Draft date: 8/24/26

Virtual Meeting

FINANCIAL EXAMINERS HANDBOOK (E) TECHNICAL GROUP
Wednesday, September 9, 2026
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

Eli Snowbarger, Co-Chair	Oklahoma	Andrea Johnson	Nebraska
John Litweiler, Co-Chair	Wisconsin	Colin Wilkins	New Hampshire
Laura Clements	California	Nancy Lee Chice	New Jersey
William Arfanis	Connecticut	Monique D. Smith	North Carolina
N. Kevin Brown	District of Columbia	Tracy Snow/Zachary Wheatley	Ohio
Cindy Andersen	Illinois	Diana Sherman	Pennsylvania
Grace Kelly	Minnesota	Jennifer Blizzard	Virginia
Shannon Schmoeger/Sara McNeely	Missouri	Tarik Subbagh	Washington

NAIC Support Staff: Elise Klebba/Bailey Henning

AGENDA

1. Consider Adoption of August 3, 2026 Financial Examiners Handbook (E) Technical Group Meeting Minutes – *John Litweiler (WI)* — Attachment 1

2. Consider Adoption of Handbook Guidance – *Eli Snowbarger (OK)*
    a. CUSIP Terminology — Attachment 2
    b. Exhibit O – Assessment of Aggregated Controls — Attachment 3
    c. Evergreen Lines of Credit — Attachment 4
    d. Actuarial Guideline Narrative Guidance, VM-22 and GOES Implementation — Attachment 5

3. Consider Exposure of Handbook Guidance — *John Litweiler (WI)*
    a. Assessing Private Asset Exposures — Attachment 6
    b. Unauthorized Offshore Reinsurers — Attachment 7
    c. Exhibit N – Reinsurance Clauses — Attachment 8

4. Discuss Any Other Matters Brought Before the Technical Group – *Eli Snowbarger (OK)*

5. Adjournment

Attachment XX
Examination Oversight (E) Task Force
8/X/26

Draft: 8/5/26

Financial Examiners Handbook (E) Technical Group
Virtual Meeting
August 3, 2026

The Financial Examiners Handbook (E) Technical Group of the Examination Oversight (E) Task Force met Aug. 3, 2026. The following Technical Group members participated: Eli Snowbarger, Co-Chair (OK); John Litweiler, Co-Chair (WI); Laura Clements (CA); William Arfanis (CT); N. Kevin Brown (DC); Cindy Andersen (IL); Grace Kelly (MN); Sara McNeely (MO); Monique D. Smith (NC); Andrea Johnson (NE); Nancy Lee Chice (NJ); Zachary Wheatley (OH); Diana L. Sherman (PA); Greg Chew (VA); and Tarik Subbagh (WA).

1. Exposed Handbook Guidance

A. CUSIP Terminology

Litweiler introduced proposed revisions regarding the Committee on Uniform Security Identification Procedures (CUSIP) terminology. He stated that the Investment Designation Analysis (E) Working Group sent referrals to several NAIC groups to replace the use of CUSIP with a more inclusive terminology for security identifiers. While the Financial Examiners Handbook (E) Technical Group did not receive a referral directly, the investments repository was updated to the new terminology to ensure consistency across NAIC publications.

B. Exhibit O, Part 1—Combined Tests of Controls Worksheet

Litweiler shared the next set of revisions for Exhibit O, Part 1—Combined Tests of Controls Worksheet. Revisions clarify existing guidance on how examiners evaluate controls, as the current worksheet implies that each control should be assessed individually; however, when in practice, multiple controls used to mitigate a single risk should be evaluated in aggregate.

C. Evergreen Letters of Credit

Litweiler introduced the final set of revisions to evergreen provisions in letters of credit, driven by recent court decisions on the language of evergreen clauses related to the letter of credit expiration. Revisions to Exhibit N—Reinsurance Review and Section 1–5—Reinsurance Review provide continuous renewal in successive periods, in line with the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786).

The Technical Group agreed to expose the revisions for a 30-day public comment period ending Sept. 2.

2. Received Referrals

A. Private Asset Exposure

Snowbarger said the first referral received was from the Financial Analysis (E) Working Group, which requested enhanced guidance on financial examinations to assess private asset exposures, due to an ongoing increase in the amount of private assets held by U.S. domestic insurers. He noted that the investment repository will be reviewed to identify any additional procedures necessary to address this referral.

