

REINSURANCE (E) TASK FORCE

Reinsurance (E) Task Force October 24, 2024, Minutes

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/RTF/2024FallNM/Summary%20and%20Minutes/RTF%2010.24.2024%20Contents.pdf>

Draft Pending Adoption

Draft: 11/4/24

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)
October 24, 2024

The Reinsurance (E) Task Force met Oct. 24, 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); Lori K. Wing-Heier represented by David Phifer (AK); Alan McClain represented by Chris Erwin (AR); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Bryce Rawson (GA); Gordon I. Ito (HI); Doug Ommen represented by Kim Cross and Kevin Clark (IA); Holly W. Lambert 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 Shantell Taylor (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Grace Arnold represented by Fred Andersen (MN); Mike Chaney represented by Chad Bridges (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning (NE); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Don Gilbert (NM); Adrienne A. Harris represented by Michael Campanelli (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); 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 Summer National Meeting Minutes

Wolf made a motion, seconded by Phifer, to adopt the Task Force's July 22 minutes (*see NAIC Proceedings—Summer 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

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

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met Sept. 26 and Aug. 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 93 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 Phifer, to adopt the report of the Working Group. The motion passed unanimously.

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

Macaluso stated that the Mutual Recognition of Jurisdictions (E) Working Group met Oct. 24 in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, and 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 that are not subject to an in-force covered agreement. She 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.

Draft Pending Adoption

4. Received a Status Report and Heard Comments on the Life Actuarial (A) Task Force's AAT Project

Rehagen stated that a project has been ongoing for the past year at 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 had been discussed publicly during several Life Actuarial (A) Task Force meetings and noted that there were substantial discussions during those meetings.

Andersen stated that the Life Actuarial (A) Task Force met several times over the past months to discuss the AAT project. He stated that the regulatory focus of the project is on gaining insight into reserve adequacy when business is ceded, with a particular focus on U.S. policyholders. He noted that reinsurance may result in a lowering of transparency in terms of the amount of reserves held and the types and risks associated with the assets supporting reserves. The progress at this point includes establishing the goals of the project, which are to provide U.S. state regulators with what is needed to review the reserves of U.S. life insurers while avoiding conflicts with reciprocal jurisdictions and covered agreement issues and to prevent work by U.S.-ceding companies where there is immaterial risk. He noted that there has been progress on establishing scope and materiality thresholds, aggregation of analysis between treaties and or counterparties, and analysis considerations and alignment with the level of risk. He stated that the overall goal is to have an actuarial guideline adopted by mid-2025 and for it to be effective for year-end 2025.

Patricia Matson (Risk & 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. He said he depends on annuity income for a substantial portion of his retirement income. He stated that his recommendation is for regulations that can be used proactively and effectively to prevent the impairment of solvency so the contractual obligations to policy owners are paid.

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 this is an opportunity to have an educational tool around these types of reinsurance transactions to bring greater awareness and transparency to the ceding insurers and domestic regulators with respect to these transactions. He stated several issues have been addressed so far, but a several more remain that need to be addressed.

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

Draft Pending Adoption

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.

Karalee Morell (Reinsurance Association of America—RAA) stated that she agrees with the comments that were provided by the other commenters.

5. Discussed Ongoing Projects at the NAIC That Affect Reinsurance

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. 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 (LOCs) 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 LOCs have been replaced. There have been several legal settlements between Vesttoo and the impacted companies.

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

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/RITF/2024 Fall NM/ReinsuranceTFmin 10.24.2024.docx