



Mr. Ben Slutsker
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-21971

September 23, 2026

Re: LRBCWG Exposure on Reinsurance Recapture Charge from Financial Condition (E) Committee Referral

Dear Mr. Slutsker:

The Cayman International Reinsurance Companies Association (CIRCA) appreciates the opportunity to comment on the Life RBC (E) Working Group's (the Working Group) exposure regarding the reinsurance recapture charge directed by the Financial Condition (E) Committee's July 27, 2026, referral. CIRCA has separately raised with the Committee its concerns about the process by which the referral was developed and the basis for concluding that additional RBC is the appropriate response. That letter is attached as an Appendix so those concerns form part of this Working Group's record.

CIRCA supports rigorous examination of risks and effective supervision to protect policyholders. We recognize the important role of adequate capital and strongly support the state-based system of insurance regulation.

The Financial Condition (E) Committee's referral directs two separate changes:

- a recapture factor applied to ceded reserves and modified coinsurance balances outside reciprocal jurisdictions, considering overcollateralization; and
- a distinct revision to recoverability for reinsurers with lower financial strength ratings.

The Working Group's exposure concerns only the recapture charge, on which it asks two questions – the method of implementation, and the treatment of asset composition and collateral. This letter answers both and raises the considerations we believe should shape the work. However, our response to the Working Group's exposure should not be misunderstood as agreement that an additional RBC requirement is necessary.

One principle runs through the comments below: risk-based capital reflects both the consequences of a recapture event and the likelihood that it occurs. The reserve (net of eligible collateral) and capital that a

cedant needs to establish after a recapture are both contingent on the recapture occurring and must be adjusted for likelihood. A ceding company facing the prospect of forced recapture would likely negotiate, re-reinsure, or restructure first; which impacts the level of that severity. Each enumerated method as currently drafted by the Working Group would apply that severity in full to business ceded outside reciprocal jurisdictions which presumes a forced recapture is certain. The NAIC has access to tools relevant to this assessment such as AG55 (which is an evolving standard requiring further development), financial strength ratings or other forms of financial strength analyses, and the existing counterparty risk charge under the current RBC formula.

The referral directs the charge be applied only to reinsurers domiciled in non-reciprocal jurisdictions. Reciprocal status is not a measure of counterparty risk and does not distinguish between strongly and weakly capitalized reinsurers. Jurisdictional status cannot serve as a proxy for the likelihood of recapture. Recapture risk exists across all reinsurers in varying degrees, and a charge that does not reflect that variation is not risk-based. The capital impact of a forced recapture is the same for the ceding company, regardless of the jurisdiction of the reinsurer and if the charge is likelihood based, it would not violate obligations for covered agreements or reciprocal jurisdictions.

1. Method — CIRCA recommends a modified option 1(a), the Factor Approach

As presented, Option 1(a) does not define scope, distinguish collateral available to re-establish reserves from resources available for incremental RBC strain, explicitly reflect the likelihood of recapture, or account for the existing 0.78% counterparty risk charge on uncollateralized ceded balances.

CIRCA supports Option 1(a) with certain modifications:

- All business ceded effective 31-Dec-2027 or prior be scoped out as that business will have already been priced by the cedant and the reinsurer prior to these requirements. Retroactive application of a new risk charge would have wide ranging impacts with potentially unintended consequences for US domestic insurers.
- Stress/cashflow testing should be used to identify transactions with material risk of collateral deficiency and recapture under stress. The recapture charge should only apply to transactions identified under a defined methodology.
- A factor approach also maintains continuity with the existing LR016 treatment of reinsurance counterparty risk. The existing 0.78% factor incorporates credit quality through Category 1 and 2 bond factors. Any incremental recapture factor should similarly reflect recapture likelihood, with an expanded AG55 testing to a certain confidence level (e.g. VaR 99.5 or CTE99 over a one-year horizon in line with IAIS standards) and/or financial strength ratings or other forms of financial strength analyses as tools to develop measures of the reinsurer's ability to meet its obligations. This would produce a risk-based result: stronger, well-capitalized counterparties that demonstrate the ability to perform should attract a lower or no incremental charge, while weaker counterparties or transactions showing material stress deficiencies would attract a higher charge.

- The approach should separately identify (i) assets available to re-establish the required U.S. statutory reserve after recapture and (ii) resources available to meet the cedent's incremental capital strain. Qualifying collateral, including overcollateralization, should be recognized to the extent it is legally available for (i); overcollateralization maintained solely to remedy a reserve deficiency should not automatically reduce (ii).

Hence, in the factor-based approach, the severity should be reduced for all legally available collateral (including funds withheld and Mod-co balances, and not just over-collateral). It is this severity, net of all legally available collateral, that the likelihood should be applied to.