B. Unauthorized Offshore Reinsurers

Snowbarger noted that the second referral was received from the Financial Analysis (E) Working Group, in coordination with the Valuation Analysis (E) Working Group and the Investment Analysis (E) Working Group, regarding increased use of unauthorized offshore reinsurers by U.S. life and annuity insurers. The referral encourages enhanced guidance for post-agreement assessment of offshore reinsurance performance, collateral assets, and reserving assessment.

3. Discussed its 2026 Project Listing

A. Life Actuarial Guidance

Litweiler introduced the Technical Group's 2026 project listing and discussed the first two items on the list pertaining to life actuarial guidance. Revisions pertain to narrative guidance in the reserves/claims handling (life) repository for *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) and *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55), as well as the implementation of *Valuation Manual* (VM)-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, and the Generator of Economic Scenarios (GOES). He noted that the NAIC life actuarial team developed proposed revisions in these areas, which were exposed for a 30-day public comment period ending Aug. 28.

B. Exhibit N – Reinsurance Review

Litweiler discussed the final item on the project listing, which concerned Exhibit N—Reinsurance Review. He noted that this project will review Exhibit N and determine whether any additional specific clauses should be included within the reinsurance contract review procedures.

Having no further business, the Financial Examiners Handbook (E) Technical Group adjourned.

EXAMINATION REPOSITORY – INVESTMENTS

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Bonds
Stocks (Preferred and Common)
Mortgage Loans on Real Estate
Cash, Cash Equivalents and Short-Term Investments
Derivatives
Other Invested Assets
Securities Lending – Reinvested Collateral Assets

Other Annual Statement line items related to investments, whose risks are less common, have not been included in this examination repository. They include the following:

Real Estate
Aggregate Write-Ins for Invested Assets
Contract Loans
Receivables for Securities
Payable for Securities
Investment Income Due and Accrued *(P&C Companies)*
Drafts Outstanding
Unearned Investment Income *(Life Companies)*
Liability for Deposit-Type Contracts *(Life Companies)*
Miscellaneous Liabilities – Asset Valuation Reserve
Contract Liabilities Not Included Elsewhere – Interest Maintenance Reserve
Contract Liabilities Not Included Elsewhere – Surrender Values on Cancelled Contracts *(Life Companies)*

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the investment process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 2 — Cash, Cash Equivalents, Drafts, and Short-Term Investments
No. 7 — Asset Valuation Reserve and Interest Maintenance Reserve
No. 21 — Other Admitted Assets
No. 23 — Foreign Currency Transactions and Translations
No. 26 — Bonds
No. 30 — Unaffiliated Common Stock
No. 32 — Preferred Stock
No. 34 — Investment Income Due and Accrued
No. 37 — Mortgage Loans
No. 38 — Acquisition, Development and Construction Arrangements
No. 39 — Reverse Mortgages
No. 40 — Real Estate Investments
No. 41 — Surplus Notes
No. 43 — Asset-Backed Securities
No. 44 — Capitalization of Interest
No. 48 — Joint Ventures, Partnerships and Limited Liability Companies
No. 49 — Policy Loans

No. 56 — Separate Accounts
No. 74 — Insurance-Linked Securities Issued Through a Protected Cell
No. 83 — Mezzanine Real Estate Loans
No. 86 — Derivatives
No. 90 — Impairment or Disposal of Real Estate Investments
No. 93 — Investments in Tax Credit Structures
No. 97 — Investments in Subsidiary, Controlled and Affiliated Entities
No. 103 — Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

----------Detail Eliminated for Spacing Purposes----------

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer does not review its liquidity position to determine if adjustments are necessary to meet its potential near-term cash flow needs. **Please Note:** Examiners may wish to refer to the Exam Planning Questionnaire section on liquidity (Exhibit B, Section IV, Part J) to assist in identifying and assessing potential risk in this area.	OP ST LQ	Other	LC	The insurer has a liquidity measurement, monitoring and management framework that includes a written liquidity plan with contingency and stress-testing features.	Determine whether management's review of the liquidity plan and stress testing procedures and assumptions is reasonable considering its experience and market history.	Validate that the company's illiquid assets (including private placement, non-marketable funds, real estate-related assets, special deposits/restricted assets and affiliate investments) were all considered, and determine whether it relies heavily upon nontraditional or non-insurance activities (e.g., commercial paper and securities lending) for liquidity. Validate company liquidity testing to confirm results under stressed scenarios. If necessary, use an investment specialist and/or actuary to analyze the insurer's liquidity position.
Financial Reporting Risks						
The insurer's bonds, stocks and short-term investments that are considered hard-to-value, high-	MK	VA	VIIA	The insurer reconciles its investments to the statements received from its investment	Inspect reconciliations of the insurer's recorded investments to the investment statements	Review Jumpstart investment exception reports to determine whether the company's quality assurance controls

