NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 11/14/25

*Virtual Meeting*

**FINANCIAL CONDITION (E) COMMITTEE**
Thursday, November 20, 2025
4:00 – 5:00 p.m. ET / 3:00 – 4:00 p.m. CT / 2:00 – 3:00 p.m. MT / 1:00 – 2:00 p.m. PT

**ROLL CALL**

| | | | |
|---|---|---|---|
| Nathan Houdek, Chair | Wisconsin | Vicki Schmidt | Kansas |
| Justin Zimmerman, Co-Vice Chair | New Jersey | Michael T. Caljouw | Massachusetts |
| Michael Wise, Co-Vice Chair | South Carolina | Mike Chaney | Mississippi |
| Mark Fowler | Alabama | Kaitlin Asrow | New York |
| Michael Conway | Colorado | Judith L. French | Ohio |
| Michael Yaworsky | Florida | Cassie Brown | Texas |
| Holly W. Lambert | Indiana | Scott A. White | Virginia |
| Doug Ommen | Iowa | | |

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

**AGENDA**

1. Discuss Comments on Exposed Alternative to 2024-06—*Commissioner Nathan Houdek (WI)*
   - Michigan — Attachment A
   - Iowa, Virginia, Minnesota, California, Kansas and Wisconsin — Attachment B
   - Claire Thinking, Inc. — Attachment C
   - American Council of Life Insurers — Attachment D
2. Consider Action on 2024-06 or Alternative Proposal—*Commissioner Nathan Houdek (WI)* — Attachment E, Attachment F
3. Timeline on CLO Matters—*Commissioner Nathan Houdek (WI)* — Attachment G
4. Consider Draft Referrals on Cybersecurity Related Matters—*Commissioner Nathan Houdek (WI)* — Attachment H
5. Discuss Any Other Matters Brought Before the Committee
   — *Commissioner Nathan Houdek (WI)*
6. Adjournment

STATE OF MICHIGAN
GRETCHEN WHITMER
GOVERNOR
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING
ANITA G. FOX
DIRECTOR

October 27, 2025

Transmitted via Email:

Commissioner Nathan Houdek, E Committee Chair
Dan Daveline, NAIC

Re: Comments regarding the Co-YRT Risk Transfer Discussion Draft

Dear Commissioner Houdek:

Thank you for the opportunity to comment on the alternative proposal to the Statutory Accounting Principles (E) Working Group (SAPWG) Agenda Item 2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts adopted at the 2025 NAIC Summer National Meeting and the additional language for A-791: Life and Health Reinsurance Agreements.

The Michigan Department of Insurance and Financial Services (Michigan) supports the language approved by SAPWG and the Accounting Practices and Procedures (E) Task Force (APPTF) at the 2025 NAIC Summer National Meeting. We also support adding language to ensure that changes resulting from the clarifications should be accounted for as a change in accounting principle as defined in SSAP No. 3 – Accounting Changes and Corrections of Errors.

Michigan views all other language proposed in the Co-YRT Risk Transfer Discussion Draft (discussion draft) as either unnecessary or inconsistent with the expectations approved by SAPWG. As discussed below, unless companies with existing contracts comply with these clarifications by December 31, 2026, there is a significant risk that regulators will be relying on misleading financial statements. We believe this effective date allows sufficient time for existing agreements to be identified and discussed with the company's domestic regulator.

Statutory accounting has always required all reinsurance agreements to transfer risk in order to receive reinsurance accounting treatment. If it were to be subsequently determined that risk was not transferring but was nonetheless reported using reinsurance accounting, statutory accounting requires the correction to be made when identified. These contracts should be treated no differently.

