

MEMORANDUM

TO: Members of the RBC Investment Risk and Evaluation (E) Working Group
Members of the Statutory Accounting Principles (E) Working Group

FROM: NAIC Staff

DATE: April 1, 2024

RE: Aggregated Residual Data – Year-End 2023

This memo has been developed to provide information on the reporting of residuals by life, P/C & health companies on Schedule BA for year-end 2023. Summaries of information are provided for the following aspects:

- Residual by Reporting Line
- Residual Acquisition Date
- 2023 Movement to Residual Reporting – Life Entities
- Residuals with NAIC Designations Reported
- Residual Investments Involving Related Parties
- Impact of 45% RBC Factor – Refreshed for 2023 Riling Results.

Residuals By Reporting Line:

Total Residuals	2023 Count	Reported BACV	% of Total	2022 Count	Reported BACV	% of Total
Life Entities	1,248	11,630,554,475	86.13%	874	5,742,324,464	81.86%
P/C Entities – 2022 Revised	419	1,551,970,807	11.49%	355	1,049,516,959*	14.96%
Health Entities	99	317,688,548	2.35%	80	220,517,642	3.14%
Title Entities	2	2,637,903	0.02%	2	2,799,992	0.04%
Total Residuals	1,768	13,502,851,733		1,314	7,015,159,057	

Notes: 1) The counts include any instance in which an investment is reported, regardless of if it had a BACV.

2) The increase in residuals may not be from 2023 acquisitions but could be a move to the residual reporting line. See the chart on page 4 for residual movement detail for life companies.

** In 2022 it was noted that \$4.5B of this was likely misreported as residuals. This company did not include that amount in the 2023 residual reporting. The amount has been removed for comparison purposes.*

Key Elements:

- Life entities make up the significant majority (86%) of residual interests across the entire industry. Residuals reported on Schedule BA for life entities has doubled in BACV from 2022, from \$5.7B to \$11.6B.
- Residuals are predominantly classified as either fixed income or other. This is consistent with 2022.
- 48% of all residuals held by life entities involve a related party in some form. A much lower percentage of related party involvement exists for P/C and Health Entities.
- 25 life entities hold residuals that reflect 83% of the life industry BACV total. (8 companies represent 47% and 10 companies represent 55%.)
- Per the detail of largest residuals held, several are reported at an amount greater than cost. This will not be permitted for residuals acquired after Jan. 1, 2025, per the new measurement guidance in SSAP No. 21R.

Life Entities: Residuals reported on Schedule BA has doubled in BACV from 2022, from \$5.7B to \$11.6B. The number of residuals has increased in all categories, except for “Other-Affiliated,” which reported an approx. count decrease of 100 and 51% decline in BACV. Although the count of residuals is significantly greater with unaffiliated investments, the BACV is evenly split between unaffiliated and affiliated.

Life Reporting Entities					
Unaffiliated	2023 Count	Reported BACV 2023	2022 Count	Reported BACV 2022	% Change in BACV '22 to '23
Fixed Income – Unaffiliated	651	3,829,582,270	428	1,717,933,527	122.92%
Common Stock - Unaffiliated	31	459,991,247	20	151,745,564	203.13%
Preferred Stock – Unaffiliated	9	15,559,571	6	4,999,986	211.19%
Real Estate - Unaffiliated	3	12,321,798	0	0	100%
Mortgage Loans - Unaffiliated	30	69,675,196	9	2,757,688	2426.58%
Other – Unaffiliated	163	1,423,560,678	147	682,127,139	108.69%
Total Unaffiliated	887	5,810,690,760	610	2,559,563,904	127.02%
Percent of Life Residual Total	71%	50%	70%	45%	
Affiliated					
Fixed Income - Affiliated	217	3,200,982,913	94	1,438,200,802	122.57%
Common Stock – Affiliated	85	1,503,564,184	30	110,512,247	1260.54%
Preferred Stock – Affiliated	1	0	0	0	100%
Real Estate - Affiliated	5	276,320,282	0	0	100%
Mortgage Loans – Affiliated	5	45,959,496	0	0	100%
Other – Affiliated	48	793,036,840	140	1,634,047,511	-51.47%
Total Affiliated	361	5,819,863,715	264	3,182,760,560	82.86%
Percent of Life Residual Total	29%	50%	30%	55%	
Life Residual Total	1,248	11,630,554,475	874	5,742,324,464	102.54%

