

Draft: 7/10/23

Financial Stability (E) Task Force
and the Macroprudential (E) Working Group
Virtual Meeting
June 20, 2023

The Financial Stability (E) Task Force met June 20, 2023, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Marlene Caride, Chair, represented by John Sirovetz (NJ); Nathan Houdek, Vice Chair (WI); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Mike Yanacheak (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by Christopher Joyce (MA); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Lindsay Crawford (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tim Biler (OH); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise represented by Thomas Baldwin (SC); Cassie Brown represented by Rachel Hemphill (TX); and Scott A. White represented by Dan Bumpus (VA). The following Working Group members participated: Bob Kasinow, Chair (NY); Mike Yanacheak, Vice Chair (IA); Susan Bernard (CA); William Arfanis (CT); Philip Barlow (DC); Tom Hudson (DE); Virginia Christy (FL); Roy Eft (IN); Christopher Joyce (MA); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); John Sirovetz (NJ); Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Rachel Hemphill (TX); Dan Bumpus (VA); and Amy Malm (WI). Also participating were: David Phifer (AK); Mark Fowler (AL); David Lee (AZ); Rolf Kaumann (CO); Russell Coy (KY); Pat Gosselin (NH); Leatrice Geckler (NM); Carter Lawrence (TN); Jon Pike (UT); Kevin Gaffney (VT); and Tim Hays (WA).

1. Heard Opening Remarks

Commissioner Houdek said materials for consideration and discussion for this meeting are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. He added that the materials were intentionally released two weeks in advance of the Task Force call to allow participants extra time to review and the option to express any major concerns. He summarized that the purpose of the call is to ensure comments received on the draft Reinsurance Worksheet have been addressed by the Working Group and to consider the draft for adoption, which the Task Force will be considering jointly with the Working Group.

2. Adopted the Reinsurance Worksheet

Kasinow summarized the clarifications of the Reinsurance Worksheet from comment letters received:

- **OPTIONAL TOOL:** This worksheet is designed as an **OPTIONAL** tool to assist lead state/domiciliary regulators when reviewing reinsurance transactions to allow them to obtain the information necessary to understand the economic impacts, typically upon initial review of the proposed transaction but also potentially when the lead state/domiciliary regulator is performing a historical review of the transaction for some specific purpose.
- **NOT AN ONGOING FILING:** This worksheet is **NOT** for use as an ongoing filing with the NAIC and/or the lead/domiciliary state. It is an **EDUCATIONAL** tool for lead state/domiciliary regulators to use on an ad hoc basis as needed.

- **ONLY USED IF NEEDED:** The worksheet is **NOT** designed to be used with **EVERY** reinsurance transaction. It is designed as a consistent tool for lead state/domiciliary regulators to use when reviewing reinsurance transactions for which they need to determine the economic impacts of said reinsurance transactions. If a reinsurance transaction is easily understood without the use of this worksheet, then a worksheet would not be used by the lead state/domiciliary regulator.
- **NOT A FIXED TEMPLATE:** The worksheet is **NOT** a fixed template that **MUST** be used to answer the lead state/domiciliary regulators' information needs. If an insurer has materials used in its own assessment of the reinsurance transaction that answer the information needs of the lead state/domiciliary regulator expressed in the worksheet, then those materials may be accepted by the lead state/domiciliary regulator rather than requiring the insurer to use the worksheet format. Every effort should be made to **avoid duplicate requests** for information.
- **OPEN TO REINSURANCE TYPE:** The worksheet **was designed with life reinsurance transactions** as the initial focus, but there is **no reason to limit this tool to life reinsurance transactions**. If the lead state/domiciliary regulator has a property/casualty (P/C) reinsurance transaction for which they are struggling to understand the economic impact (despite any existing notes, interrogatories, and Schedule F disclosures for already approved transactions), the lead state/domiciliary regulator would be able to use the worksheet to request the needed information, with appropriate edits. Again, this worksheet should not be used if the lead state/domiciliary regulator has a clear understanding of the transaction from data already provided.
 - Similarly, the worksheet was designed with affiliated transactions as the initial focus, but a lead state/domiciliary regulator should use the template for unaffiliated transactions if existing information does not provide a clear understanding of the transaction.
- **NOT REINSURANCE POLICY:** The Working Group is working in coordination with the Reinsurance (E) Task Force. This optional, informational tool is **not intended to affect any of its reinsurance policies or procedures**, such as the qualified/reciprocal jurisdiction evaluation process or the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement).
- **ONLY REFERENCED IN HANDBOOKS:** The worksheet is **not included in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook***; although, it may be referenced there as an optional tool. The worksheet will be available on StateNet.
- **CONFIDENTIALITY:** The worksheet would be confidential under a lead/domiciliary state's existing confidentiality laws and regulations in place to allow the lead state/domiciliary regulator to assess such transactions.

