For All Types of Businesses*.

[2] This is particularly important because the CLO work involved excessively conservative assumptions that, if applied to other asset classes, would result in a sharp increase in risk changes. The NAIC should not materially vary model inputs to reverse engineer outcomes. Where models vary materially across assumptions, such as with the corporate bond factors and new CLO factors, the NAIC should clearly identify each choice, provide an analysis of the implications relative to existing asset classes (e.g., corporate bonds) and put the inputs out for public comment.

I. The Summary is an inventory, not evidence of RBC miscalibration.

The Summary can help the Working Group identify reporting categories that need clarification, surface classification problems, and frame questions for market participants, all of which is useful and informative work for insurance regulators.

However, that is the limit of the Summary's utility for the purpose of this workstream. It cannot support sequencing of RBC review based on true risk assessment; reported balances show the size of an exposure, not its risk, and are dependent on accuracy of NAIC staff assessments of insurer filings. The NAIC's own RBC Principles draw the line: materiality turns on whether an update could meaningfully improve the regulator's assessment of solvency risk, not on whether a category is large or growing.[3] A large asset class with adequate RBC charges is does not pose an urgent solvency gap, and the NAIC has yet to demonstrate empirically that any ABS category poses a material risk to insurer solvency by virtue of inadequate capital charges. While regulators always have the right and the responsibility to review RBC charges, the NAIC's work on ABS charges has been infected by problems with foregone conclusions, aided by skewed model assumptions. This has been evident going back to the initial interim charge placed on residuals in the absence of any significant analytical work, a problem that is not improved by constructing an excessively conservative model to justify a predetermined outcome.

Size of an asset class does not equate to risk, and a large asset class that already carries an adequate charge does not pose a risk to insurer solvency. The NAIC should develop a mechanism to assess the adequacy of RBC charges to protect insurer solvency, not decide that charges are inadequate and develop models retrofitted to justify this conclusion. The Working Group should demonstrate a solvency risk posed by ABS subcategories first, then proceed to modeling work.

II. The Working Group should apply its stated framework before choosing a target.

The Exposure does not demonstrate that the Academy's C-1 Modeling Framework Flowchart was applied before the three groups were identified.[4] That framework opens with key threshold questions, asking whether an asset class is materially relevant across the industry, whether the risk is one C-1 is meant to measure, whether existing factors can be used, whether added precision justifies the cost and complexity, whether comparable attributes exist, and whether the data support tail risk modeling. Where a risk is better addressed by another supervisory tool, such as Own Risk and Solvency Assessment (ORSA), asset adequacy testing, disclosure, or examination, the Academy's structured securities principles direct regulators to consider that tool rather than default to a new capital charge.[5]

The NAIC's own emerging model governance framework echoes the Academy's framework. The draft Aspirational RBC Model Risk Management Guidelines, exposed on October 8, 2026, call for a clear model purpose, reliable data, documented assumptions, validation, impact assessment, and an assessment of incentives before RBC is used to address a risk.[6] Launching a new ABS workstream before applying those safeguards would make the governance framework retrospective

[3] NAIC, *Risk-Based Capital Preamble* § G, *Principles for RBC Requirements*, including Principle 3 (Materiality), Principle 4 (Equal Capital for Equal Risk), and Principle 5 (Objectivity) (revised Preamble adopted June 18, 2026).

[4] American Academy of Actuaries, *Principles for Structured Securities RBC* and *C-1 Modeling Framework Flowchart*, materials presented to the NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

[5] American Academy of Actuaries, *Principles for Structured Securities RBC*, *supra* note 4.

[6] *Draft for Discussion: Aspirational Risk-Based Capital Model Risk Management Guidelines*, prepared with Bridgeway Analytics and exposed by the RBC Model Governance (EX) Task Force on Oct. 8, 2026 (comments due Nov. 1, 2026).

rather than governing. The completion of CLO factors should not lead inevitably to modeling new charges for other assets – it should lead to a determination that such work is necessary and an agreement on timeline, where public comment will be required, and how and when final decisions will be made.

