Parsing the New Life Insurance C-1 RBC Charges for CLOs/CBOs/CDOs

Loomis Sayles Insurance Solutions Team

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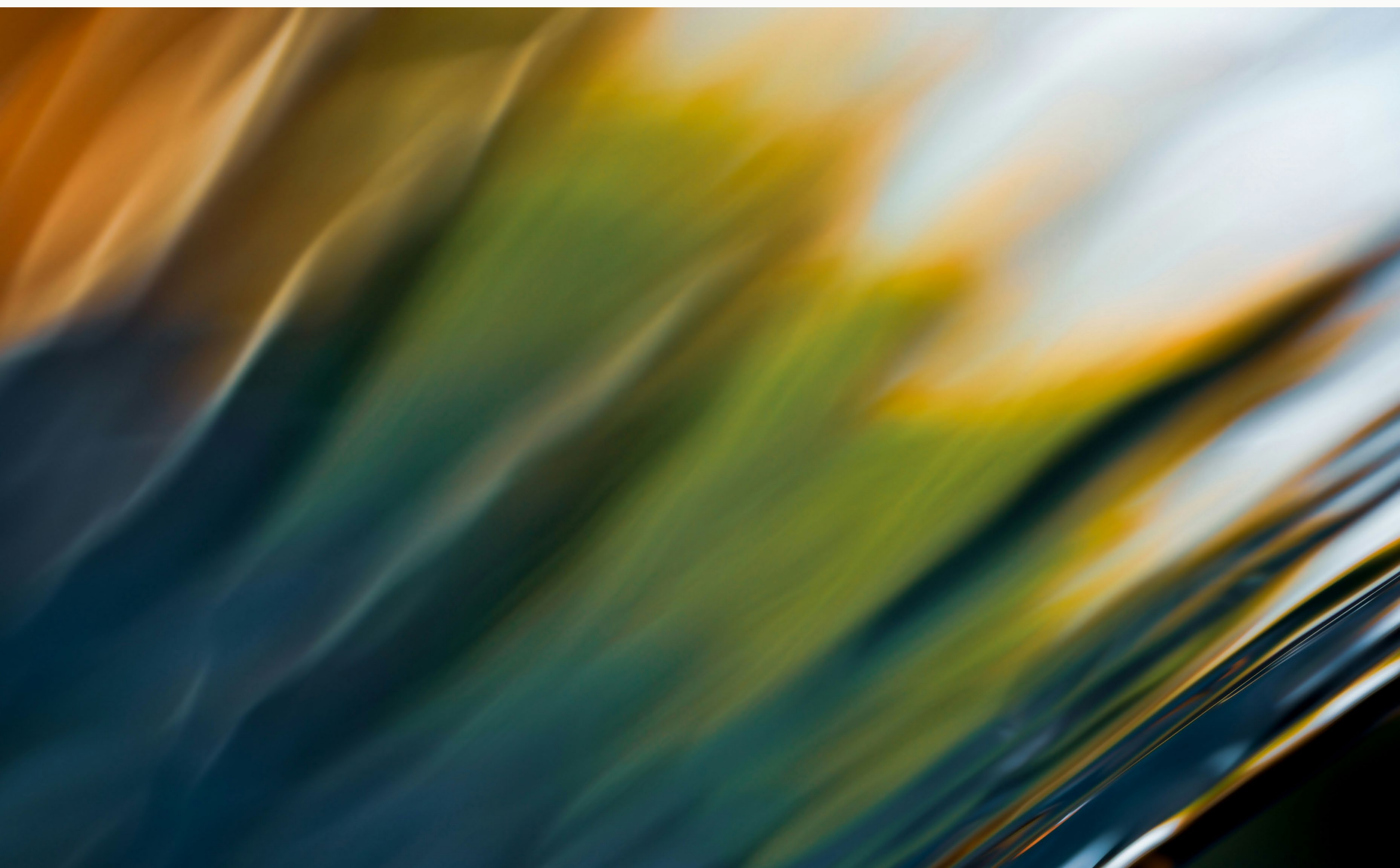

This summer was *anything but dull* for life insurers and their investment directors.

