

Draft date: 10/16/24

*Virtual Meeting  
(in lieu of meeting at the 2024 Fall National Meeting)*

**REINSURANCE (E) TASK FORCE**

Thursday, October 24, 2024

4:00 – 5:00 p.m. ET / 3:00 – 4:00 p.m. CT / 2:00 – 3:00 p.m. MT / 1:00 – 2:00 p.m. PT

**ROLL CALL**

Chlora Lindley-Myers, Chair	Missouri	Grace Arnold	Minnesota
Ricardo Lara, Vice Chair	California	Mike Chaney	Mississippi
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Peni Itula Sapini Teo	American Samoa	D.J. Bettencourt	New Hampshire
Alan McClain	Arkansas	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Alice T. Kane	New Mexico
Andrew N. Mais	Connecticut	Adrienne A. Harris	New York
Trinidad Navarro	Delaware	Mike Causey	North Carolina
Michael Yaworsky	Florida	Jon Godfread	North Dakota
John F. King	Georgia	Judith L. French	Ohio
Michelle B. Santos	Guam	Glen Mulready	Oklahoma
Gordon I. Ito	Hawaii	Andrew R. Stolfi	Oregon
Ann Gillespie	Illinois	Michael Humphreys	Pennsylvania
Holly W. Lambert	Indiana	Alexander S. Adams Vega	Puerto Rico
Doug Ommen	Iowa	Michael Wise	South Carolina
Vicki Schmidt	Kansas	Cassie Brown	Texas
Sharon P. Clark	Kentucky	Tregenza A. Roach	U.S. Virgin Islands
Timothy J. Temple	Louisiana	Jon Pike	Utah
Robert L. Carey	Maine	Scott A. White	Virginia
Kevin P. Beagan	Massachusetts	Nathan Houdek	Wisconsin

NAIC Support Staff: Jake Stultz/Dan Schelp

**AGENDA**

1. Consider Adoption of its Summer National Meeting Minutes Attachment One  
—*John Rehagen (MO)*
2. Consider Adoption of the Report of the Reinsurance Financial Analysis (E)  
Working Group—*Rolf Kaumann (CO)*



3. Receive a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group—*Robert Wake (ME)*
4. Receive a Status Report and Hear Comments on the Life Actuarial (A) Task Force’s Asset Adequacy Testing (AAT) Project—*John Rehagen (MO)*
5. Discuss Ongoing Projects at the NAIC That Affect Reinsurance—*John Rehagen (MO)*
6. Discuss Any Other Matters Brought Before the Task Force—*John Rehagen (MO)*
7. Adjournment

Draft: 8/3/24

Reinsurance (E) Task Force  
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)  
July 22, 2024

The Reinsurance (E) Task Force met July 22, 2024. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Ricardo Lara, Vice Chair, represented by Monica Macaluso (CA); Mark Fowler represented by Todrick Burks (AL); Lori K. Wing-Heier represented by David Phifer (AK); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Bryce Rawson (GA); Doug Ommen represented by Kim Cross and Kevin Clark (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Fred Andersen (MN); Mike Chaney represented by Chad Bridges (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Chris Amory (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Don Gilbert (NM); Adrienne A. Harris represented by Martha Lees and Bob Kasinow (NY); Judith L. French represented by Cam Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Spring National Meeting Minutes

Obusek made a motion, seconded by Kaumann, to adopt the Task Force’s Feb. 26 minutes (*see NAIC Proceedings—Spring 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted its 2025 Proposed Charges

Rehagen noted that the Task Force’s 2025 proposed charges included minor revisions from 2024 to reflect the current duties of the Task Force and the Reinsurance Financial Analysis (E) Working Group.

Eft made a motion, seconded by Joyce, to adopt the 2025 proposed charges of the Task Force and the Reinsurance Financial Analysis (E) Working Group (Attachment One). The motion passed unanimously.

3. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met June 27, May 13, and March 28 to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 85 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Wake, to adopt the report of the Reinsurance Financial Analysis (E) Working Group. The motion passed unanimously.

4. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Wake stated that the Working Group last met Nov. 1, 2023, in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

5. Discussed Ongoing Projects at the NAIC That Affect Reinsurance

Rehagen stated that a project had been started in the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. He stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. He stated that this project was discussed publicly at the Life Actuarial (A) Task Force's June 20, Feb. 15, and Feb. 8 meetings and noted that there was substantial discussion during those meetings. Rehagen provided an opportunity for Task Force members, interested state insurance regulators, and other interested parties to provide comments on the project.

Andersen stated that the Life Actuarial (A) Task Force was scheduled to meet July 25 to conduct a detailed discussion of the comment letters received from the June 20 exposure.

Karalee Morell (Reinsurance Association of America—RAA) spoke on behalf of the RAA, Swiss Re, and Hannover Re. She stated that her group recognizes that there are valid regulatory concerns, and they are committed to working together to find appropriate solutions. She also stressed the importance of coordination between NAIC groups to ensure that there is no duplication of efforts. She stated that her group believes that the current proposals being considered would create some unnecessary obstacles that will negatively impact the insurance marketplace without addressing the regulator's fundamental concern. She noted that their belief is that the core regulator concern is collectability, not reserving levels; therefore, any solutions should be directly targeted at that issue. In addition, it is critically important that any action taken by the NAIC be consistent with the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement) or the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement) and collateral treatment extended to reciprocal jurisdictions and reciprocal jurisdiction reinsurers under those agreements.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with the state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He noted that reinsurance remains a vital tool for proper risk management and that the NAIC effort should encourage the responsible use of reinsurance and make a great effort not to disrupt this critical marketplace. He stated that his group believes it is critical that the various work streams be coordinated at the NAIC and that industry wants to ensure whatever additional requirements arise out of these efforts are value added to the regulators' regulatory responsibilities and truly address these underlying concerns. He noted that they further want to seek coordination to avoid any duplicate work or contradictory requirements. He noted that it is critical that the state insurance regulators get the scope right to avoid unnecessary work that does not aid in their review of the companies. Specifically, it is necessary and appropriate, depending on the degree of additional work, that these requirements for AAT must be applied prospectively only. He stated that his group supports a disclosure-based framework that leverages the good work that companies are already doing when they enter a reinsurance transaction. Additionally, the ACLI encourages

the NAIC to look closely at the proposed requirements and how they would align with existing requirements, such as the EU and UK Covered Agreements.

