MEMORANDUM

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

FROM: Rachel Hemphill, Chair Representative of the Life Actuarial (A) Task Force
      Craig Chupp, Vice Chair Representative of the Life Actuarial (A) Task Force

DATE: February 15, 2024
RE: Proposal to RequireAsset Adequacy Analysis (“AAA”) to be Performed using a Cash Flow Testing Methodology for Life and Annuity Reinsurance Transactions

At its Feb. 8 meeting, the Life Actuarial (A) Task Force received a memorandum from several regulators which recommends changes to the asset adequacy testing methodology for the assets that support reinsurance transactions. Specifically, the memorandum recommended the following requirements for all reinsurance transactions, including but not limited to long-duration business that is subject to material market or credit risks or is subject to material cash flow volatility.

1. Asset adequacy analysis must be performed using a cash flow testing methodology.
2. AAA must be performed at the line of business and treaty level (so within each individual treaty, AAA must be performed standalone for life insurance, annuities, long duration health insurance, etc.).

On Feb. 15, an Amendment Proposal Form was exposed by the Life Actuarial (A) Task Force. As the proposal impacts reinsurance, the Life Actuarial (A) Task Force is providing this referral to the Reinsurance (E) Task Force to ensure that the primary regulators and interested parties that oversee reinsurance are involved with this project. A copy of the original memorandum (Attachment 1) that was received by the regulators and a copy of the Amendment Proposal Form (Attachment 2) are attached to this letter. Additionally, a memorandum (Attachment 3) responding to concerns raised during the Feb. 8 meeting of the Life Actuarial (A) Task Force is attached.

If you have any questions, or would like to further discuss, please contact the Life Actuarial (A) Task Force chair or vice chair (Rachel Hemphill or Craig Chupp), or NAIC staff Scott O’Neal (soneal@naic.org).

Cc: Jake Stultz, Dan Schelp