After a four-year review process, the National Association of Insurance Commissioners (NAIC) approved new C-1 Risk-Based Capital (RBC) charges for the following securities held by life insurers:

- Collateralized **Loan** Obligations (CLOs)
- Collateralized **Bond** Obligations (CBOs)
- Collateralized **Debt** Obligations (CDOs)

While the topic may not be the spiciest for a broad audience, it is a hot topic in life insurance circles. We believe tens of millions of dollars may be reallocated in the CLO/CBO/CDO space amid an increase in offerings in certain ratings tiers. Read on for the details.

Barring a delay, the new C-1 charges for CLOs/CBOs/CDOs will go into effect December 31, 2026.[1] The changes are best thought of in three parts, which are described below and displayed in the following tables.

NAIC Changes in *Three Parts*

PART ONE

For CLO/CBO/CDO securities rated NAIC 2B (Baa2) or higher, the factors shown in the table below apply without adjustment for broadly syndicated loan (BSL) CLO tranche thickness.[2]

All CLOs/CDOs/CBOs

NAIC Designation	Rating	Current C-1 Pre-Tax	New C-1 Pre-Tax	New C-1 as % of Current C-1
1A	AAA	0.16%	0.04%	23%
1B	Aa1	0.27%	0.05%	18%
1C	Aa2	0.42%	0.05%	11%
1D	Aa3	0.52%	0.05%	9%
1E	A1	0.66%	0.17%	26%
1F	A2	0.82%	0.17%	21%
1G	A3	1.02%	1.45%	143%
2A	Baa1	1.26%	1.81%	144%
2B	Baa2	1.52%	2.70%	177%

Source: US NAIC, as of July 23, 2026.

Key Takeaways:

- The NAIC approved a new set of risk-based capital charges for CLOs, CBOs and CDOs held by life insurers. They go into effect December 31, 2026.
- For securities rated 1F (A2) and above, the new charges will be dramatically lower. For those rated 1G (A2) and below, charges will be significantly higher.
- Given the changes, we expect life insurers to shift their allocations.
- We could see increased offerings of CBOs and CDOs that have top tranches at 1F (A2) or higher.

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PART TWO

For CLO/CBO/CDO securities rated NAIC 2C (Baa3) or lower, the factors in the table below apply to BSL CLOs with tranche thicknesses of 4% or greater.

PART THREE

For BSL CLO securities rated NAIC 2C (Baa3) or lower, the factors below apply to tranche thicknesses below 4%.

All CLOs/CDOs/CBOs

BSL CLOs with Tranche Thickness >=4%				
NAIC Designation	Rating	Current C-1 Pre-Tax	New C-1 Pre-Tax	New C-1 as % of Current C-1
2C	Baa3	2.17%	3.28%	151%
3A	Ba1	3.15%	15.13%	480%
3B	Ba2	4.54%	25.16%	554%
3C	Ba3	6.02%	27.98%	465%
4A	B1	7.39%	31.30%	424%
4B	B2	9.54%	42.31%	444%
4C	B3	12.43%	56.88%	458%
5A	Caa1	16.94%	57.84%	341%
5B	Caa2	23.80%	66.35%	279%
5C	Caa3	30.00%	85.12%	284%
6	Ca	30.00%	92.56%	309%
6	C	30.00%	92.56%	309%
6	D	30.00%	92.56%	309%

BSL CLOs

Tranche Thickness <4%	
New C-1 Pre-Tax	New C-1 as % of Current C-1
15.05%	694%
26.90%	854%
36.92%	814%
39.75%	661%
43.07%	583%
54.08%	567%
68.64%	552%
69.60%	411%
78.11%	328%
96.89%	323%
92.56%	309%
92.56%	309%
92.56%	309%

Source: US NAIC, as of July 23, 2026.

Ratings the *Key* Determinant

C-1 RBC charges for CLOs/CBOs/CDOs rated 1F (A2) and above were dramatically lowered to a range of only 9% to 26% of prior charge levels. Looking closely at the charge differential between 1A (AAA) and 1F (A2), it dropped from 66 basis points (bps) to 13 bps.[3]

Conversely, the NAIC significantly raised charges related to CLOs/CBOs/CDOs rated 1G (A2) and below to a range of 143% to 854% of their former levels. Additionally, life insurers will likely be sensitive to a new decided cliff in C-1 between the 1F to 1G notch crossover.

What Do CLO Exposures Tell Us About Potential Life Insurance Allocations?