To add some color to our comments above, Michigan believes that the proposed language in the discussion draft does not allow for timely corrections in the financial statements. As proposed, the financial statements that have been reviewed but not approved or disapproved by the domiciliary regulator could be misleading for two additional years. Further, the language provides for full exemption from the clarifications under certain circumstances. We believe this is inappropriate. If the reinsurance contract is fully exempt, non-domestic regulators may never know that these contracts exist and understand the related solvency impact on the financial

statements. Non-domestic regulators must be aware of the financial condition of companies licensed, or applying for licensure, in their respective states. In short, if all of the proposed changes are adopted, a company's financial condition may be misleading by overstating reserve credits for many years. Undisclosed solvency impacts could mask material, underlying financial risks of which a regulator should be aware.

We understand that some jurisdictions have expressed concern about the language proposed by SAPWG based on the belief that these contracts were previously reviewed and approved by regulators and that applying this standard to such contracts would be unfair. It is important to note, however, that some such contracts may not have been disclosed or reviewed and as such were not actually approved. Grandfathering in contracts that do not transfer risk and that have not been disclosed or reviewed would essentially be approving contracts that were never approved, at least for the next two years to the potential detriment to solvency.

We are also aware that there may be circumstances in some jurisdictions such that disallowing an existing contract may be detrimental to that particular market. This can be dealt with on an individual basis by the appropriate regulator without allowing an across-the-board exemption. One method to disclose the impact while also providing regulatory flexibility would be through the use of a permitted practice. A permitted practice would allow each domestic regulator to determine how it would like to address the transaction. Importantly, the permitted practice must be disclosed in the financial statements, allowing all non-domiciliary regulators to understand the financial impact of that permitted practice for companies writing in, or applying to write in, that state or jurisdiction.

In summary, we do not believe that the proposed language is needed and do not support the changes in the discussion draft. The SAPWG-approved language allows sufficient time for insurance companies and domestic regulators to work together on appropriate next steps for existing agreements and ensures that the financial statements will more accurately reflect the financial condition of companies. If additional time is needed beyond the proposed effective date, states still have other avenues to provide this additional time.

We appreciate your consideration of these comments.

Sincerely,

Anita G. Fox
Director

November 3, 2025

Commissioner Nathan Houdek, Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners

Dear Commissioner Houdek,

On behalf of the undersigned financial regulators, all of whom have been directly involved in the development and discussions surrounding Agenda Item 2024-06 as they have occurred at the Valuation Analysis (E) Working Group ("VAWG") and the Statutory Accounting Principles (E) Working Group ("SAPWG"), we submit the following comments on the "Co-YRT Risk Transfer Discussion Draft" ("Alternative Proposal") as exposed during the October 7, 2025 meeting of the Financial Condition (E) Committee ("E Committee").

General Comments

Appendix A-791 addresses the requirements for risk transfer for proportional reinsurance. If the requirements are met, the reserves held by the ceding company are reduced proportionally, meaning the ceding company no longer holds any reserves for the share of the underlying policies that have been reinsured. Because the ceding company no longer holds any reserves, Appendix A-791 requires that the ceding company transfers **all** of the significant risks of the reinsured business to the reinsurer. If there is any payment that could be required of the ceding company that is not covered by the reinsurer, that payment would have to come out of surplus since the cedant holds no reserves for it. This would create a solvency risk that is not accounted for under the regulatory framework.

While there are a number of specific criteria included in Appendix A-791, each provision is there to support a very basic principle: **if there is the potential for payments to be made out of surplus, then risk transfer has not been satisfied.**

The combination coinsurance and yearly renewable term ("Co-YRT") agreements are structured in a way that causes the coinsurance to have the appearance of transferring risk when viewed in isolation. However, when it is contractually tied to a nonproportional form of reinsurance, YRT, it no longer performs as proportional reinsurance and very clearly violates the principle of Appendix A-791. This is because there is the potential for payments out of surplus.