P/C Entities: Residuals reported on Schedule BA has increased about 50% from 2022. Although it appears that the affiliated residuals have decreased significantly, four investments totaling \$4.5B were misreported by one company as residuals in 2022. As those investments were not misreported in 2023, those investments represent the bulk of the decrease in affiliated. For P/C entities, a significant majority are unaffiliated investments.

Property / Casualty Reporting Entities					
Unaffiliated	2023 Count	Reported BACV 2023	2022 Count	Reported BACV 2022	% Change in BACV '22 to '23
Fixed Income – Unaffiliated	280	880,698,427	237	631,189,758	39.53%
Common Stock - Unaffiliated	83	293,210,673	69	132,695,423	120.97%
Preferred Stock – Unaffiliated	3	15	1	65,550	-99.98%
Real Estate - Unaffiliated	2	4,608,460	0	0	100%
Other – Unaffiliated	16	70,461,810	24	65,938,165	6.86%
Total Unaffiliated	384	1,248,979,385	331	829,888,896	50.50%
Percent of P/C Residual Total	92%	80%	92%	15%	
Affiliated					
Fixed Income - Affiliated	31	292,249,580	26	4,756,630,624	-93.86%
Common Stock – Affiliated	1	0	0	0	0
Other – Affiliated	3	10,741,842	1	15,239,928	-29.52%
Total Affiliated	35	302,991,422	27	4,771,870,552	-93.65%
Percent of P/C Residual Total	8%	20%	8%	85%	
P/C Residual Total	419	1,551,970,807	358	5,601,759,448	-72.29%

Health Entities: The increase in residuals reported on Schedule BA is for health is 44%, which is similar to the increase in P/C entities. Also similar to P/C entities, a significant majority are unaffiliated investments.

Health Reporting Entities					
Unaffiliated	2023 Count	Reported BACV 2023	2022 Count	Reported BACV 2022	% Change in BACV '22 to '23
Fixed Income – Unaffiliated	93	\$300,528,301	64	\$198,916,262	51.08%
Preferred Stock – Unaffiliated	1	2,323,187	0	0	100%
Other – Unaffiliated	2	705,038	12	3,584,975	-80.33%
Total Unaffiliated	96	303,556,526	76	202,501,237	49.90%
Percent of Health Residual Total	97%	96%	95%	92%	51.08%
Affiliated					
Fixed Income - Affiliated	2	\$14,132,022	4	\$18,016,405	-21.56%
Other – Affiliated	1	0	0	0	0
Total Affiliated	3	14,132,022	4	18,016,405	-21.56%
Percent of Health Residual Total	3%	4%	5%	8%	
Health Residual Total	99	317,688,548	80	220,517,642	44.06%

Title Entity – There is one title company that holds two residuals for a BACV of \$2.6M in 2023. These investments were held in 2022 with a \$2.8M BACV.

Residual Acquisition Dates

A vast majority of life entities (76% in 2023 vs. 83% in 2022) reported that their residuals (in BACV) were acquired in the most recent three years. Similar observations are noted for P/C and Health, with 78.2% and 80.7% of residuals BACV acquired in the most recent three years respectively. *(The count includes all reported investments, including those with 0 BACV.)*

