REINSURANCE (E) TASK FORCE

Draft Pending Adoption

Draft: 7/30/26

Reinsurance (E) Task Force
Virtual Meeting
July 20, 2026

The Reinsurance (E) Task Force met July 20, 2026. The following Task Force members participated: Ricardo Lara, Chair, represented by Monica Macaluso (CA); Angela L. Nelson, Vice Chair, represented by John F. Rehagen (MO); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Michael Conway represented by Rolf Kaumann (CO); Joshua Hershman represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Bradley Trim (FL); John F. King represented by Davis Camuso (GA); Doug Ommen represented by Carrie Mears (IA); Ann Gillespie represented by Eric Wisz (IL); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Rodney Hugle (KY); Timothy J. Temple represented by Stephen Kowalski (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Grace Arnold represented by Fred Andersen (MN); Mike Causey represented by Jessica Price (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); Susan Ochs represented by John Tirado and David Wolf (NJ); Ned Gaines represented by Diana Branciforte (NV); Kaitlin Asrow represented by Michael Campanelli (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); TK Keen represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana L. Sherman (PA); Carter Lawrence represented by Trey Hancock (TN); Amanda Crawford represented by Jamie Walker (TX); Scott A. White represented by Kevin Shaw (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its June 22 and Spring National Meeting Minutes

The Task Force met June 22. During this meeting, it took the following action: 1) adopted a response to the Statutory Accounting Principles (E) Working Group regarding derecognized net negative interest maintenance reserve's (IMR's) impact on reinsurance collateral.

Walker made a motion, seconded by Sherman, to adopt the Task Force's June 22 (Attachment One) and March 2 minutes (*see NAIC Proceedings—Spring 2026, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 110 reciprocal jurisdiction reinsurers and 40 certified reinsurers for passporting and that 49 states and two territories have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the NAIC's certified and reciprocal jurisdiction reinsurer web page. Kaumann noted that all 50 states, as well as Washington, DC, Puerto Rico, and Guam, have passported certified and reciprocal jurisdiction reinsurers.

Kaumann made a motion, seconded by Rehagen, to adopt the report of the Working Group. The motion passed unanimously.

3. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Rehagen stated that the Working Group last met Oct. 21, 2025, in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, to reapprove the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC committee support are monitoring the implementation of these changes and will report any findings to the Working Group.

4. Received an Update on AG 55

Andersen provided an update on the results of the first year of reporting under *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). He stated that AG 55 was adopted by the NAIC and is effective for 2025 year-end reporting. AG 55 requires disclosures regarding reserve adequacy after certain reinsurance transactions take place. These transactions are for cases where the reinsurer is not required to provide reserve asset adequacy reports to U.S. state regulators. Then the treaties are in scope. Andersen stated that this commonly occurs with offshore life and annuity reinsurance or with certain life and annuity captive reinsurance transactions.

Andersen provided a presentation that was included in the meeting materials (Attachment Two). He stated that the question of interest is whether reduced reserves resulting from these transactions are still adequate to pay future claims, whether there are reserves available to cover moderately adverse conditions, and whether there is capital available to cover more severe conditions.

Andersen stated that the first filings were received in the second quarter of 2026, and 55 filings from 80 life insurers were received. Some of those 80 life insurers had multiple transactions in scope. He noted that the work performed so far has been at a higher level and has been conducted by the Valuation Analysis (E) Working Group, and that the Working Group plans to conduct more detailed work on the files received, focusing on reviews of higher priority companies. He stated that these higher-priority companies tend to be those with a high percentage of their liabilities ceded offshore or to captives, so they have more at stake with the performance of the reinsurance business. He reiterated that these reviews are still in early stages.

Andersen stated that the Working Group has started interactions with some companies but has come to no firm conclusions yet regarding reserve adequacy, and at this point, it mainly has observations and areas to pursue a better understanding. He did note that one finding is that many annuity blocks have lower reserve amounts supporting them after offshore reinsurance or captive reinsurance. This is compared with the higher reserves held when companies calculated the reserves based on U.S. statutory reserve amounts prior to the reinsurance transaction.