While there appear to be relatively few of the Co/YRT agreements of concern in place, several have very significant reserve credits that are likely not reflective of the actual risk transferred. This has the potential to be masking significant solvency concerns at individual companies. Regardless of the intent of companies that have such agreements in place, it is the responsibility of insurance regulators to ensure that insurers domiciled in their states remain solvent. They can only fulfill this responsibility if they have the ability to work with companies to identify if there is a concern and have the flexibility to address the situation as the facts and circumstances warrant. Accordingly, we strongly oppose any adoption by the NAIC of any proposal that restricts the ability of states to do this.

Treatment of Existing Contracts

The Alternative Proposal makes distinction for treatment based on whether an agreement has been submitted to a regulator, and whether or what response is received from the regulator. **We are not clear whether this refers to a submission at some point in the past, or a new submission following adoption of this agenda item**. Our feedback depends on clarifying this point. Therefore, we are providing feedback under both interpretation alternatives:

*Past Submission*

We do not support grandfathering existing contracts on the basis of a submission to the domiciliary regulator prior to concerns being raised nationally with regard to these Co/YRT transactions. It is the responsibility of state regulators to ensure that insurers remain solvent to pay policyholder claims. Reinsurance agreements, and these Co/YRT agreements in particular are very complex and the economic substance can be difficult to distill from the legal terms. A regulator previously reviewing an agreement and not identifying the concern the first time around should not prevent them from addressing a potential solvency concern now that more information is known.

While we do not support any element of the Alternative Proposal if based on a past submission, we would offer the following additional comments:

- It is not clear what constitutes a “submission”. If the agreement was emailed to anyone with an insurance department email address, does that constitute a submission regardless of whether there was any acknowledgement by the regulator?
- There is a proposed separate date for agreements “reviewed” but for which no response was received. It is unclear what this means. How would an insurer know an agreement has been reviewed if no response was received? Most of these

agreements are not affiliated and do not require insurance department approval. It is not common practice for insurance departments to review reinsurance agreements that do not require approval, even if one was sent to the department for informational purposes.

*Current Submission*

If the proposed language is clarified to require submission for regulatory review subsequent to adoption of the agenda item, allowing regulators to address any potential solvency concerns that they have, we would not oppose the proposal with the following comments:

- We would propose having the effective date of 12/31/2026 regardless of whether an agreement is submitted for review. Given the small number of subject agreements and states involved, this is ample time to allow for regulator review. It is not prudent to allow the solvency position of insurers to be misreported for three more years.
- We would propose adding language to make clear how any agreements that are approved or non-disapproved should be treated in Cash Flow Testing (e.g. including reinsurance costs and anticipated recaptures).

We would also note that we do not find this Alternative Proposal to be substantively different than the approach of working with domiciliary regulators, using permitted practices as needed, as was recommended when the agenda item was unanimously adopted by SAPWG. It appears to be the same process, only not using the term "permitted practice". As a result, while we do not oppose the Alternative Proposal with these recommended edits, we prefer the approach adopted unanimously by SAPWG and 34(yes)-2(no) by the Accounting Practices and Procedures (E) Task Force.

<u>Proposed Addition to Appendix A-791</u>

It is our understanding that the point of contention that has been raised for discussion at E Committee is for the treatment of existing contracts affected by the clarifications adopted at SAPWG. Therefore, it is unclear why changes to Appendix A-791 are being proposed. If the authors of the Alternative Proposal wish to propose changes to Appendix A-791, there is an established process to submit such requests via a "Form A" at SAPWG.

Nevertheless, we would offer the following comments with regard to the proposed language:

- The proposed language represents a dramatic departure from long-standing risk transfer standards.