Kasinow asked the following interested parties that provided comment letters if there were any remaining concerns: Swiss Re; the American Council of Life Insurers (ACLI); a representative for jointly made comments from the National Association of Mutual Insurance Companies (NAMIC), the Reinsurance Association of America (RAA), and American Property Casualty Insurance Association (APCIA); the Bermuda International Long Term Insurers and Reinsurers (BILTIR); and the Association of Bermuda Insurers and Reinsurers (ABIR).

Steve Clayburn (ACLI) said concerns expressed in the ACLI's comment letter were addressed in a positive direction in the resolution of comments, with confidentiality and avoiding duplication being the most important. He stressed that the Task Force should be working collaboratively with the Reinsurance (E) Task Force on any future enhancements.

Belfi asked if the questions on the transaction being requested by the lead or ancillary state would be the direct writer or ceding regulator or the reinsurance regulator. Kasinow responded that the ceding regulator would initiate questions to understand the economics of the transaction. He added that some states are already using

something similar to the Reinsurance Worksheet as part of their financial analysis and review of transactions, and the intent was only to capture information for states that did not previously have that information.

Tim Nauheimer (NAIC) summarized the resolution of comments received:

- Indiana and Nebraska suggested that a fair amount of terminology should be defined; the other jurisdiction should be named; a summary description of key elements of that jurisdiction's accounting basis should be provided. Nauheimer said the Task Force would incorporate those suggestions.
- Swiss Re said the information requested in the Reinsurance Worksheet, such as cross-border reinsurance transaction details, is already available through existing filings.
- Nauheimer said state insurance regulators' use of the Reinsurance Worksheet is primarily intended for life but may be used for P/C. He added that the Reinsurance Worksheet is intended as needed not as an ongoing disclosure requirement, and it is intended for specific transaction approval. He concluded that state insurance regulators will leverage existing information, but they do not get all the data needed from annual statements.
- Swiss Re said the Working Group expressed concerns emanating from the Cayman Islands and/or Bermuda, and it asked for additional clarity on those specific concerns.
- Nauheimer responded that the Working Group never stated concerns with these jurisdictions. He added that the Working Group met with these jurisdictions to better understand their regulatory regime and their process for reviewing reinsurance deals to better coordinate with them.
- Swiss Re said the NAIC has already established a process for evaluating qualified and reciprocal jurisdictions, which is a means to recognize key NAIC solvency initiatives, including group supervision and group capital standards, and it recommends involving the established process and expertise of other NAIC groups.
- Nauheimer responded that the Task Force agrees that any broader issues that arise during a specific transaction approval should be raised to the groups responsible for the qualified and reciprocal process. He added that the Working Group is also closely coordinating with the Reinsurance (E) Task Force, but it is merely overseeing the 13 private equity (PE) and other considerations.
- The ACLI said the Reinsurance Worksheet should not be duplicative of other sources already available to state insurance regulators, and established confidentiality protections should be maintained.
- Nauheimer responded that the Working Group data may be used to complete a Form D, not in addition to, and it would be confidential under existing confidentiality state laws and regulations in place to assess such transactions; i.e., a tool for state insurance regulators to use and not filed with the NAIC.
- The BILTIR agreed with the ACLI letter, so Nauheimer said no additional response is needed.
- The RAA, the APCIA, and NAMIC recommended the following suggestions:
 - The Working Group should identify and limit the proposal to the types of cross-border reinsurance transactions that are of concern to state insurance regulators.
 - Simple and straightforward reinsurance transactions should not be subject to data requested in the Reinsurance Worksheet.
 - The brief introductory guidance on page 1 of the Reinsurance Worksheet is insufficient and should not be adopted until additional guidance in the *Financial Analysis Handbook* or a similar reference document is developed to provide context on the information that state insurance regulators need.
 - P/C reinsurance contracts subject to existing requirements from the scope of contracts should be exempt from the Reinsurance Worksheet.
 - The Reinsurance Worksheet appears to be required to be completed by the ceding company, but it is unclear whether the option to request it resides primarily with the domestic state of the cedent or whether the option is available to any state in which the cedent is licensed.