Andersen stated that AG 55 tests this lower reserve amount for adequacy, and through the reviews so far, they have identified common reasons that companies have provided for the reduction in reserves from U.S. statutory amounts. One is that the company may state that it expects its asset returns to be higher than the returns reflected in the U.S. statutory discount rate, and that U.S. statutory discount rates are based on average corporate bond yields. Another reason for the reduction in reserves is that they expect policyholder behavior to be less efficient than assumed in U.S. statutory standards. He noted that a company may have a fixed index annuity with a guaranteed living withdrawal benefit, and the guaranteed living withdrawal benefit might have a higher present value than the cash value.

Andersen stated that revisions to the fixed annuity reserve standards were also adopted in 2025. He noted that this is part of the principles-based reserving (PBR) project, and this reserve change, known as *Valuation Manual* (VM)-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, is part of the *Valuation Manual,* which oversees reserved standards for life insurers. He noted that one of the things the Working Group is trying to figure out is whether the dynamics change under legacy reserve standards for companies, as some companies are trying to reduce reserves from the legacy U.S. statutory standards, and now there is a new standard in place for business written in 2026 and later.

Andersen stated that another finding was that in many cases, reserves were not reduced as a result of offshore or captive reinsurance, so the company may say they are holding reserves at 100% of the U.S. statutory level. He noted that in the U.S. system, reserves are intended to cover moderately adverse conditions, but companies are expected to have excess capital to cover more severe conditions. He added that the goal is to ensure those safeguards are still in place after these offshore or captive reinsurance treaties take place. So, if a company is holding sufficient reserves, but no additional capital is dedicated to support the block, it would essentially be the equivalent, and anything close to that low level would trigger action levels or control levels. He noted that at this point, the Working Group is trying to better understand what is acting like a reserve and what is acting like excess capital so it can put the full picture together to ensure that the safeguards are in place.

Andersen stated that following the work so far in the AG 55 reviews, the regulatory group has developed an initial list of topics of regulatory interests and that these are in the categories of actuarial, asset-related, and reinsurance-related topics. He stated that the areas of interest include verifying the reasonableness of actuarial assumptions used in reserve adequacy testing and reviewing the valuation of level three assets, which do not have clear market values. For these assets, regulators are examining the likelihood of incorrect asset valuation and the potential effect on claims-paying ability if the assets are not valued correctly. He stated that regulators are also looking to the transparency of assets held by offshore reinsurers and are starting to verify balance sheets of reinsurers, in part to help ensure the reserve amount being tested for adequacy is based on the reserve amount held by the reinsurer. He added that regulators are also continuing to investigate the reasons for the use of offshore and captive reinsurance.

Andersen stated that a rather drastic change has been the adoption of the VM-22 reserving rules, and regulators want to understand the dynamics of how that might impact the reasons for offshore and captive reinsurance going forward. He noted that the Working Group will continue reaching out to companies to better understand the issues. This work will include company-specific and industry-wide analysis, and he will continue presenting the findings during future Task Force meetings.

5. <u>Received a Status Report on Projects at the NAIC that Affect Reinsurance</u>

Macaluso provided an update on an initiative related to offshore life reinsurance. She noted that Task Force leadership and NAIC committee support are in the process of working on possible next steps and that the Task Force may conduct more educational sessions. Additionally, they may consider bringing in regulators from different offshore jurisdictions to provide a better understanding of their regulatory regime and how they operate as regulators.

Macaluso stated that the California Department of Insurance (DOI), with the help of the NAIC, held a property/casualty (P/C) reinsurance roundtable for commissioners and senior regulators in July 2025. She stated that the current planned direction is to continue building knowledge, including investing in training, analytics, and regulatory tools to better assess the strength of reinsurance programs and their impact on solvency. She noted that the NAIC plans to strengthen collaboration through shared data on catastrophe exposure, joint modeling initiatives, and cross-state coordination on public-private solutions. Additionally, the NAIC aims to be proactive and shape the market response through policy, oversight, and engagement.

Macaluso stated that the NAIC and the Reinsurance Association of America (RAA) conducted a two-day training session for key regulators in Kansas City, MO, in May 2026. The session focused on the basics of how reinsurance programs work, including contract drafting, underwriting, pricing, claim management, and the role of capital markets in supporting the reinsurance industry. She noted that attendees had a chance to hear directly from industry about what they are seeing and were provided with some ideas on enhancements to address these issues. She said this as a solid first step in providing reinsurance education for regulators and hopes to build on this for some additional training courses. Sherman noted that the training session was helpful and provided positive feedback about the content.

