REINSURANCE ASSOCIATION OF AMERICA

May 20, 2025

Cassie Brown, Chair
Life Actuarial (A) Task Force
National Association of Insurance Commissioners
Scott O'Neal
Assistant Managing Life Actuary
Via email soneal@naic.org

Re: RAA Comments on the Covered Agreement and theAsset Adequacy Testing (AAT) for Reinsurance Actuarial Guideline (AG)

Dear Chair Brown:

The Reinsurance Association of America (RAA) appreciates the opportunity to submit comments to the Life Actuarial (A) Task Force regarding the Asset Adequacy Testing (ReAAT) for Reinsurance Actuarial Guideline (AG). The Reinsurance Association of America (RAA) is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies. The RAA appreciates LATF's ongoing consideration of industry input, and we remain committed to providing LATF feedback on its efforts.

Before the Reinsurance (E) Task Force (RTF) and at several Life Actuarial (A) Task Force meetings, the RAA has continued to express concerns that the current ReAAT AG contains or could lead to potential conflicts with the US-EU and US-UK Covered Agreements (Covered Agreements). Our concerns remain notwithstanding LATF's decision that the obligations under the current ReAAT AG will be disclosure-only.

EXECUTIVE SUMMARY

- The Covered Agreements formalize mutual recognition between the US and the EU and the US and the UK of the strength and effectiveness of our respective regulatory regimes and seek, at least in part, to avoid duplicative supervision and regulation. Regulatory action that creates duplicative obligations for global entities – even on a disclosure basis – are inconsistent with that recognition.
- The current ReAAT imposes different requirements depending on whether a firm is a US entity or a non-US entity. Careful consideration must be given to those requirements given the language of the Covered Agreements.

- While the current ReAAT is limited to disclosure only, LATF has indicated that it intends to revisit this question after one year and then determine what additional regulatory steps may be necessary based on what the disclosures reveal. Future regulatory action – particularly if the focus is on transactions arising with off-shore entities, may become problematic. RAA and its members feel that it is important to resolve any potential conflicts now and find a solution that would not implicate the Covered Agreements regardless of whether this workstream is disclosure-only or something more.
- Based on the current scope, at least some of the transactions that would be subject to disclosure under the ReAAT AG have already been reviewed and/or approved and are subject to the supervision of a domiciliary regulator located in a jurisdiction subject to the Covered Agreements. In addition, ceding companies subject to the disclosure requirements may not have all required information necessary to respond, necessitating a response from off-shore companies in order to complete the disclosures. Requiring duplicative disclosure and review of such transactions raises potential conflicts under the terms of the Covered Agreements.

Disclosures

LATF indicated the purpose of this initiative is to gather information. Gathering information only on offshore reinsurance transactions may not violate the Covered Agreements. This is very much dependent on how the information is gathered and from whom. Some RAA members have indicated that the current proposal would require duplicative disclosures in both the Europe and the U.S. If the requested information is expected directly from companies, rather than their domiciliary regulator, such duplicative regulatory requirements may violate the Covered Agreements. Moreover, if, after gathering this information, additional requirements are imposed on transactions between US ceding companies and offshore reinsurers located in the EU or UK, those additional requirements likely would violate the Covered Agreements. Further, applying additional requirements to reinsurance agreements between US ceding companies and Reciprocal Jurisdiction Reinsurers located in Reciprocal Jurisdictions would violate the intent of the NAIC and the laws and regulations adopted by all states regarding Reciprocal Jurisdictions and Reciprocal Jurisdiction Reinsurers.

The scope limitation the Actuarial Guidance (AG) Reinsurance Asset Adequacy Testing (ReAAT) exposure draft imposes in Section 2.A precludes additional disclosure requirements of the exposure draft on transactions with entities that submit a VM-30 memorandum. The VM-30 memorandum is required to be submitted by all entities that file an Annual Statement in the US. This includes all US life insurers and reinsurers. Non-US entities do not file a VM-30 memorandum. Therefore, this new disclosure requirement is limited to transactions with non-US reinsurers only.

Article 3 Section 1(b) of the US-EU Covered Agreement precludes a jurisdiction from applying requirements with substantially the same regulatory impact as collateral requirements removed by the Covered Agreement on non-domiciled reinsurers that are not required on domiciled reinsurers. Transactions with US reinsurers are not subject to this new disclosure requirement since they do

VM-30. The proposed disclosure requirement requires the ceding company to know and understand the cashflow assumptions being made by the assuming reinsurer when they price the business and manage the underlying assets. Because an assuming non-US reinsurer would not be able to say no to these disclosure requests if they wished to do business with US ceding companies, this disclosure requirement may be a violation of the Covered Agreement.