- The proposed language would have the effect of overriding and making obsolete, all statutory reserving standards. Under this language, an insurer could enter into a reinsurance agreement lacking any commercial substance, that has no possibility of providing any reinsurance benefits and conclude that it transfers risk so long as the company only reduces reserves to a point that passes cash flow testing ("CFT"). If this were allowed, there would soon be no insurers holding statutory reserves, which would further beg the question of why bother setting such standards.
- The statement that "A reinsurance agreement does not deprive the ceding company of surplus if reserves are shown to be sufficient on this basis" is illustrative of the misapplication of risk transfer standards that appears to have led to the Co/YRT contracts that are of concern. **Capping reserve credits through Cash Flow Testing does not prevent a deprivation of surplus.**
- Risk transfer standards were developed to ensure that insurers only reduce reserves for reinsurance agreements if the reinsurer is responsible for funding any losses for the risks transferred. Reserves are not to be reduced if there is a possibility, other than for default of the reinsurer, that the cedant will be responsible for payment. This is because the cedant would not be holding reserves for such payments, requiring the payment to be made out of surplus.
- The reinsurance agreements of concern are not intended to provide reinsurance benefits, except in tail scenarios. Therefore, under the proposed CFT standard, any losses in excess of a moderately adverse scenario until the attachment point of the reinsurance is breached (a scenario designed to be far in excess of moderately adverse), would come from the ceding company's surplus. This is a direct violation of the entire spirit and explicit requirements for reinsurance risk transfer.

Thank you for your consideration of these comments.

Sincerely,

Kevin Clark, Vice Chair, Statutory Accounting Principles (E) Working Group
Chief Accounting and Reinsurance Specialist
Iowa Insurance Division

Ben Slutsker, Member, Life Actuarial (A) Task Force
Director of Life Actuarial Valuation
Minnesota Department of Commerce

Douglas C. Stolte, Member, Statutory Accounting Principles (E) Working Group
Deputy Commissioner – Financial Regulation
Virginia Bureau of Insurance

Kim Hudson, CFE, CPA, Member, Statutory Accounting Principles (E) Working Group
Financial Surveillance Branch
California Department of Insurance

Amy Malm, CPA, CFE, Member, Statutory Accounting Principles (E) Working Group
Chief Financial Regulator
Wisconsin Office of the Commissioner of Insurance

Tish Becker, Member, Accounting Practices and Procedures (E) Task Force
Director, Financial Surveillance
Kansas Department of Insurance

November 14, 2025

Commissioner Nathan Houdek
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners

Re: Co-YRT Risk Transfer Discussion Draft

Dear Commissioner Houdek:

Thank you for the opportunity to provide comments to the NAIC's Financial Condition (E) Committee regarding the Co-YRT Risk Transfer Discussion Draft, which was exposed during the Committee's October 7 meeting. Please note that my comments only reflect my own opinion and not necessarily those of my past or present employer or of any professional organization.

The Discussion Draft includes a recommendation that a paragraph be added to Appendix A-791 of the Accounting Practices and Procedures Manual to use cash flow testing, with consideration of moderately conservative scenarios and assumptions, as a means to demonstrate the transfer of risk. This is not the statutory standard that exists for satisfying life reinsurance risk transfer requirements and is in conflict with several of the provisions in Appendix A-791. For example, Accounting Requirement 2.b of Appendix A-791 does not allow (for reinsurance credit to be recognized) a reinsurance agreement to permit the ceding company to be deprived of surplus upon the occurrence of some event. It does not matter whether such event would be considered to be a moderately adverse scenario or assumption, and therefore such an event may not be reflected in cash flow testing if it falls under the category of being more than moderately conservative. Accounting Requirement 2.c does not allow the ceding company to reimburse the reinsurer for negative experience. A treaty that required the ceding company to reimburse the reinsurer for negative experience that was more than moderately conservative would not comply with this Accounting Requirement, but it may pass cash flow testing since the reimbursement would not be reflected. Accounting Requirement 2.e does not permit the possible payment by the ceding company to the reinsurer of amounts that are not from income of the reinsured policies; this is not limited to moderately adverse scenarios. These are just a few examples to show that a reinsurance agreement that is not compliant with one or more Accounting Requirements could still pass risk transfer under the proposed addition to Appendix A-791. Simply because it may be challenging to determine risk transfer under a combination Co/YRT treaty, particularly when the policies on which mortality risk is transferred under the YRT reinsurance agreement contain other significant risk factors that are not reinsured, is not a good reason to use a methodology to determine risk transfer that would not be appropriate for other reinsurance agreements subject to Appendix A-791, such as a coinsurance agreement.