Jake Stultz (NAIC) provided a brief update on minor projects at the NAIC that may be of interest to Task Force members. He stated that the Task Force adopted a recommendation to the Statutory Accounting Principles (E) Working Group to use the asymmetrical approach for accounting for net negative IMR, which excludes net negative IMR from the calculation of reserves to be collateralized. He said that there will be further discussions of this and other IMR topics at the Working Group's meeting at the Summer National Meeting. He said that the Macroprudential (E) Working Group continues to focus on its 13-point plan. A major focus of its work has been on cross-border reinsurance, and Stultz recommended that Task Force members follow that Working Group. Stultz noted that the NAIC formed the Risk-Based Capital Model Governance (EX) Task Force, with a mission to develop guiding principles for the risk-based capital (RBC) framework to ensure a consistent approach to future RBC adjustments. He recommended that Task Force members follow this group, as there could be changes that impact reinsurance.

Having no further business, the Reinsurance (E) Task Force adjourned.

Draft: 7/13/26

Reinsurance (E) Task Force
Virtual Meeting
June 22, 2026

The Reinsurance (E) Task Force met June 22, 2026. The following Task Force members participated: Ricardo Lara, Chair, represented by Monica Macaluso (CA); Angela L. Nelson, Vice Chair, represented by John F. Rehagen (MO); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Michael Conway represented by Rolf Kaumann (CO); Joshua Hershman represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Bradley Trim (FL); John F. King represented by Davis Camuso (GA); Doug Ommen represented by Kim Cross (IA); Ann Gillespie represented by Eric Wisz (IL); Vicki Schmidt represented by Chut Tee (KS); Timothy J. Temple represented by Tom Travis (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Grace Arnold represented by Ben Slutsker (MN); Mike Causey represented by Jessica Price (NC); Jon Godfread represented by Patrick Hendrickson (ND); Eric Dunning represented by Andrea Johnson (NE); Susan Ochs represented by David Wolf (NJ); Kaitlin Asrow represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Kate Yang (OK); TK Keen represented by Paul Throckmorton (OR); Suzette M. Del Valle represented by Glorimar Santiago (PR); Carter Lawrence represented by Trey Hancock (TN); Amanda Crawford represented by Jamie Walker and Rachel Hemphill (TX); Scott A. White represented by Doug Stolte (VA); Erin K. Hunter represented by Justin E. Parr (WV); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Response to the Statutory Accounting Principles (E) Working Group Regarding Derecognized Net Negative IMR's Impact to Reinsurance Collateral

Macaluso stated that this discussion originated with the Statutory Accounting Principles (E) Working Group and was referred to the Task Force because it affects collateral used for credit for reinsurance purposes. The Working Group formed the Interest Maintenance Reserve (IMR) Ad Hoc Group to address broader IMR issues, and during those discussions, this question arose: how to treat IMR when calculating reserves to be collateralized. She stated that the Working Group asked for Task Force input on how to treat derecognized net negative IMR in relation to reinsurance collateral required for applicable unauthorized or certified reinsurers.

Macaluso stated that the Working Group's agenda item 2025-22 impacts the application of the *Credit for Reinsurance Model Law* (#785), specifically the collateral requirements for life, accident, and health reinsurance. She stated that the existing provisions in *Statement of Statutory Accounting Principles* (*SSAP) No. 61—Life, Deposit-Type and Accident and Health Reinsurance* require derecognized net positive IMR, which are realized gains, to be captured as an increase in the reinsurance collateral required for applicable unauthorized or certified reinsurers. However, SSAP No. 61 currently does not address derecognized net negative IMR, which are realized losses, or whether the reserves to be collateralized should include negative IMR. She stated that IMR is eliminated, or derecognized, by the cedent in accordance with reinsurance transactions, as the block of business associated with recognized IMR has been eliminated. U.S.-domiciled assuming entities are required to recognize a corresponding amount of IMR for statutory accounting purposes as part of the reinsurance transaction. Macaluso noted that IMR is not recognized by offshore assuming entities, as the concept of IMR does not reflect an asset or liability under U.S. generally accepted accounting principles (GAAP) or other accounting regimes.

