**Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force**

**Amendment Proposal Form\***

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

**Identification:**

Seong-min Eom, FSA, MAAA, Fred Andersen, FSA, MAAA, Ben Slutsker, FSA, MAAA, Rachel Hemphill, FSA, MAAA

**Title of the Issue:**

Establish asset adequacy analysis requirements for certain reinsurance.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

VM-30 Subsections 2.C.4., 2.C.5., 3.A.5.a, 3.B.10.f., 3.B.10.g, and 3.B.11.f.

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

Add the following subsection 2.C.4. as “Liabilities To Be Covered”:

4. All business written or assumed by a United States life insurer shall be subject to the standards of asset adequacy analysis, as described in Section 2.B. Therefore, in addition to other applicable requirements in VM-30, asset adequacy analysis shall be completed on a gross of reinsurance basis for any business that is reinsured, whether through an alien reinsurance transaction or a domestic reinsurance transaction. For any business reinsured by an entity outside of the scope of VM-30, that business shall be tested on a standalone basis.

Add the following subsection 2.C.5 as “Liabilities To Be Covered”:

* 1. If the appointed actuary determines, as the result of gross standalone asset adequacy analysis for any business that is reinsured by an entity outside the scope of VM-30, that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with the requirements set forth in the *Valuation Manual*, the company shall establish the additional reserve.

Revise the following within 3.A.5:

1. The additional reserves are the reserves established under Section 2.C.2 and 2.C.5.

Add the following subsections 3.B.10.f and 3.B.10.g under “the memorandum shall specify for assets”:

* 1. If, under the terms of a reinsurance agreement, some of the assets supporting the reserve are held by the counterparty or by another party,

i. A description of the degree of linkage between the portfolio performance and the calculation of the reinsurance cash flows.

ii. The sensitivity of the valuation result to the asset portfolio performance.

g. To the extent that asset adequacy analysis is necessary pursuant to Section 2.C.4,

i. A comparison of the amount of assets held by the counterparty or other party to the assets included in asset adequacy analysis (note that these amounts should be the same).

ii. The investment strategy of the company holding the assets, as codified in the reinsurance agreement or otherwise based on current documentation provided by that company.

iii. Actions that may be taken by either party that would affect the net reinsurance cash flows (e.g., a conscious decision to alter the investment strategy within the guidelines).

Add the following subsection 3.B.11.f under “the memorandum shall specify for the analysis basis”:

f. Description of how any business transferred through reinsurance was also tested on a gross of reinsurance basis. Note this should be provided as a sensitivity, in addition to providing asset adequacy analysis on a net of reinsurance basis. For any business reinsured, the memorandum shall also comply with the requirements of ASOP No. 11 and include disclosures as provided in Section 4 of ASOP No. 11.

1. For year-end 2026 and later, when asset or liability cash flows materially vary under different economic scenarios, the form of asset adequacy analysis should be cash-flow testing.
2. For year-end 2025 asset adequacy analysis, depending on the circumstances including risk exposure, simplified asset adequacy analysis techniques may be appropriate for gross of reinsurance asset adequacy analysis, as noted in ASOP No. 22. If the appointed actuary has any questions on the appropriateness of the use of simplifications, they should inquire with the domiciliary commissioner.

[DRAFTING NOTE: For year-end 2025, the domiciliary commissioner may be recommended to consult with VAWG if addressing questions on simplification techniques. For year-end 2026, there may be consideration of requiring pre-approval for allowing the use of simplifying techniques. This will be determined after observing the effectiveness of company determination of the appropriateness of simplification techniques for year-end 2025.]

4. State the reason for the proposed amendment? (You may do this through an attachment.)

For state regulators to perform their core duty of solvency protection, information on reserve adequacy in light of material risks needs to be available, even if business is reinsured. The goal is to have asset adequacy analysis according to VM-30 standards available for state regulator review for all business written by U.S. life insurers.

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| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 2/12/24 | S.O. |  |  |
| **Notes:** 2024-03 | | | |