CIRCA

October 3, 2024

Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Dear Chair Hemphill:

Thank you for the opportunity to provide comments on the Life Actuarial (A) Task Force (LATF) AAT for Reinsurance Actuarial Guideline Draft exposure. I write as a representative of the Cayman International Reinsurance Companies Association (CIRCA). Founded in October 2020, CIRCA is now made up of over 60 members. The association is dedicated to promoting collaboration, advocating for regulatory excellence, and driving educational initiatives in the Cayman Islands' reinsurance sector. I have taken the liberty of including an Appendix to this letter that provides information about the Cayman Islands Monetary Authority (CIMA) which we feel is helpful additional context when reviewing our feedback.

CIRCA has been closely following the discussions occurring at LATF regarding asset adequacy testing for reinsurance and the development of the current exposure. After review from our members and ongoing discussions with interested parties, CIRCA has developed initial feedback below for the requested initial exposure, Section 2, Scope and Sections 5.C and 7, Aggregation.

Section 2, Scope

According to the exposure, LATF is contemplating applying either a narrow or broad scope to the Actuarial Guideline. CIRCA encourages LATF to adopt a narrow scope, as outlined in Option 1. Also, our members suggest including a provision that would allow for entities that provide disclosures comparable to VM-30 to their regulator be out of scope for the Actuarial Guideline. Specifically, if an assuming reinsurer provides to their regulator a technical document which is consistent with the methodology, nature, and overall purpose of the VM-30 Actuarial Opinion and Memorandum Requirements, then the reinsurance ceded to that reinsurer should be excluded from the scope of this Actuarial Guideline proposal.

As currently drafted, the Actuarial Guideline exposure appears to focus on situations where the reserves set by the assuming reinsurer are materially lower than the U.S. Statutory Reserve ceded by the ceding company. CIRCA contends that what matters to the ceding company is the level of contractually obligated assets they have unfettered access to in order to satisfy the ceded policyholder obligations. Therefore, CIRCA recommends that the Actuarial Guideline exclude from its scope transactions where the contractually obligated assets supporting the ceded risk are no less than the ceded U.S. Statutory Reserve. This would include Modified Coinsurance or Coinsurance Funds Withheld where those assets remain in the ceding company's possession and on their balance sheet or Coinsurance supported by a reserve credit trust compliant with NAIC Model 785.

If such transactions are not fully excluded, we recommend that the focus of analysis of the transaction by the Appointed Actuary be on the committed asset level, reflecting any overcollateralization contractually provided by the reinsurer, available to the ceding company and not the stated reserve for the risk held by the reinsurer assuming another accounting basis. If the contractually required collateral is used in place of that stated reinsurer reserve in the provided Attribution Analysis spreadsheet, the result would be a total volume of supporting assets greater than or equal to the reserve which CIRCA believes would result in the transaction posing a low risk.

Sections 5.C and 7, Aggregation

CIRCA members believe that any aggregation requirements set out in the Actuarial Guideline exposure should be consistent with those applicable to the aggregation requirements outlined in VM-30 and relevant actuarial guidance. LATF should apply consistent aggregation requirements for their disclosures, regardless of whether the reinsurance transaction is ceded to a domestic or offshore reinsurer.

The testing should include all contractual resources for a transaction, including the reserves held by the reinsurer, coinsurance funds withheld, comfort trusts and any other form of NAIC Model 785 compliant contractual support. Ceding companies often negotiate overcollateralization as an additional layer of protection so CIRCA would also recommend assets supporting the overcollateralization to be available in any AAT analysis of the ceded business.

Other Comments

Also, both Primary Securities and Other Securities as described in AG 48 (4D and 4E, respectively) should be included as "Acceptable Assets" in support of policyholder obligations, consistent with permissible investments in the relevant regulator's state. For reference, in AG 48 Section 4E, Other Securities are defined to be: "Any asset, including any asset meeting the definition of Primary Security, acceptable to the Commissioner of the ceding insurer's domiciliary state." On this point, CIRCA would like to highlight that ceding companies negotiate investment guidelines with the reinsurer as a protection to meet their policyholder obligations. Assets held on the ceding company's balance sheet under Modified Coinsurance or Funds Withheld will be such that the company is compliant in total under the domiciliary state's investment limitations. Reserve credit trusts supporting Coinsurance transactions are even more restrictive, limiting the assets in the trust to SVO-rated, cash or cash equivalents, letters of credit from a qualified institution, or other assets as specifically authorized by the ceding company's domiciliary commissioner. All assets supporting the ceded business are held in the U.S.

As stated above, CIRCA appreciates the opportunity to provide comments to LATF and thanks you for your consideration. We welcome any opportunity to discuss these and any other points further as the Task Force deems appropriate.

Sincerely,

David C. Self

Chair of Board of Directors
Cayman International Reinsurance Companies Association.

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Appendix – The Cayman Islands Monetary Authority

The Cayman Islands Monetary Authority (CIMA) is the primary regulator and supervisor of the financial services industry in the Cayman Islands. In its supervisory role, CIMA is responsible for monitoring the activities of its domestic and international licenses through integrated risk-based supervisory approach of onsite and offsite supervision. CIMA has a long history of international cooperation and leadership in international regulatory policymaking and standard setting. CIMA is a founding member of the International Association of Insurance Supervisors (IAIS), and member of its Reinsurance task force responsible for the creation of the international reinsurance regulatory standards (ICP 13). CIMA has been a member of the International Organization of Securities Commissions (IOSCO) since 2009 and participates in international initiatives with the NAIC, Organization for Economic Cooperation and Development (OECD), Financial Action Task Force (FATF) and International Monetary Fund (IMF).

The provision of assistance to overseas regulatory authorities is one of CIMA's principal functions. Such international cooperation takes place primarily through the exchange of information, facilitated through Memorandums of Understanding ("MOUs"), other agreements and through CIMA's active participation in international forums. CIMA has 70+ bilateral and multilateral cooperation arrangements with international regulatory authorities, including an MOU with the NAIC and direct MOUs with other state regulators. CIMA is also a signatory of the IAIS Multilateral Memorandum of Understanding which allows CIMA to cooperatively exchange information with other signatories.

According to Section 9(1)(a) of the Insurance Act and the Actuarial Valuations Rules and Statement of Guidance, each Cayman Islands licensed life and annuity reinsurer is required to provide CIMA with an annual Actuarial Valuation Report that is compliant with the requirements of the IAIS. The Actuarial Valuation Report is a detailed test of solvency, requiring an actuarial analysis of the valuation of the assets and liabilities as well as capital adequacy of the company. Various stress testing that reflects the risks of the business must be included in the analysis. This Report is prepared by the Appointed Actuary and reviewed by the Peer Reviewing Actuary. Both roles must be approved by CIMA, at the time of the licensing of the company and for any ongoing changes within the roles. The criteria used by CIMA when determining whether to recognize or approve an actuary are set out in the CIMA Regulatory Policy on The Recognition and Approval of an Actuary.