Option 1(b) goes against the referral as non-allowance is binary and cannot vary with overcollateralization as the Committee directed. It recreates the requirement for the gross risk – in effect assuming a 100% probability of recapture and would apply uniformly on arrangements which differ materially in counterparty strength, in collateral, and in the actual likelihood that a recapture occurs. Recapture likelihood and severity depend on many variables such as market conditions, asset liability mismatch, type of reinsurance product, and counterparty financial strength. CIRCA recommends a multi-dimensional view by determining a grid of factors, with a periodic review as conditions change.

2. Asset Composition — CIRCA recommends an approach under option 2(c)

The exposure asks whether excess of loss reinsurance, letters of credit, otherwise non-admitted assets, parental and affiliate guarantees and similar items can be approved as collateral to offset the new RBC charge. That is a question about which assets qualify against a capital requirement. Options 2(a) and 2(b) address something else and do not answer the question. Each compares permitted assets to a reserve measure — the U.S. statutory reserve credit, or a PBR-type calculation — and so addresses the assets supporting the reserve credit. That is the subject of the credit for reinsurance framework, which the Credit for Reinsurance Model Law (#785) and the related statutory accounting requirements already determine. It is not the question the referral put to the Working Group.

CIRCA recommends an approach under option 2(c) that all assets deemed admitted by the cedent's domiciliary commissioner should be recognized for purposes of meeting the charge. Additionally, the approach should recognize each form of protection according to the extent it is available to the cedent under the adverse event. Recognition should turn on legal enforceability, accessibility, liquidity, stressed value, replacement capacity, the applicable RBC treatment and where protections depend on a third party – that party's financial strength and the conditions and timing of payment. The objective is to measure actual availability of the asset to the company under the adverse event, rather than to grant or deny credit on the basis of an asset's categorization.

3. Additional Considerations

Disaggregate the risks being capitalized. Recapture probability, counterparty default, concentration, collateral adequacy, asset quality, liquidity and replacement capacity are related but distinct and should not be combined under a general characterization of offshore reinsurance risk. The capital required after an assumed recapture speaks to the severity of that event, it does not take into account the likelihood of a forced recapture and therefore does not adequately establish the capital requirement.

Establish materiality at the market and the cedent level. The Bridgeway Analytics presentation to the RBC Model Governance (EX) Task Force on August 13, 2026, reports approximately \$2.85 trillion in life reserve credit and modified coinsurance balances, of which roughly \$135 billion — about 4.7% — is associated with non-reciprocal jurisdictions. Those figures identify an exposure worth analyzing; they do not establish materiality or demonstrate the capital required. In fact, exposure is substantially greater to reciprocal-jurisdiction reinsurers given the volume of business ceded and the absence of collateral requirements for reserve credit. A smaller exposure may matter more for a cedant with concentrated counterparties or limited replacement capacity. Scope and calibration should therefore be based on actual risk, using objective measures such as financial strength ratings or other forms of financial strength analyses and AG 55 or a similar methodology rather than jurisdictional status alone.

Remove duplication in the factor, not in the formula. The recapture charge and the recoverability revision address different consequences of what may be a single event and should be developed as separate measures with separate exposure bases without double counting. Counterparty credit quality is the likely point of overlap. Any overlap, other than the counterparty credit quality, must be eliminated in the factor calibration.

Test before calibrating. Any proposed factor should be supported by impact testing across a representative range of transaction structures, counterparties, collateral arrangements, jurisdictions and cedent concentrations, and the factor schedule should be separately exposed for comment with the supporting calibration analysis.

Distinguish jurisdiction designation from risk. Reciprocal and qualified jurisdiction status are indications that the NAIC has conducted an evaluation of the jurisdiction's reinsurance supervisory system but that is not the same as considering an individual reinsurer's risk. In fact, recent experience involving a reinsurer in a reciprocal jurisdiction is clear evidence that jurisdiction status alone is not an adequate proxy for recapture risk. A rational reinsurance market needs a level playing field. Applying an additional capital charge based primarily on a reinsurer's jurisdiction, rather than the underlying risk, is anti-competitive in effect: by removing capital and risk-management value from ceding to reinsurers in non-reciprocal jurisdictions, the proposal confines capacity to jurisdictions already recognized and limits the development of other well-regulated markets. The resulting reduction in reinsurance capacity and competition could increase costs for U.S. insurers and consumers, while also making it more difficult for the industry to expand retirement and longevity protection and address the broader protection gap.

Consider the effect on jurisdictional concentration. Access to multiple well-regulated jurisdictions supports capacity, competition and product innovation, particularly for smaller and emerging annuity writers. Concentrating reinsurance capacity in a small number of jurisdictions creates its own exposure to jurisdiction-specific disruption. Impact testing should consider whether the proposed factors would increase that concentration.