Macaluso stated that the referral from the Working Group included two possible approaches. First, the symmetrical approach would allow negative IMR to be included when calculating reserves to be collateralized, as is done for positive IMR, whereas the asymmetrical approach would not allow any negative IMR to be included for reinsurance purposes. Macaluso stated that the Working Group publicly exposed its agenda item 2025-22 at the 2025 Fall National Meeting and received three comment letters, which supported the symmetrical approach.

Macaluso stated that the Task Force discussed this issue publicly during its March 2 meeting and met twice in regulator-to-regulator session to help Task Force members understand this topic. She noted that the Task Force's view is that the ultimate decision on the treatment of derecognized net negative IMR rests with the Working Group, as this is a technical issue involving statutory accounting and reserves and is outside the Task Force's charges. She noted that, given the existing limit on the admission of net negative IMR not to exceed 10% of the current period's unadjusted capital and surplus, the asymmetrical approach appears to be the best in this scenario at this time.

Macaluso noted that in the context of the current limit on the admittance at 10% of the current period unadjusted capital and surplus, and the fact that over the past few years multiple offshore reinsurers have obtained Reciprocal Jurisdiction status, while asymmetrical treatment may create a small disadvantage, it is still the more reasonable approach. She stated that the meeting materials included a draft response (Attachment One-A) from the Task Force to the Working Group, recommending the asymmetrical approach while leaving any final decisions on technical accounting issues up to the Working Group.

Rehagen stated that he supports the approach recommended by Macaluso, noting that the transactions would be affected only with reinsurers in jurisdictions that have not been vetted by the NAIC.

Cheung stated support for the asymmetrical approach, noting that while the symmetrical approach is more intuitive and, from an actuarial perspective, makes more sense, it is difficult to implement when an admission cap is associated with a negative IMR. He stated that, since the negative IMR cap exists, anything that is done to try to reflect it within this collateral calculation may unintentionally either encourage or discourage the use of reinsurance. He stated that the asymmetrical approach is a better way to go as opposed to trying to do something and then having an unintended consequence from that, so from an actuarial perspective, even though conceptually the symmetrical approach makes sense, when you combine it with the admission cap, the asymmetrical approach is the better option.

Malm asked Cheung whether his opinion would change if there were no 10% admittance cap. He stated that without the cap, there is a very strong argument for the symmetrical approach. He noted that in prior meetings, the Task Force discussed why IMR exists and that, without the 10% cap, there is no reason to use the asymmetrical approach. It represents reserve decreases that do not occur when interest rates rise, so there is really no reason to limit it. However, when you combine it with the current surplus cap, it is difficult to adjust the collateral requirement while keeping that surplus cap in effect. Hemphill agreed with Cheung.

Hans Avery (American Council of Life Insurers—ACLI) stated that the symmetrical approach better aligns with the economics of a reinsurance transaction. He noted that when interest rates increase, the present value of liabilities decreases, so you need fewer invested assets for a new portfolio. If you have a new coinsurance agreement, you will typically have a new portfolio, so this makes sense.

Avery noted that many companies can fully admit negative IMR, so for those companies, the asymmetrical approach creates a difference between the balance sheet requirements for a retained risk and the collateral requirement for reinsurance with an unauthorized company, which really serves to make reinsurance, and by extension, access to capital, more expensive. A further complication is that different companies may have different impacts depending on their IMR positions. He stated that another related item is that there are a few different interpretations of the wording in the draft, and one of them was that, all else equal, collateral and requirements should be consistent with the balance sheet requirements for retained risk. He stated that if that is the intention, it may be helpful to make that explicit. He noted that further discussions are needed on the implementation of this recommendation by the Statutory Accounting Principles (E) Working Group.

Avery stated that regarding the guardrails noted in earlier meetings, he appreciates that guardrails are being established as part of the broader IMR conversation and would welcome discussion on what guardrails would be appropriate for reinsurance collateral. He stated that there could be solutions that are simpler and easier to implement than cash flow testing. He noted that scope is important and that under-collateralization should be less of a concern in arm's-length commercial transactions because both parties are incentivized to have a reasonable collateral balance.