Sincerely,

Sheldon Summers, FSA, MAAA
Actuary
Claire Thinking, Inc.

cc: Dan Daveline, NAIC

ACLI
Financial Security for Life

November 14, 2025

Mr. Nathan Houdek, Chairman
Financial Condition (E) Committee
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Request for Comments on Co-YRT Risk Transfer Discussion Draft

*Submitted Electronically*

Dear Mr. Houdek:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the exposed Co-YRT Risk Transfer Discussion Draft. ACLI provided the Discussion Draft for the committee's consideration in the spirit of partnership and has continued to solicit feedback in the same spirit. With that in mind, we offer the following comments and recommendations on the Discussion Draft proposal:

1. ACLI suggests removing the phrase "prior to execution" from the section introducing staged effective dates. This phrasing could be interpreted to preclude regulatory review and approval of amended agreements.

2. ACLI suggests that agreements that have been reviewed and subsequently determined to be fraudulent or misrepresented would not be eligible for exemption from the clarifications of existing guidance.

3. ACLI recommends revisions to account for states in which filings are deemed approved in the absence of explicit regulatory response.

4. ACLI recommends removing the section addressing Appendix A-791. It was intended to clarify the evaluation of risk transfer related to combination reinsurance agreements as a whole. However, after discussing regulatory concerns with the proposed methodology ACLI believes it distracts from the main point that changes should be applied prospectively.

A version of the Discussion Draft reflecting these clarifications is attached as an appendix. If the NAIC Financial Condition (E) Committee is inclined to adopt the exposure draft titled *2024-06 – Risk Transfer Analysis of Combination Reinsurance Contracts (SAPWG 2024-06)* that was put

forward by the Statutory Accounting Principles (E) Working Group, then ACLI suggests that SAPWG 2024-06 be amended with the terms in the attached revised Discussion Draft.

Sincerely,

Carrie Haughawout
Senior Vice President, Life Insurance & Regulatory Policy
carriehaughawout@acli.com.
(202) 624-2049

## Appendix: Co-YRT Risk Transfer Discussion Draft

Language could be included with the following conditions in SSAP 61 regarding existing Co-YRT agreements based on regulatory review and approval, notwithstanding allegations of fraud or misrepresentation:

- Effective 12/31/2026, existing agreements that have not been submitted to the domiciliary regulator will be subject to the clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.
- Effective 12/31/2028, existing agreements that have been submitted but for which no response has been documented (excluding states where filings are deemed approved in the absence of explicit regulatory response) will be subject to the clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.
- Existing agreements that have been reviewed and approved or not disapproved by the insurance regulatory authority in the ceding insurer's domiciliary state, with such approval or non-disapproval documented and retained by the ceding insurer or evidenced by a lack of comments in states where filings are deemed approved in the absence of explicit regulatory response, will be fully exempted from the clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.
- A change resulting from this clarification shall be accounted for as a change in accounting principle as defined in *SSAP No. 3-Accounting Changes and Corrections of Errors.*

**Agenda item 2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts**
**Illustrated Revisions**

The revisions adopted at the Summer National Meeting by Statutory Accounting Principles (E) Working Group and the Accounting Practices and Procedures (E) Task Force at the Summer National Meting from agenda item *2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts* are shown below along with a minor clarification proposed for the effective date.