Mutual Recognition

Both the preamble and the objectives of the Covered Agreements clearly demonstrate that the intent is to recognize and defer to the robust regulatory structure and supervision of companies domiciled in each respective jurisdiction. As stated, the parties desire to keep "respecting each Party's system for insurance and reinsurance supervision and regulation". The Covered Agreements expressly indicate that one of the objectives, in Article 1, is to address "the elimination, under specified conditions, of local presence requirements imposed by a Party or its supervisory authorities on an assuming reinsurer which has its head office or is domiciled in the other Party, as a condition for entering into any reinsurance agreement with a ceding insurer which has its head office or is domiciled in its territory or for allowing the ceding insurer to recognize credit for reinsurance or credit for risk mitigation effects of such reinsurance agreement". The Covered Agreements seek to eliminate unnecessary regulatory action where all parties are domiciled in jurisdictions mutually acknowledged to have strong regulation. It remains critical for the optimal functioning of the worldwide reinsurance market that no party take action that could undermine this essential principle.

Collateral

The Covered Agreements also have an objective to address "the elimination, under specified conditions, of collateral requirements imposed by a Party or its supervisory authorities on an assuming reinsurer which has its head office or is domiciled in the other Party, as a condition for entering into any reinsurance agreement with a ceding insurer which has its head office or is domiciled in its territory or for allowing the ceding insurer to recognize credit for reinsurance or credit for risk mitigation effects of such reinsurance agreement". It is important that all parties respect this objective and follow it.

In support of this objective, the Covered Agreements elaborate, in Article 3, that supervisors shall not "maintain or adopt any requirement to post collateral in connection with cessions from a Host Party Ceding Insurer to a Home Party Assuming Reinsurer and any related reporting requirement attributable to such removed collateral or maintain or adopt any requirement to post collateral in connection with cessions from a Host Party Ceding Insurer to a Home Party Assuming Reinsurer and any related reporting requirement attributable to such removed collateral". The Covered Agreements clearly reflect that each party's supervision should be respected and that neither party may attempt to circumvent these obligations.

Group Supervision

The Covered Agreements also make clear that "a Home Party insurance or reinsurance group is subject only to worldwide prudential insurance group supervision including worldwide group governance, solvency and capital, and reporting, as applicable, by its Home supervisory authorities, and is not subject to group supervision at the level of the worldwide parent undertaking of the insurance or reinsurance group by any Host supervisory authority". Group supervision is clearly left to the supervisor where the group is domiciled.

The Covered Agreements elaborate that "the role of the Host and Home supervisory authorities with respect to prudential group supervision of an insurance or reinsurance group whose worldwide parent undertaking is in the Home Party, including, under specified conditions, (i) the elimination at the level of the worldwide parent undertaking of Host Party prudential insurance solvency and capital, governance, and reporting requirements, and (ii) establishing that the Home supervisory authority, and not the Host supervisory authority, will exercise worldwide prudential insurance group supervision, without prejudice to group supervision by the Host Party of the insurance or reinsurance group at the level of the parent undertaking in its territory". The Covered Agreements therefore ensure that no party to them shall attempt to circumvent these group supervision requirements and that all parties should respect each other's supervision and requirements as sufficient to meet the other's needs.

Based on the current scope, at least some of the transactions that would be subject to disclosure under the ReAAT AG have already been reviewed and/or approved and are subject to the supervision of a domiciliary regulator located in a jurisdiction subject to the Covered Agreements. In addition, ceding companies subject to the disclosure requirements may not have all required information necessary to respond, necessitating requiring a response from off-shore companies in order to complete the disclosures. Requiring duplicative disclosure and review of such transactions raises potential conflicts under the terms of the Covered Agreements.

Conclusion

The RAA appreciates the ongoing opportunity to work with you on this important project and specifically to address the reinsurance-specific concerns. The RAA remains committed to working with the LATF and sharing its concerns about potential conflicts between the Covered Agreement and the proposed ReAAT AG. We would be happy to meet with members of LATF and NAIC staff to discuss these concerns in further detail. We look forward to further engagement on these issues.

Sincerely,

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