Sheldon Summers (Claire Thinking) stated that he was an interested party of the American Academy of Actuaries (Academy), which submitted a comment letter recommending a symmetrical approach with the guardrails involving cash flow testing. He noted that his comments are his own opinion and do not represent anyone else's. He stated that when reserves are calculated without a principles-based modeling approach, the resulting formula-based reserves are generally expected to be conservative. However, under a principles-based modeling approach, reserves for a block of business may be based on the allocation of an aggregate reserve that covers other blocks of business with offsetting risks, resulting in reserves that may be lower for a block of business than what they would be if they were just calculated without consideration of the other blocks of business. When the blocks of business are reinsured, the gross reserves and the reserve credit for that ceded business may still be based on an allocated aggregate reserve that is based on offsetting risks, even though such offsetting of risks may no longer exist.

Summers stated that this can result in a gross reserve and reserve credit for a ceded block that does not adequately reflect the exposure of the ceding company to the reinsurer, and that in such cases, an amount of collateral that is based on the reserve credit may not be sufficient. He stated that the determination of collateral, when required, should be revisited for ceded policies in which gross reserves and reserve credit are calculated under a principles-based modeling approach. Regarding the IMR issue, if the Task Force were to recommend the symmetrical approach, which does not appear to be the case based on the comments made, he believes that this should be conditional on asset adequacy testing of the business being ceded on a standalone basis.

Hemphill stated that with principles-based reserving (PBR), there is no mirror reserving, so the reserve credit that the cedant receives could be very different than the reserve that would be needed for the ceded block by itself. If the cedant has a variety of blocks that they are allowed to aggregate, they could have aggregation benefits that reduce the reserve, and when they cede one of the blocks, they have fewer aggregation benefits. She stated that the reduction in the reserve may be less than the risk being assumed by the reinsurer because the cedant is losing an aggregation benefit. So, it is true but also counterintuitive that one cedant may need less collateral than another cedant ceding identical blocks, depending on the profile of the retained blocks and any aggregation benefit on a gross basis. She stated that it could be argued that the collateral then appropriately reflects the amount needed to make the cedant whole if they had to assume the block back, as the cedant would then again get that aggregation benefit. She stated that it is still worth considering that for PBR, the collateral required to account for counterparty risk depends not only on the block being ceded but also on the blocks retained.

Cheung said that regarding the aggregation benefit, it could go the other way as well. The ceding company could lose an aggregation benefit, while the assuming company would gain one. He noted that although it is not part of *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55), there are different aggregation elements to consider. He noted that he agreed with Summers' general point that just because it is a PBR reserve, it does not mean it is good from a cash-flow testing perspective.

Avery reiterated that it is a worthwhile conversation around guardrails, but that there are probably easier approaches for all involved, since cash flow testing is a significant amount of work, and suggested that regulators could explore other options if the guardrail path is the way that the conversation goes. He noted that he cannot make any recommendations without speaking with the ACLI membership, but some of the ideas mentioned include proof of reinvestment for the reinsured block to put it on an even footing with direct business. Avery asked if the Working Group or the Life Actuarial (A) Task Force would discuss some of these issues.

Jake Stultz (NAIC) stated that there would be additional opportunities to discuss this topic at the Statutory Accounting Principles (E) Working Group.

Hemphill stated that if there is going to be a discussion of collateral under PBR to reevaluate what is currently being done, it would be a good conversation to have with the Life Actuarial (A) Task Force.

Rehagen made a motion, seconded by Stolte, to approve the draft response from the Reinsurance (E) Task Force to the Statutory Accounting Principles (E) Working Group, which included a recommendation to use the asymmetrical approach, excluding net negative IMR from the calculation of reserves to be collateralized. The motion passed unanimously.

Having no further business, the Reinsurance (E) Task Force adjourned.

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group

From: Monica Macaluso, Chair of the Reinsurance (E) Task Force
John Rehagen, Vice Chair of the Reinsurance (E) Task Force

Re: Response to SAPWG Regarding Derecognized IMR Impact to Reinsurance Collateral (Ref #2025-22)

Date: June 22, 2026

On Dec. 18, 2025, the Statutory Accounting Principles (E) Working Group requested comments on agenda item *2025-22: IMR Impact to Reinsurance Collateral*, which was publicly exposed until Feb. 13, 2026, by the Working Group. Interest Maintenance Reserve (IMR) is a statutory accounting mechanism used by life insurers to defer recognition of realized capital gains and losses from interest rate changes, with recent NAIC guidance allowing limited admittance of net negative IMR balances not to exceed 10% of the current period unadjusted capital and surplus.