Year Acquired	Life			P/C			Health		
	Count	Reported BACV	% of BACV	Count	Reported BACV	% of BACV	Count	Reported BACV	% of BACV
2023	247	2,810,468,654	24.2%	70	255,611,788	16.5%	26	86,522,773	27.2%
2022	345	3,591,694,216	30.9%	111	508,120,920	32.7%	51	163,729,104	51.6%
2021	246	2,467,916,903	21.2%	123	448,965,412	29.0%	13	6,214,651	2.0%
2020	89	1,048,139,934	9.0%	33	123,193,438	7.9%	-	-	-
2019	51	569,343,237	4.9%	30	72,359,962	4.7%	-	-	-
2018	52	127,519,073	1.1%	10	19,082,086	1.2%	1	14,033,114	4.4%
2017	49	60,369,061	0.5%	9	1,988,026	0.1%	-	-	-
2016	33	122,340,118	1.1%	7	20,667,734	1.3%	-	-	-
2015	6	7,323,326	0.1%	1	0	0.0%	1	694,655	0.2%
2014	93	323,179,676	2.8%	1	41,773	0.0%	-	-	-
2013	3	665,006	0.0%	5	1,208,799	0.1%	1	98,908	0.0%
2012	1	0	0.0%	3	99,561,943	6.4%	1	118,711	0.0%
2011	1	70,044	0.0%	1	809,408	0.1%	-	-	-
2010 or earlier	7	(1)	0.0%	6	242,224	0.0%	3	41,081,461	13.0%
No Date	25	501,525,228	4.2%	9	117,294	0.0%	2	5,195,171	1.6%
Total	1,248	11,630,554,475	100%	419	1,551,970,807	100%	99	317,688,548	100%

2023 Movement to Residual Reporting – Life Entities:

In 2022 it was known that residuals were under-reported as residual investments in LLCs were often retained within the LLC Schedule BA reporting line and not moved to the residual reporting line until explicitly directed. The detail below illustrates that residuals (in all categories except for “Other”) were held in 2022 but not reported on the Schedule BA residual reporting line. This information is in aggregate count only. It would require a comparison of each insurance company’s Schedule BA for 2023 and 2022 to identify the specific residuals and BACV that were held in 2022 and reported elsewhere. *(This review was completed for life companies only.)*

Life Entities	Total Count 2023	Acquired 2023	Acquired 2022 or earlier per 2023 Data	Total Count 2022	Difference in 2022 #'s
Fixed Income – Unaffiliated	651	131	520	428	92
Fixed Income Affiliated	217	37	180	94	86
Common Stock – Unaffiliated	31	14	29	20	9
Common Stock - Affiliated	85	14	71	30	41
Preferred Stock – Unaffiliated	9	2	7	6	1
Preferred Stock – Affiliated	1	0	1	0	1
Real Estate - Unaffiliated	3	1	2	0	2
Real Estate - Affiliated	5	2	3	0	3
Mortgage Loans - Unaffiliated	30	3	27	9	18
Mortgage Loans – Affiliated	5	3	2	0	2
Other – Unaffiliated	163	47	116	147	(31)
Other – Affiliated	48	5	43	140	(97)
Total Counts	1248	334	1001	874	

Note – Items that were not reported with an acquisition date were assumed to be acquired prior to 2023.

Residuals with NAIC Designations Reported

Life Entities: Residuals most commonly do not have designations, either SVO assigned or from CRPs. The information reported for year-end 2023 had 195 investments reported with an NAIC designations (as compared with 76 in 2022). The vast majority (in count and percentage of BACV) are not reported with a designation, or if reported, reflected an NAIC 6. Although designations can be reported for residuals, they have no impact on RBC. The reporting for P/C and Health companies is in line with the expectation that residuals would not have designations.

