



May 22, 2025

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

Dear Chair Hemphill:

I write as a representative of the Cayman International Reinsurance Companies Association (CIRCA). We value the opportunity to provide comments on the Life Actuarial (A) Task Force (LATF) AAT for Reinsurance Actuarial Guideline Draft exposure dated May 2, 2025

Our understanding of the intent of the guideline and an overarching principle is that LATF hopes to gather important and useful information on asset intensive reinsurance ceded offshore while not placing an onerous burden on the U.S. appointed actuaries that will have to do this work. In our opinion, aspects of the guideline as currently drafted will fall short of these objectives.

The methods and procedures for this additional required cash flow testing should be in keeping, wherever possible, with the appointed actuary's typical processes. Three material deviations in the current draft are 1) defining different criteria for eligible starting assets 2) defining different criteria for the volume of starting assets in the mandatory run, and 3) asking the appointed actuary to further amend the asset balance in Alternative Runs based on an assessment of reinsurer capital.

In our last letter we suggested the use of Admitted Assets rather than Primary Security where admitted would be as defined by the U.S. cedant's domiciliary state. This would be consistent with normal practices of the U.S. appointed actuary. For example, assets in Schedule BA and residential mortgage loans are a widely held asset classes among U.S. insurers and are considered admitted assets in most (if not all) states, yet they fall outside the current definition of Primary Security. It would be helpful to the conversation if LATF would highlight what specific asset classes it wants to exclude from the exercise that would otherwise be permitted to be used in cash flow testing. A rationale for such exclusion would lead to a broader understanding of the objective. Perhaps amend the language to use admitted assets when held on the balance sheet of the ceding company, offering full visibility into the cash flow tested assets by the state.

All transactions with Unauthorized Reinsurers, and many other commercial asset intensive transactions, are secured with admitted assets equal to the U.S. statutory ceded reserve. This likely represents a large subset of the treaties that will be swept into AAT under the guideline. The ceding company also reports a liability equal to the full statutory reserve for ceded liabilities either through Exhibits 5 and 7 (Modified Coinsurance) or Line 24.03 (funds held under reinsurance treaties with unauthorized reinsurers). Under the current draft of the guideline, the Starting Asset Amount for otherwise identical ModCo and funds withheld treaties could vary based on the accounting practices of the assuming company. Since both treaties provide the same level of security to the cedent, there shouldn't be a differential in the Post Reinsurance Reserve or the Starting Asset Amount used in the asset adequacy analysis. Furthermore, we don't see a rationale for limiting the Starting Asset Amount to an amount less than the assets held by the cedent. It is one thing to include asset adequacy testing of these treaties as part of



the transparency that the proposed guideline intends to create, but it is another thing to impose requirements that don't apply in other contexts.

The appointed actuary opines on the adequacy of reserves. Asking for that actuary to make a judgement on capital sufficiency of a reinsurer, possibly a non-affiliate, that may also be under a different accounting and capital regime is well outside their normal practice. Such an assessment is not a consideration in VM-30 and the goal, as we understand it, is for this guideline to be incorporated into VM-30. The language around the level of Excess Capital is imprecise and the ability to assess that level of Excess Capital may be limited. Reductions to the Starting Asset Amount in the Alternative Run could be wide ranging due to what ends up being a very subjective process. The quality of the information derived from the Alternative Runs will then suffer. Without stratifying the range of possible Alternative Runs, information unique to fully collateralized transactions as a group will likely be lost since those runs could contain other adjustments at the discretion of the appointed actuary.

Based on the limitations on the Starting Asset Amount in both the Mandatory and Alternative Runs, it appears that LATF is concerned about the minimum capital requirements of foreign jurisdictions. While we understand the regulatory interest in this topic, we believe it would be more appropriate to address jurisdictional capital standards through other supervisory channels rather than within an actuarial guideline focused on reserve and asset adequacy.

We would also like clarification of language added in 6.B.ii.. Is it the intent to mark both the retained and ceded assets (even if held at book on the ceding company balance sheet) supporting the block to market if the reinsurer's balance sheet is market value based? Would the retained reserve likewise be restated on the reinsurer's basis to reach consistency?

Many of our members have U.S. regulated entities in their group and thus the comments we've provided are representative of affected U.S. appointed actuaries. This is a material undertaking being asked of U.S. appointed actuaries and to streamline the requirement of them we believe the methodology should align well with current cash flow testing processes, indeed, a subset of the current processes. The guideline should also, where the opportunity is present, lead to the most uniform and useful data to justify the effort by these appointed actuaries.

CIRCA again appreciates the opportunity to provide comments to LATF and thanks you for your consideration. We welcome any opportunity to discuss these and any other points further as the Task Force deems appropriate.

Sincerely,

Gregory L Mitchell

Chair of Board of Directors
Cayman International Reinsurance Companies Association