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
risk and/or subject to significant price variation are incorrectly valued.				managers/custodians on a regular basis. In the event the insurer manages its own investments, it obtains pricing information from a recognized independent source, such as Bloomberg. The insurer periodically reviews the prepayment and default assumptions for loan-backed securities and evaluates the proper valuation per SSAP No. 43. The insurer has procedures in place to review for wash sales and to determine whether they have been properly valued and disclosed in accordance with SSAP No. 103. The insurer has a process in place to ensure the correct currency conversion is used in	received from investment managers/custodians. Test the controls in place surrounding the independent pricing process to determine whether guidelines (mid-market, bid, ask) are reasonable and consistently applied. Review the insurer's process to review prepayment assumptions for loan-backed securities, and inspect relevant documents as necessary. Review the insurer's procedures for identifying wash sales, including its listing of such sales. Ensure that this list is updated at least on a quarterly basis and is properly reviewed by the insurer. Discuss with management the process used to ensure correct currency conversions are in place. Test the process to	were functioning for accurate security identifiers~~Committee on Uniform Security Identification Procedures (CUSIP)~~, designation and market values. Confirm the value of securities with investment managers/custodians, and agree the amount confirmed to the insurer's records. Select a sample of pricing of securities, and verify quotes with other independent sources. Review insurer assumptions for reasonableness. Review the insurer's investment transactions to test the completeness of the insurer's listing of wash sales. If wash sales are identified, determine whether they have been properly valued and disclosed in accordance with SSAP No. 103.

EXHIBIT O

EXAMINATION SAMPLING WORKSHEETS

This exhibit includes three worksheets that may be useful to examiners in documenting the process to conduct test procedures through the use of examination sampling. Part One of the exhibit provides a worksheet to be used when conducting sampling for use in control testing in Phase 3. Parts Two and Three provide worksheets to be used when conducting non-statistical sampling or attribute sampling for tests of details in Phase 5. Each of the worksheets within this exhibit should be utilized in conjunction with guidance provided in Section 1 – Part III, C, when applicable.

PART ONE - TEST OF CONTROLS SAMPLING WORKSHEET

----------Detail Eliminated for Spacing Purposes----------

1. Determine the sample size using the table below:

Sample Sizes for Controls		
Control Frequency	**Control Occurrences**	**Sample Size**
Annual	**1**	1
Quarterly	**4**	2
Monthly	**12**	3-5*
Weekly	**52**	5-12*
Daily	**250**	25-40*

* - Sample size should be towards the high end of the range if planned level of risk management is Strong.

2. Select the sample (Note: this may be reflected on the actual testing spreadsheet). Sample items should be selected in a manner that gives each item in the population an equal chance to be selected:

3. Document the number of deviations from the testing of controls:

Explain the type of deviations found and explain the reasons for such deviations:

Dev. #1

Dev. #2

Dev. #3

4. Conclude on the final assessed level of risk management and the acceptability of test results. The examiner should first evaluate whether each control tested is designed appropriately to address the identified risk and is operating effectively based on the results of testing. When relying on multiple controls to address a single risk, document a single overall assessment regarding how the controls collectively address the risk. -In general, if any deviations are found that cannot be explained as isolated incidences, the examiner should consider the nature and severity of the deviations and whether the other controls sufficiently mitigate the identified risk when determining the final assessed level of risk management.~~final assessed level of risk management should be weak.~~ Also, discuss any other matters deemed relevant to the test of controls documented above:

Final Assessed Level of Risk Management:

----------Detail Eliminated for Spacing Purposes----------

V. Reinsurance Review

This section of the Handbook addresses the following subjects:

A. Evaluation of Risk Transfer
B. Credit for Reinsurance Guidelines
C. Reinsurance Balances Recoverable
D. Termination of Reinsurance Agreements

----------Detail Eliminated for Spacing Purposes----------

B. Credit for Reinsurance Guidelines

Note: In 2019, the NAIC adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). These revisions serve to extend the ability for U.S. ceding insurers to obtain credit for reinsurance ceded to reinsurers from Reciprocal Jurisdictions with no collateral requirements. If your state has adopted these revisions, you should refer to the model or your state's updated statute for the most current guidance regarding credit for reinsurance as it pertains to "Reciprocal Jurisdictions."

