THE REGULATORY FRAMEWORK FOR LIFE INSURERS

The state-based insurance regulatory system has a long-standing and well-deserved track record of success. Although regulation happens at the state level, the rules are highly standardized nationwide through a shared accreditation system. Across the United States, 14,000+ state insurance regulators use a layered, proactive supervisory system designed to identify risks early and protect consumers long before problems occur. It is a system that puts solvency and the ability for insurers to pay policyholder claims at the forefront. The conservative business practices followed by life insurers dovetail with the robust regulatory framework and serve to make the U.S. the most financially stable life insurance market in the world.

> The state regulatory regime is **dynamic** and remarkably **consistent.**

KEY FEATURES

Consistency. Every state follows rigorous standards developed by the NAIC and enforced through its accreditation program. All 50 states and Washington, DC are accredited, ensuring strong oversight and consumer protections nationwide.

Robust, risk-based capital requirements. Like other sophisticated regulatory systems, the U.S. insurance regulatory system uses a risk-based capital ("RBC") system to determine the minimum amount of capital an insurer must hold. RBC requirements vary depending on a company's size, product mix and the level of risk associated with insurers' assets and operations. U.S. life insurers hold capital well above minimum RBC requirements, providing a strong buffer against stress.

Strict reserve requirements. Insurance regulators require life insurers to maintain full reserves for every issued policy, ensuring obligations are always covered. Moreover, cross-product losses are not allowed. What that means in practice is that a life insurer cannot sell long-term care insurance, for example, "at a loss" and make up for it through annuity sales. Every product must stand on its own.

Asset adequacy testing. Insurance regulators require proof that asset cash flows are sufficient to meet liabilities under both normal and stressed market conditions. This approach limits the ability for companies to use overly optimistic assumptions around asset performance and key liability assumptions like mortality.

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Liquidity stress testing. Large life insurers undergo an annual liquidity stress test using a design developed by the NAIC to model extreme but plausible scenarios, including mass surrenders, sharp increases or declines in interest rates, market downturns and combined shocks — such as those experienced during COVID.

Continuous disclosure and transparency. Life insurers file standardized quarterly and annual statements that give regulators a detailed view of assets, liabilities, capital and risk exposures, including reinsurance transactions. Unlike banks, insurers disclose holdings on an asset-by-asset basis. Beginning with year-end 2026 reporting, insurers will provide even more granular financial disclosures on private placements and complex investments to enhance visibility into insurers' links with private credit markets. Life insurers are also subjected to rigorous financial exams.

Redundancy. Life insurers are subject to supervision by their home state regulator who continually monitors life insurers' solvency. In addition, ratings agencies like Moody's, Fitch and S&P Global provide a third set of eyes on the balance sheet. Insurance companies are also subject to third-party monitoring in the form of rating agency assessments and stress tests.

Cooperation. The NAIC provides all state insurance departments with sophisticated and high-quality financial surveillance tools and analysis so that even the smallest insurance department gets access to the necessary information.

THE BOTTOM LINE

The U.S. state-based insurance regulatory system is **preventive, transparent and nationally coordinated.** Regulators have multiple tools to intervene early, require corrective action, and ensure insurers can deliver on financial guarantees — **protecting policyholders without waiting for losses to occur.**