February 28, 2025

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

Dear Chair Hemphill:

I write as a representative of the Cayman International Reinsurance Companies Association (CIRCA). Our organization appreciates this opportunity to provide comments on the Life Actuarial (A) Task Force (LATF) AAT for Reinsurance Actuarial Guideline Draft exposure dated January 30, 2025.

Our member companies are unauthorized reinsurers. The NAIC Credit for Reinsurance Model Regulation limits reserve credit for business ceded by a U.S. cedent to an unauthorized reinsurer to the amount of acceptable collateral posted by the reinsurer, but no more than the ceded statutory reserve. This is done to protect the collectability of reinsurance for the U.S. cedant. It further requires that these supporting assets be held in the U.S. in a qualifying reserve credit trust, an acceptable letter of credit or remaining in the possession of the ceding company under funds withheld or modified coinsurance. We believe that these NAIC imposed restrictions serve their intended purpose and establish such transactions as low risk from a collectability standpoint.

These supporting assets are contractually committed to the transaction and fully accessible by the cedant in the event the reinsurer fails to perform. This is a proxy for the ceded reserve; the reserve held by the reinsurer has no bearing. Along with the assets supporting the reserve credit, there frequently is a level of overcollateralization held in trust to further support the collectability of the reinsurance. In total these "Contractually Obligated Assets" are made available by treaty to the U.S. ceding company to ensure payment of ceded claims. These Contractually Obligated Assets plus the cedant's retained reserve should constitute the Starting Asset Amount for the proposed mandatory run of cash-flow testing and not the Post-Reinsurance Reserve. Likewise, any Attribution Analysis should use Contractually Obligated Assets in place of the reinsurer's reserve.

We don't believe there is a scenario (Mandatory or Alternative) where the Starting Asset Amount should be less than the amount of Contractually Obligated Assets, to the extent they are admitted assets. This draft continues to limit or restrict tested assets to Primary Security as defined in AG 48 Section 4D. AG 48 Section 4E Other Securities allows for "any asset, including any asset meeting the definition of Primary Security, acceptable to the Commissioner of the ceding insurer's domiciliary state." We believe this guideline should also honor the discretion of the domiciliary state Commissioner.

Section 6 is understandably a work in progress, but we do not believe that this use of cash flow testing should be more restrictive for the appointed actuary than routine asset adequacy testing. A limitation to Primary Securities or a quality threshold is unnecessary if those assets are modeled appropriately. Also, is it the intention of this guideline to require the New York 7 for this exercise in all states when it is not otherwise required in most states? Further, the examples are not sufficiently clear to divine the intent, particularly with respect to attributing capital. Presenting some numeric examples may clarify.

CIRCA again 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,

Gregory L Mitchell

Chair of Board of Directors
Cayman International Reinsurance Companies Association.