As of year-end 2024, the US insurance industry general accounts held $276 billion in CLOs, which fell into the following broad rating buckets:

US Insurance Industry General Account CLO Holdings

Rating Bucket	Amount ($M)	% Total*
AAA	109,055	39%
AA	61,518	22%
A	41,944	15%
BBB	33,555	12%
BB & Below	5,593	2%
NR	25,167	9%
TOTAL CLO's	**276,832**	**100%**

*Source: NAIC Capital Markets Special Report, as of December 31, 2024. NR stands for not-rated issues. *Does not sum to 100% due to rounding.*

Life insurers held 82% of the $276 billion. Assuming the ratings distribution of life insurers' assets is similar to that of the broad insurance industry (excluding not-rated issues), we estimate that 17% of life insurers' CLO holdings were rated BBB or below ($32 billion). Depending on what portion of the A rated bucket is composed of 1G (A3) and NR 1G (A3) or below, that number could be higher by a good amount.

Implications for Life Insurer Assets

With the dramatic increase in C-1 for securities rated 1G (A3) or below, we would expect life insurers to eliminate these holdings in favor of similarly rated securitized or corporate securities. Based on the table at left, we estimate life insurers will have at least $32 billion and possibly more than $50 billion in CLOs to potentially reallocate.

The dramatic reduction in the differential between 1A (AAA) to 1F (A3) means that the yield/spread pickup hurdle for life insurers to reallocate from 1A (AAA) to 1F (A2) could be much less to adjust for the increased capital charge. Our expectation is that life insurers will look to increase portfolio spread/yield by shifting away from AAA CLOs/CBOs/CDOs in favor of AA1, AA2, AA3, A1 and A2 rated CLOs/CBOs/CDOs.

Additionally, the dramatic decrease in C-1 for securities rated 1F (A2) and higher means life insurers will likely try to reallocate other spread securities like corporates and securitized issues into CLOs/CDOs/CBOs to reduce the C-1 charges on their assets.

Asset liability management implications will need to be assessed when undertaking these portfolio shifts. However, all else equal, life insurers should prefer CLO/CDO/CBO to similarly rated corporates, asset-backed securities and commercial mortgage-backed securities.

Market Response

Additionally, we think issuers will respond to the RBC changes with more offerings of CBOs and CDOs that have top tranches at 1F (A2) or higher. We have already seen asset managers build CBO/CDO structures with the new C-1 RBC charges in mind.

We believe these offerings/structures could be very desirable relative to other fixed income holdings (depending on the yields they offer) given the large C-1 reductions in those rating buckets. This could cause an expansion of CBO/CDO offerings in the market, in our view. Life insurers will likely need to ensure that portfolio guidelines and investment management agreements address CDO/CBO securities where the documents are currently silent on such investments. Credit investing by life insurers and asset managers will need to expand coverage of CBO/CDO managers and their collateral portfolios.

Future NAIC Projects and Actions

While the current C-1 project was based on BSL CLO data and applies to all CLOs/CBOs/CDOs, we believe it is likely that middle market loan (MML) CLOs will be given attention under a future NAIC project.

Like the tranche thickness variation for BSL CLOs under the newly created structure, MML CLOs differ from BSL CLOs in terms of collateral, liquidity, transparency, credit enhancement and covenants. We believe these differences might suggest a different C-1 charge structure from the new one. In our view, the NAIC may undertake additional initiatives if market developments or life insurer allocation trends raise regulatory concerns in sectors such as commercial real estate CLOs, CBOs and CDOs.

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Endnotes:

[1]*C-1 refers to the minimum capital insurers are required to hold to cover the risk of certain bond holdings. (The RBC charges or property & casualty and health insurers for CLOs/CBOs/CDOs remain unchanged at this time.)*

[2]*Tranche thickness refers to the percentage of a securitization's total capital structure represented by a specific tranche. Larger tranches are considered "thicker," while smaller tranches are considered "thinner."*

[3]*Prior C-1 RBC differential detail: 1A (AAA) at 16 bps and 1F(A2) at 82 bps. Current C-1 RBC differential detail: 1A at 4 bps and 1F at 17 bps.*

Sources:

NAIC Capital Markets Special Report, "U.S. Insurers' Total Collateralized Loan Obligation Investments Pace of Growth Slows in 2024", Johnson, Carelus, Lee

Loomis Sayles & Company, "Q1 2026 Insurance Solution Highlights"

NAIC RBC Investment Risk and Analysis Working Group, New Life RBC Factors for CLOs, CBOs and CDOs, June 23, 2026

Disclosure:

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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

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