These are threshold questions, not tasks to complete after a category has acquired regulatory momentum. The Exposure answers none of these questions, instead presenting three broad groups without a solvency problem statement, a materiality finding, or evidence that current treatment understates risk.

The Working Group should therefore publish a timeline that includes a process for prioritization before it selects anything. Prioritization should rest on two transparent criteria, each measured on consistently classified data: (1) solvency-based materiality, and (2) empirical evidence that current treatment does not capture the risk, as distinct from growth in holdings, with specific reference to the inadequacy of other supervisory tools. If another supervisory tool fits the identified risk better, the NAIC should use that tool rather than default to a new capital charge.

III. Build the process and keep commissioners accountable.

A durable process does not require a new committee. It requires discipline. Before the Working Group changes any ABS treatment, it should:

- publish the specific solvency problem it means to solve and the evidence behind it;
- open supporting materials to public scrutiny and expose each material choice for comment before the decision becomes final;
- weigh costs, benefits, alternatives, and market-wide effects before it acts. The Capital Adequacy (E) Task Force's procedures treat impact analysis as "preferred" for a factor change. For a change of this magnitude, the analysis should be required, performed, and published before any new ABS factor is proposed;[7] and
- keep commissioners accountable for each material judgment, rather than let technical groups, staff, consultants, or model assumptions settle policy by default.

Technical work should inform commissioner decisions, not make them. Pinpoint therefore renews a recommendation made in its November 1, 2026, comment letter to the Risk-Based Capital Model Governance (EX) Task Force.[8] Every material RBC workstream, this one included, should receive at least annual review by commissioners whose own staff are not participating in it. Independent reviewers can test whether the original solvency problem remains established, whether the project remains within scope, whether the process safeguards were followed, and whether continued work is justified.

[7] NAIC, *Procedures of the Financial Condition (E) Committee's Capital Adequacy Task Force in Connection with Proposed Amendments to Risk-Based Capital Blanks and Instructions*, https://content.naic.org/sites/default/files/inline-files/rbc_procedures07172024_without%20Track%20changes.pdf.

[8] Pinpoint Policy Institute, final draft comment letter to the Risk-Based Capital Model Governance (EX) Task Force regarding the proposed Financial Policy Steering Function, revised list of RBC gaps, and Aspirational RBC Model Risk Management Guidelines (Nov. 1, 2026) (recommending independent review of material RBC decisions by commissioners not involved in the underlying decision).

Requested actions.

Pinpoint supports a disciplined, evidence-based RBC framework. The Working Group can select nothing now and lose nothing. A defined solvency problem, answers to the threshold questions, a public assessment of costs and market effects, and independent commissioner review all belong before category selection, not after.

Pinpoint respectfully asks the Working Group to:

- Publish a workplan, timeline, solvency-based problem statement, materiality finding, and sequencing criteria before any selection of an ABS subcategory to review.
- Apply the Academy flowchart in writing to each proposed group, and explain why RBC, rather than any other supervisory tool, is required to address sector-side solvency concerns that are supported by empirical evidence.
- Validate the first-year Schedule D, Part 1, Section 2 data and adopt a risk sensitive taxonomy before modeling begins.
- Publish the data inventory, model specification, validation plan, assumptions, sample composition, sensitivity results, and the required market and consumer impact analysis.
- Use any technical forum only with balanced participation, disclosed conflicts, open and transparent materials, public exposure, and regulator accountability.
- Keep existing bond C-1 factors for ABS not selected or not yet reviewed, with no punitive residual or "all other" charge based solely on lack of review.
- Re-expose the matter before selecting a category or proposing any factor change.

The Working Group's objective should be accurate capital, not more capital by default. A disciplined process protects policyholders, preserves productive financing, and strengthens confidence in the state-based insurance regulatory system. The present record is not sufficient to select a target; the Working Group must build the evidence and the safeguards first.

Respectfully submitted,

Eric Ventimiglia

Eric Ventimiglia
Executive Director
Pinpoint Policy Institute