NAIC Proposes New RBC Charge for Reinsurance in Non-Reciprocal Jurisdictions

November 20, 2026

The National Association of Insurance Commissioners' ("NAIC") Life Risk-Based Capital (E) Working Group (the "Working Group") has exposed Proposal 2026-17-L, which would impose a new risk-based capital ("RBC") charge on U.S. life insurers ceding business to reinsurers located outside of reciprocal jurisdictions, which currently consist of the United States, the European Union, Switzerland, Bermuda and Japan. The proposal would apply a **3.8% post-tax (approximately 4.8% pre-tax) charge** to reserves and modified coinsurance balances to all reinsurance transactions located in non-reciprocal jurisdictions, subject to adjustments for qualifying collateral, beginning with year-end 2027 RBC reporting. Comments are due **December 15, 2026.**

KEY FEATURES

- **Calculation and Collateral Offsets**. The proposed charge would be calculated on a transaction-specific basis, with qualifying collateral above 100% of statutory reserve credit reducing the charge dollar for dollar, but only if the collateral is payable to the cedent upon recapture. For example, collateral equal to 102% of reserves that will be paid to the cedent on recapture would reduce the approximately 4.8% pre-tax charge by two percentage points, with the charge eliminated at approximately 104.81% collateralization obligated to be returned to the cedent. Conversely, collateral shortfalls below 100% would increase the charge.

- **Eligibility and Availability of Collateral upon Recapture**. Eligible collateral must be economically available to the cedent upon recapture, including both the reserve component and any overcollateralization. Certain assets excluded under AG 55, including letters of credit, contingent notes and affiliate guarantees, would not qualify. NAIC staff acknowledged that corresponding annual statement reporting instructions require correction and the proposal would revise the life annual statement blanks to require insurers to report collateral securing reinsurance transactions with reinsurers in non-reciprocal jurisdictions, for purposes of calculating the overcollateralization charge or credit.

- **Interaction with Other RBC Charges**. The new charge would replace and not add to the existing 0.78% reinsurance counterparty risk charge, which would continue to apply to reinsurance transactions with reinsurers in reciprocal jurisdictions.

- **Existing Treaties and Retrocessions**. The proposal contains no grandfathering or phase-in for in-force treaties. The requirement that collateral be returned to the cedent upon recapture may necessitate amendments to existing agreements to avoid higher capital charges. The Working Group also acknowledged uncertainty regarding transactions initially ceded to reciprocal jurisdictions and subsequently retroceded to non-reciprocal jurisdictions and intends to solicit comments on that issue.

IMPLICATIONS AND NEXT STEPS

As an initial next step, the NAIC will consider comments received, which are expected to be substantial. To date, industry participants have questioned whether the proposed factor overstates the capital actually transferred through reinsurance, particularly by including RBC components such as C-4 business risk, and whether companywide RBC data appropriately approximates the requirements of individual reinsured blocks. Additional concerns included the treatment of covariance and differences among business lines. The Working Group acknowledged these limitations but emphasized the complexity of a transaction-specific RBC calculation.

If adopted, the proposal could increase RBC requirements for affected cedents, including under existing reinsurance arrangements and would apply to 2027 annual statements. Insurers should assess transaction-level collateralization, recapture payment provisions and potential capital impacts, while considering whether to submit comments addressing the proposed methodology, eligible collateral, transitional relief and treatment of retrocessions. Substantive consideration of comments is expected to begin in January 2027.



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