- ***SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance***

**Effective Date** - **For SSAP No. 61, the minor shaded clarification below is recommended to the effective date paragraph in SSAP No. 61**. The Working Group chose year-end 2026 to allow companies that may have existing contracts adequate time to allow for industry and regulator assessment. At the Summer Meeting, the Working Group did not support grandfathering of existing contracts due to concerns of market inconsistency, creating conflicts with current guidance or recent state actions. After the Summer Meeting, discussions with companies and certified public accountants, noted that it would be helpful to be explicit that the change for existing contracts is reflected as a **change in accounting principle**. This clarification, which is shown as shaded text below, does not change the scope of the affected contracts from what was unanimously adopted at the Working Group, and is helpful to be explicit to avoid prior year restatements. The wording is consistent with the Working Group's intended prospective treatment of existing contracts as of the Dec. 31, 2026 reporting date.

94. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020. Clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19 are effective immediately for new/ newly amended contracts~~., with a December 31, 2026 effective date for other existing contracts.~~ For existing contracts, the clarification shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*, on or before December 31, 2026.

- Below is remainder of the adopted language to SSAP No. 61:

**Transfer of Risk**

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

~~a.~~b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph "contract") transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance

of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect.

~~b.~~c. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer's option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

- Appendix *A-791, Life and Health Reinsurance Agreements* **adopted revisions** to the first Q&A

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.**

**Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the**

**intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.**

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

**Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.**

# Co-YRT Risk Transfer Discussion Draft

**Background**

The Statutory Accounting Principles (E) Working Group (SAPWG) exposed a referral received from the Valuation Analysis Working Group (VAWG) at the 2024 Spring National Meeting. The referral (2024-06) raised concerns that companies are taking too large of a reserve credit on reinsurance contracts with interdependent features that directly or indirectly compensate the reinsurer between features, thus offsetting risk transfer.

SAPWG proposed updating SSAP 61 and Appendix A-791. Of significant concern to the industry, the proposal was to be applied to existing reinsurance agreements.

The Life insurance industry has been working with SAPWG regulators since the proposal was first exposed in March 2024. We have held numerous meetings with individual regulators as well as members of both SAPWG and the Life Actuarial Task Force (LATF). In addition, we included this item in our previous SLSG talking points and in our NAIC preview.

At the NAIC Summer National meeting there was significant discussion on this item and SAPWG voted this proposal out unanimously, effective immediately for all new agreements and with a 12/31/2026 effective reporting date and retroactive applicability to all existing contracts.

It then proceeded to the Accounting Practices and Procedures Task Force (APPTF), where there was additional discussion. The proposal was approved but with two no votes at that task force, Ohio and Indiana – specifically because it was fully retroactive.

Subsequently there have been two regulator-only E Committee meetings to consider the proposal. A public meeting has been scheduled for October 7 during which the E Committee may vote to approve the proposal from APPTF/SAPWG.

**Discussion Draft**

Language could be included with the following conditions in SSAP 61 regarding existing Co-YRT agreements based on regulatory review and approval prior to execution:

- Effective 12/31/2026, existing agreements that have not been submitted to the domiciliary regulator will be subject to the clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.
- Effective 12/31/2028, existing agreements that have been reviewed but for which a response (i.e., approval or non-disapproval) has not been received from the domiciliary regulator will be subject to the clarifications of existing guidance adopted in August

2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.

- The reinsurance transaction has been reviewed and approved or not disapproved by the insurance regulatory authority in the ceding insurer's domiciliary state, with such approval or non-disapproval documented and retained by the ceding insurer. Such agreements will be fully exempted from the clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19.
- A change resulting from this clarification shall be accounted for as a change in accounting principle as defined in *SSAP No. 3-Accounting Changes and Corrections of Errors.*

Furthermore, the following addition could be included in A-791 to clarify risk transfer for combination contracts:

- In the absence of other clearly defined risk transfer criteria, such as when evaluating combination contracts with interdependent features, standalone cash flow testing is one way to demonstrate that reinsurance transactions do not deprive the ceding company of surplus and thus transfer risk. An effective demonstration will include all cash flows related to the reinsurance agreement(s), in particular interdependent features such as aggregate experience refunds. Additionally, it will consider moderately conservative scenarios and assumptions that are consistent with the asset adequacy testing supporting the ceding company's actuarial memorandum. A reinsurance agreement does not deprive the ceding company of surplus if reserves are shown to be sufficient on this basis, or if the agreement is shown to reduce or limit a reserve deficiency that would otherwise exist.

