VALMARK FINANCIAL GROUP®

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VIA EMAIL ONLY

February 24, 2025

Re: AG ReAAT 013025

Dear Mr. O'Neal:

I am writing to comment on AG ReAAT 013025 and the need to strengthen controls over parties that back promises made to US policyholders. I am Chairman and CEO of Valmark Financial Group, a financial services company that includes in its portfolio Valmark Securities, Inc., an SEC-registered broker-dealer, as well as Executive Insurance Agency, Inc., a brokerage general agency. Through these entities, independent financial professionals registered by Valmark collectively oversee more than $70 billion of in-force insurance death benefit in both fixed and variable life insurance policies and additionally advise clients on nearly $4 billion of fixed and variable annuity values.

In both my professional role and personally, as a policyholder of several life insurance and annuity policies myself, I share the concerns expressed by state insurance regulators, rating agencies, and consumer advocates surrounding the risk that domestic life insurers may currently enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate the release of reserves that prejudice the long-term interests of their policyholders. Further, I support the state insurance regulators in their stated goal of seeking to better understand the amount and quality of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. Unfortunately, I do not believe the current AG ReAAT proposal goes anywhere near far enough to fix the problem.

As with any complex problem, there is not one place to direct all the blame. Without rehashing all the many ways financial engineering has allowed insurance carriers to indirectly avoid posting the needed "hard assets" to ensure that all promises made to policyholders are kept, even in prolonged periods of volatile bond and equity markets, the phenomenon of private equity companies directly owning insurance companies, as well as their involvement in the reinsurance market, combined with opaque financial information from some offshore reinsurance schemes, weaken the actual reserves left to support policies owned by everyday Americans. AG ReAAT, while well meaning, is far from sufficient, let alone robust enough to afford real protection to policyholders.

The issue of safe reserving levels for new insurance products is not a new one. I have been around long enough to remember company product actuaries arguing that reserve levels for innovative long-term care insurance, annuities with living benefits, term products with 30-year guarantees, and universal life with secondary guarantees were "redundant." Now, 20-25 years later, in retrospect these reserving assumptions were not

conservative enough. The issue of hiding or covering these transactions with reinsurance from related parties was brought to light 12 years ago by Benjamin Lawsky, who was at the time financial services superintendent of the New York Department of Financial Services. Lansky uncovered what he called "shadow insurance" reinsurance transactions that artificially inflate carriers' surplus. In the 12 years since, insurance regulators have done little other than allow this situation to now mushroom with transactions that dwarf the size of the transactions Lawsky initially spotlighted as problematic.

The present system, which is potentially only being nominally refined by the proposed AG ReAAT, centers around an actuary, either on the payroll of a carrier or hired as a consultant by a carrier, conducting an analysis of a carrier's post-reinsurance reserve and highlighting risks. Given the nature of the relationship between the carrier and its appointed actuary, one has little trouble seeing the potential for conflict in this arrangement, it is doubtful that many risks get "highlighted." The complexity of the transactions, the numerous counterparties and the confidential nature of the reinsurance treaties involved make it impossible to "check the work" of these actuaries.

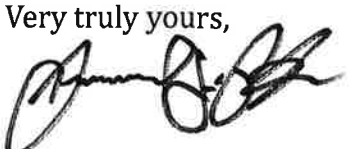
AG ReAAT takes the position that "[i]n the event that the Appointed Actuary believes that additional reserves are required (based on their application of appropriate actuarial judgment), then the Appointed Actuary should reflect that in their Actuarial Opinion." Essentially, if the actuary hired by the carrier thinks its boss needs to set more money aside to cover the promises made to policyholders, the actuary needs to put it in a report. It is not hard to envision said report being filed away with little attention given to its "recommendations." There seems to be little in the way of resources to check these reports and no substantive penalties for being "optimistic" about reserve assumptions.

In keeping with the tenor of the NAIC's proposed recommendations, AG ReAAT takes the position that "[t]his Guideline [AG ReAAT] does not include prescriptive guidance as to whether additional reserves should or should not be held. As is already the case, such determination is up to the Appointed Actuary, and the domestic regulator will continue to have the authority to require additional reserves as deemed necessary."

One is left to wonder how exactly the NAIC hopes to achieve meaningful protections for the everyday American policyholders that rely on their life insurance policies to provide protections for loved ones when the NAIC's new rules do not even mandate anything be done when an appointed actuary actually believes that additional reserves are required. The term "window dressing" comes to mind when describing AG ReAAT. Unfortunately, for life insurance policyholders, window-dressing regulation is nothing new.

I urge the NAIC and state regulators to impose more meaningful protections for policyholders.

Very truly yours,



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