Coordinate with the Life Actuarial (A) Task Force and Coordinate across the concurrent NAIC efforts. The Life Actuarial (A) Task Force is developing Additional Guidance for year-end 2026 AG 55 analyses. Given the directive from the E Committee and the alignment with LATF's initiative, CIRCA recommends coordinating efforts with LATF and the Valuation Analysis (E) Working Group. Not only could this coordinated effort provide the empirical information Life RBC Working Group should

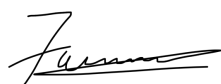
examine before calibrating a factor, but it will also ensure efficiency and avoidance of duplicative impacts.

The RBC Model Governance (EX) Task Force's List of Potential Gaps, the Committee's exposure on Model #285 all bear on this work. That Task Force's own standards — "equal capital for equal risk," and assessment of materiality, existing oversight elsewhere in the framework, and effort involved — are the standards against which a recapture factor should be judged. Identification of a potential gap through that process is not a complete technical determination that a capital deficiency exists.

Closing

CIRCA supports a risk-based outcome based on a methodology supported by quantitative analysis, giving appropriate recognition to existing protections, and avoiding capital requirements built on proxies not demonstrated to correspond to the risk being addressed. If a recapture factor is ultimately developed, it should capitalize demonstrated residual risk, and reflect the assuming reinsurer's financial strength, capitalization and ability to meet its obligations, rather than the jurisdiction in which the reinsurer is domiciled. We appreciate the opportunity to provide feedback and look forward to working with the Working Group, NAIC staff, Bridgeway Analytics and other interested parties as the methodology develops.

Respectfully submitted,



Faramarz Romer
Chairman of the Board
Cayman International Reinsurance Companies Association

Appendix — CIRCA letter to the Financial Condition (E) Committee regarding the process by which the referral was developed (submitted separately; attached for inclusion in the Working Group's public record).



**Commissioner Nathan Houdek
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197**

September 23, 2026

Re: Referral to Life RBC (E) Working Group Regarding Reinsurance Recapture and Counterparty Risk

Dear Commissioner Houdek:

The Cayman International Reinsurance Companies Association (CIRCA) writes regarding the Financial Condition (E) Committee's (the Committee) referral directing the Life RBC (E) Working Group (the Working Group) to develop new risk based capital requirements addressing reinsurance recapture and counterparty recoverability.

CIRCA supports rigorous examination of these risks and effective supervision to protect policyholders. We recognize the important role of adequate capital and strongly support the state based system of insurance regulation.

Our concern is not whether regulators should examine reinsurance recapture and counterparty recoverability risk. They should. Our concern is that the referral selects additional RBC as the regulatory response before a transparent technical process has established whether a material capital deficiency exists, whether existing regulatory protections are inadequate, and whether additional capital is the most effective and proportionate regulatory tool.

CIRCA respectfully requests that the Committee revise or supplement the referral before implementation proceeds further so that the policy outcome remains open to the evidence. The threshold governance question is straightforward: Where is the open proceeding in which stakeholders can test the underlying evidence, challenge whether a material capital deficiency exists, consider alternative supervisory responses, and influence the policy determination while the outcome remains genuinely open?

The Referral Directs the Remedy Before Establishing the Need

The Committee's referral does not ask the Working Group to determine whether additional capital is warranted. It directs the Working Group to develop the capital response.

The distinction became particularly clear when the Working Group considered the referral on August 26. The Working Group subsequently exposed the referral for comment, but expressly stated that it does not have authority to change directives from its parent committee and instructed interested parties to focus their comments on implementation rather than attempting to modify or override those directives.

CIRCA does not fault the Working Group for recognizing the limits of its authority. The Working Group received a directive from its parent committee and has explained its understanding of that directive. But that leaves a fundamental question unanswered.

Exposing implementation of a decision is not the same as exposing the decision itself. The NAIC's public process should permit stakeholders to address not merely the calibration of a predetermined remedy, but also the predicate for that remedy.

The appropriate analytical sequence should be straightforward: identify the risk, establish its materiality, evaluate existing safeguards, quantify the residual exposure, consider the available regulatory tools, and then determine which regulatory response is most effective and proportionate.

The referral appears to reverse that sequence by selecting additional RBC first and directing the technical process toward implementation.

Confidential Supervision and Public Policymaking Serve Different Purposes

CIRCA recognizes that the concerns underlying the referral may have originated through confidential supervisory work, including examinations, Valuation Analysis (E) Working Group (VAWG) regulator-only deliberations, AG 55 reviews and other regulator discussions. We do not question the legitimacy or importance of confidential supervision, nor do we seek disclosure of protected company information.

But confidential supervision and the development of generally applicable regulatory policy serve different purposes. Confidential supervisory processes can identify emerging concerns and individual company or transaction risks. When those observations become the basis for a generally applicable capital requirement, however, the policy proposition should be supported by a public analytical record sufficient to permit interested parties to understand and test the rationale.