  Q&A

  Q: Does this standalone analysis eliminate the need to include these agreements in annual cash flow testing?

  A: No, material reinsurance agreements should be included in asset adequacy analysis.

Attachment G

# Structural Proposal – Life RBC Only

**Late 2025/Early 2026**
Identification of comparable attributes completed.

**Feb/Mar 2026**
Structural proposal should be exposed by WG by Spring National Meeting.

**April 2026**
Comments received.
Proposal adopted by WG no later than April 30.

**May 2026**
Adoption of the proposal by CADTF no later than May 15.

**2026 Summer National Meeting**
Consider adoption by E Committee.

Attachment G

NAIC

# Factor Proposal – Life RBC Only

**Late 2025/ Early 2026**
Identification of comparable attributes completed.

**Q1 2026**
Academy to work on Model modifications as requested by regulators, if any.

**April 2026**
Propose factors to be exposed by WG no later than April 30.

**May/June 2026**
Comments received. Adoption of proposal by WG no later than June 15.

**June 2026**
Adoption by CADTF no later than June 30.*

**June/July 2026**
Expose SSG CLO Model.[i]

**2026 Summer National Meeting**
Consider adoption by E Committee.

* Only the Task Force may extend the June 30th adoption deadline for previously considered proposals upon a two-thirds consent of the TF members present where such extension can be no later than July 30th of the current year.

[i] Will be considered if LRBC Methodology is delayed.

# Non-Life RBC Consideration

1. **Early/Mid-2026 (Once Life RBC has a set path)**
   - Referral by RBCIREWG to respective WGs (PCRBCWG & HRBCWG).
   - WGs to discuss whether changes to respective non-life RBC framework is warranted.
   - Engage PC and Health Academy.

2. If changes are warranted, follow Life RBC timeline but different adoption year. (see #4 below. Can consider early adopt structural changes to facilitate impact analysis)

3. Separate discussions and proposals for Health and P/C.

4. P/C and Health RBCWG traditionally expose referrals received. Exposure of a referral for at least 30 days puts P/C and Health in a position that a 2026 adoption is not attainable, especially in view of the need to involve P/C and Health Academy for additional analysis. A 2027 effective year is more realistic.

**MEMORANDUM**

TO: Ber Vang (CA), Chair, Information Technology Examination (E) Working Group

FROM: Nathan Houdek (WI), Chair, Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair, Financial Condition (E) Committee
Justin Zimmerman (NJ), Co-Vice Chair, Financial Condition (E) Committee

DATE: November 20, 2025

RE: Enhanced Cybersecurity Considerations

Due to lessons learned from regulatory investigations of recent cybersecurity events impacting insurance groups, the Financial Condition (E) Committee asks the Information Technology (E) Working Group to consider potential enhancements to the NAIC's *Financial Condition Examiners Handbook,* and in particular its Exhibit C (Evaluation of Controls in Information Technology) guidance in the following areas:

- Guidance for consideration of the impact of recent merger and acquisition activity, as well as systems integration plans, on the insurer/insurance group's IT General Controls and prospective cybersecurity assessment.

- Guidance for consideration of the reliance on service providers (affiliated and unaffiliated), as well as the vendor risk management practices in place, on the insurer/insurance group's IT General Controls and prospective cybersecurity assessment.

    - Such guidance should also consider the potential impact of increased vertical integration in insurance group operations on group cybersecurity exposures.