Designation	Life			P/C			Health		
	Count	Reported BACV	% BACV	Count	Reported BACV	% BACV	Count	Reported BACV	% BACV
NAIC 1	5	715,013,572	6.2%	-	-	-	-	-	-
NAIC 2	9	2,961,703	0.0%	-	-	-	-	-	-
NAIC 3	-	-	-	1	2,630,803	0.2%	-	-	-
NAIC 4	-	-	-	-	-	-	-	-	-
NAIC 5	18	110,531,073	1.0%	-	-	-	3*	9,762,289	3.1%
NAIC 6	163	968,700,137	8.3%	174	372,616,456	24.0%	3	60,615,371	19.1%
0 or None	1,053	9,833,347,990	84.5%	244	1,176,723,548	75.8%	93	247,310,888	77.8%
Total	1,248	11,630,554,475	100%	419	1,551,970,807	100%	99	317,688,548	100%

Note: For the life entities, all the NAIC 1s for life entities are reported as FE. For the NAIC 5, 8 of them are reported as 5GI with aggregate BACV of \$1.2M

Residual Investments Involving Related Parties:

As shown, close to half (48% vs. 62% in 2022) of residuals owned by life entities involved related parties in some form (related party code 1 to 4). Most of these are from securitizations (or similar structures) with less than 50% of the underlying collateral in direct credit exposure (code 3).

Life				
Related Party Code		Count	Reported BACV	% of BACV
1	Direct credit exposure.	8	138,580,178	1.2%
2	Securitization with related party with 50% or more of the underlying collateral in direct credit exposure.	34	1,723,845,683	14.8%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	330	3,688,578,763	31.7%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	5	13,070,500	0.1%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	2	44,082,179	0.4%
6	Investment does not involve a related party.	855	6,022,397,172	51.8%
No Entry		14	0	0.0%
Total		1,248	11,630,554,475	100%

Unlike life entities, the majority of residuals held by P/C (86%) and Health (94%) do not involve a related party.

P/C				
Related Party Code		Count	Reported BACV	% of BACV
1	Direct credit exposure.	7	15,584,624	1.0%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	17	111,499,671	7.2%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	1	7,096,432	0.5%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	3	83,133,797	5.4%
6	Investment does not involve a related party.	384	1,334,656,283	85.9%
No Entry		7	-	-
Total		419	1,551,970,807	100%

Health				
Related Party Code		Count	Reported BACV	% of BACV
1	Direct credit exposure.	5	20,388,739	6.4%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	1	98,908	0.0%
6	Investment does not involve a related party.	92	297,200,901	93.6%
No Entry		1	-	-
Total		99	317,688,548	100%

Note: Codes with zero entries were excluded from the P/C and Health Schedules above.

Impact of 45% RBC Factor – Refreshed for 2023 Riling Results.

Although company specific information cannot be shared publicly, estimated (@) individual company calculations of ACL RBC ratio, after removing the impacts of the 30% factor on the risk component totals going into the covariance adjustment and replacing them with the results of a 45% factor, was noted to have the following impact:

Percentage Change, in absolute term*	Number of Companies
> 5.0%	5
1.0% ≤ Percentage change <5.0%	19
0.5% ≤ Percentage change <1.0%	14
0.2% ≤ Percentage change <0.5%	19
0.1% ≤ Percentage change <0.2%	16
<0.1%	37
Total	110

@ The estimate does not take into consideration the effect of MODCO Reinsurance Adjustments, potential concentration factor/consideration and non-admittance of residual investments (if any).

* “Percentage Change in absolute term” is calculated by determining the percentage change in 2023 reported and estimated (@) ACL RBC ratios. For example, if a company reported an 860% ACL RBC Ratio and the application of the 45% factor within the estimation decreased ACL RBC to 859%, this would represent a 0.12% percentage change, in absolute terms | (859%-860%)/860%|. This exercise was completed for 110 of the life entities that reported ownership of residuals in Schedule BA as of March 13, 2024.

NAIC Staff also noted that none of the 110 companies analyzed above would trigger additional regulatory oversight prescribed for action levels such as Company Action Level, Regulatory Action Level, Authorized Control Level or Mandatory Control Level RBC, as a result of implementation of 45% factors. Coupled with the fact that over 95% of the companies experienced a less than 5% change in ACL RBC Ratio (as seen in analysis above), it was concluded that the 45% factor has inconsequential impact to the insurers’ 2023 RBC.