Patricia Matson (Risk and Regulatory Consulting—RRC) stated that her firm has been involved with many transactions that involve moving business offshore and noted that based on what they have seen firsthand, the amount of assets that back the policyholder obligations declined significantly. She noted that she strongly believes that there does need to be a solution to address the decline in assets and is in favor of requirements for the appointed actuary to directly assess the adequacy of the invested assets and reserves in order to make sure that the assets are sufficient to support the policyholder obligations even after a reinsurance transaction. She stated that she does not believe that evaluation of counterparty risk or disclosures alone is sufficient to address the issue. She noted that there are already many disclosures required as those transactions occur, and counterparty risk has to be evaluated by the actuary under existing standards and that despite those requirements that already exist, there are cases where assets after the transaction are not sufficient to cover the obligations to the customer under moderately adverse conditions.

Peter Gould (Unaffiliated) stated that he is a retiree and end user of insurance products and that he depends on annuity income for a substantial portion of his retirement income. He noted that there had been rapid developments and changes in the industry. He suggested that NAIC staff and state insurance regulators begin testing these proposed procedures on real-life data from companies that are currently or have previously failed or are in rehabilitation to help provide an early warning of these problems to fix so that policyholders will not be dependent on state guaranty associations. He stressed the importance of this project and the financial impact that a failure by a company could have on end users of these products.

Mark Tenney (Mathematical Finance Company) noted that his main comment relates to collectability. He stated that the International Monetary Fund's (IMF's) views are that Latin America and offshore islands currently have measures that restrict capital flows during crises, so if there is a financial crisis, the IMF supports these countries in limiting outflows of capital. He stated that if state insurance regulators are expecting that during a crisis there are going to be capital outflows from offshore. The IMF is expecting that to prevent those outflows, there will be a clash between two regulator groups. He stated that with Bermuda, for example, the private equity (PE) companies are very interested in alternative investments and noted that there is a large amount of Chinese money in the Cayman Islands and Bermuda. He noted that there may be more than \$2 trillion of Chinese-related investment money that goes through variable interest entities, which are not allowed under Chinese law, and that at some point, the \$2 trillion could simply disappear if a Chinese court ruled those investments were invalid. He further stated that if the reinsurers in Bermuda can purchase some investments related to that, and if it is cut off by China, then that money just disappears. Additionally, a reinsurance failure in these regions could impact efforts to try to get climate mitigation capital to flow to Latin America, and there is an estimate that they need \$400 billion to \$1.1 trillion per year of spending by Latin America, which is not currently happening. He noted that a large reinsurer failing would discredit the regulators in that region, which would disrupt these enormous climate flow payments that need to be made.

Jason Kehrberg (PolySystems), on behalf of the American Academy of Actuaries (Academy), stated that the Academy developed its comments to balance the view that the appointed actuary should be able to apply principles and judgment in their AAT and that they understand the need for regulators to provide additional guidance on AAT in certain situations, such as those outlined in the exposure. He recognized that reinsurance has proved to be an effective risk mitigation tool and believes that any changes to AAT requirements should avoid incentivizing insurance companies from implementing appropriate reinsurance solutions.

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He noted that the worksheet allows for more consistent and

thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force's policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook*. He said that the work completed using the reinsurance worksheet will remain confidential. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its second year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers AAT for life insurers, but he noted that the Task Force's primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the EU Covered Agreement and UK Covered Agreement. He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force (Attachment Two). The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals will be addressed by the Statutory Accounting Principles (E) Working Group over the next several months. Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Summer National Meeting.

Stultz stated that in 2023, there was an issue with Vesttoo, a reinsurance broker, where fraudulent letters of credit had been used for collateral purposes. He noted that several groups at the NAIC had discussed the issue and are continuing to monitor the situation and that the NAIC's current understanding is that all the letters of credit have been replaced. There have been several legal settlements between Vesttoo and the impacted companies.

Stultz noted that there were several bank failures in early 2023 that impacted reinsurance since some of these banks were approved on the List of Qualified U.S. Financial Institutions (QUSFI List). He stated that the *Credit for Reinsurance Model Law (#785)* allows a letter of credit to be used as collateral under Section 3 if the issuing bank meets the criteria of Section 4, which details the process for a bank to be reviewed and approved to be added to the QUSFI List. He stated that a drafting note in Model #785 also clarifies what needs to be done in situations when a financial institution loses its status as a QUSFI. As a result of the bank failures, the Valuation of Securities (E) Task Force adopted a minor revision to the *Purposes and Procedures Manual* (P&P Manual) that streamlines the process of removing troubled financial institutions from the QUSFI List. He stated that he is not aware of any issues with any banks at this time but that NAIC staff will continue to monitor any news about any banks on the QUSFI List.

Having no further business, the Reinsurance (E) Task Force adjourned.

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