NATIONAL ALLIANCE OF LIFE COMPANIES
An Association of Life and Health Insurance Companies

February 28, 2025

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

Fred Andersen,
Minnesota Department of Commerce

Re: Actuarial Guideline for Reinsurance Asset Adequacy Testing 1/28/25

Chair Hemphill and Mr. Andersen:

This letter is submitted on behalf of the National Alliance of Life Companies (NALC). NALC is a trade association of more than fifty life insurance companies and associates that represents the interests of smaller and mid-sized life insurers, specialty insurers, and their policyholders. Thank you for the opportunity to provide our comments on the most recent exposure draft of Actuarial Guideline for Reinsurance Asset Adequacy Testing (the guideline).

We appreciate concerns that have been expressed regarding U.S. based life insurers engaging in asset intensive, offshore reinsurance transactions. The NALC supports effective solvency regulation and giving regulators the tools they need to ensure that reinsurance assets are adequately tested to cover future liabilities.

We are also mindful that the guideline continues to be a work in progress and that important issues still need to be addressed. Among those, NALC has significant concerns with the application of the guideline to jurisdictions addressed in the Covered Agreement as well as those the NAIC has recognized as reciprocal jurisdictions under the Credit for Reinsurance Model Law and Regulation. We look forward to the opportunity to explore this with the Task Force in future discussions.

With respect to the proposed changes, we are in general agreement with comments submitted by the ACLI and their recommendation of a more streamlined approach.

There are, however, additional concerns applicable to smaller and mid-sized insurers subject to the guideline that should be brought to the attention of the Task Force.

1. Increased operational costs. Smaller and mid-sized insurers operate with leaner resources compared to larger market players. The guideline introduces significant additional overhead costs needed to perform asset adequacy testing for ceded business, including potentially

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more rigorous modeling requirements and enhanced documentation. For smaller companies, implementing those changes would require significant investments in actuarial expertise, software upgrades, and staff training—costs that cannot be absorbed easily without passing them on to policyholders or compromising other critical business functions. This added expense risks eroding the affordability of products, which are often tailored to underserved or niche markets that larger insurers may overlook.

2. The guideline's one size fits all approach ignores industry diversity. The insurance industry is diverse, and smaller to mid-sized companies often maintain simpler product portfolios and less complex investment strategies than their larger counterparts. The guideline appears to adopt a uniform standard that does not account for those differences. For instance, many smaller companies focus on straightforward life insurance products with predictable cash flows, supported by a conservative investment approach. Applying the same stringent testing requirements designed for firms with intricate reinsurance arrangements or exotic asset classes seems disproportionate and unnecessary for our operations. A risk-based framework that scaled requirements based on company size, product complexity, and risk exposure would ensure the same level of regulatory protection on a much more cost-efficient basis.
3. The guideline creates an unlevel playing field. Smaller life insurers are already facing pressure related to industry consolidation. The guideline accelerates this trend by imposing compliance demands that larger insurers, with their economies of scale and dedicated actuarial teams, are better equipped to handle.

We fully support the NAIC's mission to safeguard the solvency of insurers and protect consumers. However, we believe that these goals can be achieved without imposing measures that inadvertently penalize smaller carriers. To that end, we respectfully request consideration of the following:

- Reconsider the scope of the guideline. Tailor the guideline to focus on larger insurers or those with higher-risk profiles, exempting or simplifying requirements for smaller to mid-sized firms with demonstrated stability. Raising the threshold in 2.A to exempt companies with less than $2b in ceded reserves. NALC also supports applying the Guideline only to reinsurance transactions with reinsurers in non-reciprocal jurisdictions.
- Cost-benefit analysis: Conduct and share an analysis of the guideline's impact on companies of varying sizes to ensure that its benefits outweigh the costs. This can be accomplished by granting the ceding company's domestic regulator greater discretion to require asset adequacy testing.
- Phased Implementation: Complying with the Guideline as proposed would require significant adjustments to companies' modeling, reporting, and coordination with their reinsurer. These changes would entail costly enhancements to systems, additional actuarial resources, and potentially renegotiated reinsurance agreements—all of which

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will increase operational overhead. While these costs would fall on all carriers, smaller and mid-sized carriers would bear a disproportionate burden of compliance. Rather than a fixed deadline of December 31, 2025, NALC proposes that LATF consider a phased in approach applicable to all companies that would allow a longer transition period for insurers to adapt, minimizing disruption to those company's operations and customers.

Thank you again for the opportunity to address our comments.

Sincerely,

Scott Harrison
Chief Executive Officer

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