That record can be developed without compromising supervisory confidentiality through aggregated findings, anonymized transaction examples, disclosed assumptions and stress scenarios, materiality analysis, comparison to existing safeguards, and an explanation of any residual risk after those safeguards are considered. We do not believe that public analytical record has yet been developed here.

Establish the Risk Before Selecting the Regulatory Tool

A supervisory concern does not, by itself, establish an RBC deficiency. A material risk does not necessarily require an additional capital factor. Additional capital can provide protection against many

financial risks, but that observation does not establish that capital is the most appropriate regulatory response to every identified concern.

Regulators already possess a substantial supervisory toolkit, including statutory reserves, collateral requirements, Credit for Reinsurance requirements, existing RBC, financial surveillance, examinations, actuarial analysis, ORSA, holding company supervision and transaction review. The necessary first step is to determine where those protections fall short and what residual risk remains after they are considered.

If the concern involves asset quality, concentration, collateral accessibility, transaction structure, governance, counterparty strength or insufficient regulatory visibility, a targeted supervisory response may address the concern more directly than a generally applicable capital factor.

This is not an argument against additional RBC. It is an argument that the analysis should determine whether RBC is appropriate rather than beginning from the assumption that it is.

The Referral Appears to Run Ahead of RBC Model Governance

The sequencing of the referral is particularly difficult to reconcile with the NAIC's ongoing RBC Model Governance initiative. Model Governance is currently examining potential gaps in the RBC framework and developing disciplines around materiality, prioritization, consistency and the relationship between policy judgments and technical analysis.

Those are precisely the disciplines that should apply here. Identification of a potential gap is not itself a determination that a material RBC deficiency exists. Nor does identification of a material risk establish that a new capital factor is necessarily the appropriate regulatory response.

Yet while Model Governance continues evaluating potential RBC gaps, the Committee has already directed the Working Group to develop the capital remedy for this particular issue. In practical terms, Model Governance is still examining the question while the Committee referral has already prescribed the answer.

If this issue presents circumstances sufficiently urgent or unique to warrant proceeding ahead of the Model Governance process, the public record should explain why.

The Procedural Precedent Extends Far Beyond Life Reinsurance

CIRCA's concern with the procedural precedent is not limited to offshore reinsurance or the interests of CIRCA members. This flawed procedure should not be used in the future to establish capital requirements affecting property and casualty insurers, health insurers, investments or other business practices.

Stakeholders may disagree strongly about the merits of any particular regulatory proposal while sharing an interest in a process that permits evidence and technical analysis to influence the outcome before the policy determination is settled.

That principle is especially important to those who strongly support state based insurance regulation and share a common interest in ensuring that the processes supporting it are transparent, disciplined and capable of withstanding scrutiny.

The Implementation Objective Should Follow the Analysis

The referral also establishes a year end 2027 implementation objective. CIRCA appreciates the value of establishing regulatory priorities and reasonable timetables. But the timetable should follow the analysis rather than influence its outcome.

A predetermined implementation objective should not create pressure to produce a capital factor regardless of what the technical inquiry ultimately demonstrates. If additional RBC is warranted, the process should provide adequate time for quantitative analysis, impact testing, consideration of mitigants, assessment of unintended consequences and meaningful public comment.

Requested Action

CIRCA respectfully requests that the Financial Condition (E) Committee adopt a process that allows the analysis to precede the remedy by taking the following actions:

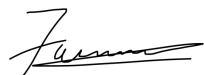
1. Revise or supplement the referral to keep the policy outcome open and permit an evaluation of whether a material residual capital deficiency exists and whether additional RBC is the appropriate regulatory response. The analysis should be capable of concluding that RBC is warranted, that another supervisory response would more effectively address the identified risk, or that existing protections adequately address the concern.
2. Identify an accountable public forum in which interested parties may examine the evidence, assumptions, materiality, existing protections, residual risks and alternative supervisory tools while the policy outcome remains open.
3. Coordinate the inquiry with RBC Model Governance so that the materiality, prioritization and analytical disciplines being developed through that initiative apply to this work.
4. Allow the analysis, rather than a predetermined implementation date, to determine the outcome and timetable, including sufficient opportunity for quantitative assessment, impact testing and public comment before any capital requirement becomes effective.

Permitting interested parties to argue for a smaller factor, or even a factor of zero, does not resolve the underlying concern. Calibration of a predetermined requirement is different from determining whether the requirement should exist.

CIRCA will engage constructively if the analysis demonstrates that additional RBC is appropriate. We ask only that the process remain capable of reaching a different conclusion if the evidence warrants one.

Our request is straightforward: establish the need, evaluate the alternatives, and allow the analysis to determine the outcome.

Respectfully submitted,



Faramarz Romer
Chairman of the Board
Cayman International Reinsurance Companies Association

cc: Executive (EX) Committee
Life RBC (E) Working Group