The agenda item addresses how negative IMR shall be considered within the *Credit for Reinsurance Model Law* (#785) collateral requirements for Life, Accident and Health reinsurance. In summary, existing provisions in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* require derecognized net positive IMR (realized gains) to be captured as an increase in the reinsurance collateral required for applicable unauthorized or certified reinsurers. <u>However, there is no current mention in SSAP No. 61 for derecognized net negative IMR (realized losses) and whether those derecognized amounts should decrease applicable reinsurance collateral requirements</u>. (IMR is eliminated [derecognized] by the cedent in accordance with reinsurance transactions as the block of business associated with recognized IMR has been eliminated. U.S. assuming entities are required to recognize a corresponding amount of IMR for statutory accounting purposes as part of the reinsurance transaction. IMR is not recognized by offshore assuming entities, as the concept of IMR does not reflect an asset or liability under U.S. GAAP or other accounting regimes.) The Statutory Accounting Principles (E) Working Group, with exposure of the agenda item, directed a referral to the Reinsurance (E) Task Force for input.

The question from the Working Group was whether the treatment of derecognized net negative IMR should reduce collateral requirements in a manner that would be <u>symmetrical</u> to collateral increases caused by derecognized positive IMR, or if the treatment should be <u>asymmetrical</u>, whereas derecognized net negative IMR does not reduce collateral requirements. <u>The exposed agenda item proposes asymmetrical treatment</u>.

At the Task Force's March 2 meeting, the Task Force heard public comments from the American Council of Life Insurers and the American Academy of Actuaries, who have also provided comments to the Working Group in response to agenda item exposure. The comments from these groups advocated for the symmetrical approach.

It is the view of the Task Force that the ultimate decision on the treatment of derecognized net negative IMR rests with Statutory Accounting Principles (E) Working Group as this is a highly technical issue dealing with reserves and is outside the charges of this Task Force. However, given the existing limit of the admittance of net negative (disallowed) IMR to not exceed 10% of the current period unadjusted capital and surplus, it appears that, at this time, the asymmetrical approach is the best approach in this scenario.

Please contact NAIC staff Jake Stultz (jstultz@naic.org) if you have any questions.

Cc: Jake Stultz, Dan Schelp, Julie Gann, Robin Marcotte, Jason Farr and Wil Oden

Update on Actuarial Guideline 55 reviews

Fred Andersen, Chair of Valuation Analysis (E) Working Group

AG 55 background

- Adopted by the NAIC last year
- Disclosures on reserve adequacy after certain reinsurance
  - Are reduced reserves resulting from these transactions still adequate to pay future claims?
  - Are reserves available to cover moderately adverse conditions and capital available to cover more severe conditions?
- First filings: 2Q 2026
  - 80 life insurers with filings; over 100 AG 55 reports
    - Some ceding companies: multiple treaties within scope

AG 55 Reviews

- Started with prioritized companies
  - e.g., high percentage of liabilities ceded offshore or to captive
- Reviews still in early stages
- Interactions with early review companies
- No firm conclusions at this point
- Mainly observations, areas to pursue better understanding

AG 55 findings

- Many annuity blocks have lower reserve amount supporting it after offshore / captive reinsurance
- Most common reasons for reduced reserves (reported by companies):
  - Asset returns are higher than US statutory discount rate
  - Policyholder behavior is less efficient than in US stat
  - VM-22 changed some of the dynamics

AG 55 findings

- If reserves are not reduced?
  - Company may say, “holding 100% US Statutory reserve”
    - But little or no extra money to support the block
    - Equivalent of near 0% RBC ratio
  - AG 55 contemplates reserves and capital supporting assumed business
    - Reviews are digging into this issue
- Other identified issues (to pursue better understanding)

AG 55 – top topics of regulatory interest

- Actuarial
  - Verify reasonableness of asset & liability-related assumptions
- Asset-related
  - Valuation of level 3 assets accurate?
- Reinsurance-related
  - Transparency of assets held by offshore reinsurer
  - Reinsurer balance sheet verification
  - Reasons for offshore / captive reinsurance, post-VM-22 adoption

Next steps

- Continue reaching out to companies, gaining more understanding on these issues
  - Macro and company-specific analysis