A related referral is being sent to the Financial Analysis Solvency Tools (E) Working Group to consider enhancements to the NAIC's *Financial Analysis Handbook* procedures and guidance in these areas. As such, we encourage monitoring and coordination of efforts in addressing both referrals, as deemed appropriate.

The Committee recognizes that certain enhancements may have already been implemented in these areas through the Working Group's 2024 Exhibit C revisions. Therefore, the Working Group is asked to consider whether any additional enhancements are deemed necessary, before reporting back on the results of all its deliberations in this regard towards the end of 2026.

If there are any questions regarding the proposed enhancements, please contact me or NAIC staff (Dan Daveline at ddaveline@naic.org) for clarification. Thank you for your consideration of this referral.

**MEMORANDUM**

TO: Greg Chew (VA), Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Nathan Houdek (WI), Chair, Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair, Financial Condition (E) Committee
Justin Zimmerman (NJ), Co-Vice Chair, Financial Condition (E) Committee

DATE: November 20, 2025

RE: Enhanced Cybersecurity Considerations

Due to lessons learned from regulatory investigations of recent cybersecurity events impacting insurance groups, the Financial Condition (E) Committee asks the Financial Analysis Solvency Tools (E) Working Group to consider potential enhancements to the NAIC's *Financial Analysis Handbook* in the following areas:

- Guidance for considering the potential impact of cybersecurity exposures and system integration plans on the regulatory review of Form A (Change of Control or Merger/Acquisition) applications.
    - Given that Form A review procedures are also included in the NAIC's *Company Licensing Best Practices Handbook*, coordination with the National Treatment and Coordination (E) Working Group is encouraged in developing additional guidance in this area.
- Guidance for considering an insurance group's cybersecurity exposures in conducting holding company analysis, including but not limited to the review of Holding Company Form B (Annual Registration Statement), Form D (Prior Notice of a Transaction – Affiliated Service Agreements), Form F (Enterprise Risk Report), and ORSA filings.
    - Such guidance should also consider the potential impact of increased vertical integration in insurance group operations, as well as the reliance on service providers (affiliated and unaffiliated) in assessing holding companies' cybersecurity exposures.

A related referral is being sent to the Information Technology Examination (E) Working Group to consider enhancements to the NAIC's *Financial Condition Examiners Handbook* and its Exhibit C (Evaluation of Controls in Information Technology) procedures and guidance. As such, we encourage monitoring and coordination of efforts in addressing both referrals, as deemed appropriate.

If there are any questions regarding the proposed enhancements, please contact me or NAIC staff (Dan Daveline at ddaveline@naic.org) for clarification. Thank you for your consideration of this referral.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

**MEMORANDUM**

TO: Kelly Hopper (MO), Co-Chair, National Treatment and Coordination (E) Working Group
Cameron Piatt (OH), Co-Chair, National Treatment and Coordination (E) Working Group

FROM: Nathan Houdek (WI), Chair, Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair, Financial Condition (E) Committee
Justin Zimmerman (NJ), Co-Vice Chair, Financial Condition (E) Committee

DATE: November 20, 2025

RE: Enhanced Cybersecurity Considerations

Due to lessons learned from regulatory investigations of recent cybersecurity events impacting insurance groups, the Financial Condition (E) Committee asks the National Treatment and Coordination (E) Working Group to consider potential enhancements to the NAIC's *Company Licensing Best Practices Handbook* guidance in the following areas:

- Guidance for considering the potential impact of cybersecurity exposures and system integration plans on the regulatory review of Form A (Change of Control or Merger/Acquisition) applications.
    - Given that Form A review procedures are also included in the NAIC's *Financial Analysis Handbook*, coordination with the Financial Analysis Solvency Tools (E) Working Group is encouraged in developing additional guidance in this area.

If there are any questions regarding the proposed enhancements, please contact me or NAIC staff (Dan Daveline at ddaveline@naic.org) for clarification. Thank you for your consideration of this referral.