- Clarification is needed regarding the date the balance sheet effects are measured, the time period, and the intended retrocession details of the Reinsurance Worksheet.
- Consider whether the Working Group considered the Reinsurance Summary Supplemental Filing and related Reinsurance Attestation Supplement in its development of the Reinsurance Worksheet.
- It is unclear whether the proposal is intended to apply to only affiliated off-shore reinsurance transactions or to any cessions to third parties.
- Provide a reasonable minimum timeframe for the completion of the worksheet.
- Nauheimer responded that state insurance regulators may use the Reinsurance Worksheet as they see fit, as it is a tool for states, and the clarification summary should address those concerns. He added that:
 - The Working Group will enhance guidance and instructions, but it is not intended for the *Financial Analysis Handbook*.
 - Companies should add the transaction date and specify before and immediately after the reinsurance transaction, and the retrocession details are intended to understand the structure.
 - The clarification summary should address the other comments.
 - The Reinsurance Worksheet:
 - May be used for any purpose (e.g., affiliated and unaffiliated deals).
 - Would be confidential under existing confidentiality state laws and regulations in place to assess such transactions.
 - Is for state insurance regulator use and not intended to be required filing by a company with a filing deadline.
- The ABIR recommends:
 - Avoiding impeding the solid work on the existing and future U.S. Covered Agreements and NAIC qualified reinsurance designation by one-off interventions into international reinsurance.
 - Assigning further considerations of the Reinsurance Worksheet exclusively to the Reinsurance (E) Task Force.
 - Using the Reinsurance Worksheet in traditional, unaffiliated P/C reinsurance transactions has not been identified as necessary.
 - Further consultation and discussion are required to address:
 - Questions on context and clarity are needed before being considered further by state insurance regulators, i.e., where the Reinsurance Worksheet would reside in the regulatory framework.
 - Whether the Reinsurance Worksheet should be part of the *Financial Condition Examiners Handbook*.
 - Whether the Reinsurance Worksheet should be considered a desk drawer rule; i.e., what outcomes of the calculations suggest.
 - What action is being considered upon completion of the Reinsurance Worksheet.
 - What the safeguards are to protect confidential and proprietary information.
- Nauheimer responded that the Reinsurance Worksheet will not be part of the *Financial Condition Examiners Handbook*, and it will not be considered a desk drawer rule. He added that the Reinsurance Worksheet may be used as state insurance regulators deem necessary, and it will be used to educate state insurance regulators on the economics of a deal and to analyze a transaction. He said as noted earlier, the Reinsurance Worksheet will be confidential under the existing confidentiality state laws and regulations in place to assess such transactions.

Mayhew made a motion, seconded by Arfanis, to adopt the Reinsurance Worksheet (Attachment 1). The motion passed unanimously by the Working Group.

Yanacheak made a motion, seconded by Sherman, to adopt the Reinsurance Worksheet. The motion passed unanimously by the Task Force.

Commissioner Houdek said there is no urgency after adopting the Reinsurance Worksheet, as the Financial Condition (E) Committee will consider it for adoption during its Summer National Meeting and due to it being an optional tool that state insurance regulators may already choose to use if needed.

Having no further business, the Financial Stability (E) Task Force and Macprudential (E) Working Group adjourned.

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