Subject to the laws of the various states, credit for reinsurance may be allowed to the ceding company when the reinsurance contract includes a proper insolvency clause and the specific criteria for the appropriate category have been adequately met:

1. Reinsurer is Licensed in the Ceding Company's Domiciliary State

   Reinsurers who meet this classification must have obtained their licensure status at the time the statutory financial statement credit for reinsurance is claimed or when financial statements indicating the credit have been filed by the ceding company. The reinsurer then must continue to maintain compliance with the licensure status at all times after the credit has been taken. The licensure requirement is considered to be perpetual and not periodic; therefore, appropriate information is required to be included in the company's financial statements when reinsurers do not comply with the requirements.

2. Assuming Insurer Has Obtained Reinsurer Accreditation

   An assuming insurer must have obtained reinsurance accreditation in the domiciliary state of the ceding company at the time the financial statement credit is claimed in order for the domestic insurer to receive a credit for reinsurance. In order to obtain the status of an accredited reinsurer, the assuming company must file a Form AR-1 (Certificate of Assuming Insurer), which grants specific authority to the ceding company's domiciliary insurance commissioner (Part Two of Exhibit N – Reinsurance Review), as well as documentation of licensure to transact insurance or reinsurance and annual statements with the domiciliary insurance commissioner. In addition, the assuming insurer must demonstrate to the satisfaction of the commissioner that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers. An assuming insurer is deemed to meet this requirement as of the time of its application if it maintains a surplus as regards policyholders in an amount not less than $20 million and its accreditation has not been denied by the commissioner within ninety (90) days after submission of its application. The insurance commissioner is entitled to suspend or revoke reinsurer accreditation if the above conditions are not preserved.

3. Reinsurer is Domiciled in Another State

The reinsurer must be domiciled (and licensed) in a substantially similar state that has adopted the NAIC *Credit for Reinsurance Model Law* (#785) or substantially similar law and, therefore, is subject to that state's credit for reinsurance standards at the time the financial statement credit for reinsurance is claimed. The reinsurer must also maintain a surplus of at least $20 million and file a Form AR-1 with the insurance commissioner.

4. Reinsurer Maintains Trust Funds

A credit for reinsurance ceded by domestic insurers is available to assuming insurers that maintain trust funds for a requisite amount in a qualified U.S. financial institution (actual amount is determined by the classification of the assuming insurer). The assuming insurer is required to annually report to the insurance commissioner for determination of the sufficiency of the trust fund. The classifications of assuming insurers are as follows:

a. Single Assuming Insurer – Trust funds must equal or exceed the assuming insurer's liabilities attributable to ceded reinsurance by U.S. domiciled insurers. In addition, the assuming insurer shall maintain trusteed surplus of at least $20 million. If the assuming insurer has permanently discontinued underwriting new business secured by the trust for at least three full years, the commissioner may authorize a reduced required trusteed surplus to an amount no lower than thirty percent (30%) of the assuming insurer's liabilities attributable to reinsurance ceded by the U.S. ceding insurers covered by the trust.

b. Incorporated and Unincorporated Group Underwriters – For reinsurance ceded under reinsurance agreements dated after January 1, 1992, trust funds must equal or exceed the group's liabilities for business ceded by U.S. domiciled ceding insurers. For reinsurance agreements dated before December 31, 1992, trust funds must at least equal the insurance and reinsurance liabilities attributable to business written in the United States. In addition to these trusts, the underwriters must maintain $100 million in surplus for the benefit of U.S.-domiciled ceding insurers. The incorporated members of the group are prohibited from engaging in auxiliary business, other than underwriting as a member of the group, and must be subject to the same regulation and control of the group as the unincorporated members. The group is also required to annually file either a certification of solvency for each underwriter member or independently prepared financial statements for each underwriter to the insurance commissioner.

A credit for reinsurance will not be granted for reinsurers who maintain trust funds, unless the insurance commissioner of the state where the trust is domiciled has approved the form of the trust. An insurance commissioner from another state may approve the trust if the commissioner has accepted responsibility for the regulatory oversight of the trust. The form of the trust is required to be filed with the insurance commissioner in every state the ceding insurer beneficiaries of the trust are domiciled.

5. Certified Reinsurers

An assuming reinsurer must have obtained certification by the commissioner of the domiciliary state of the ceding company at the time the financial statement credit is claimed in order for the domestic insurer to receive a credit for reinsurance. In order to obtain the status of certified reinsurer, the assuming reinsurer must be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction, as determined by the commissioner. The assuming reinsurer must also maintain a surplus level of no less than $250 million and maintain financial strength ratings from two or more acceptable rating agencies.

The allowable credit for reinsurance ceded by a domestic insurer to an assuming reinsurer that has been certified as a reinsurer in the domestic insurer's state is based upon the security held by, or on behalf of, the ceding insurer (e.g., amount of funds held, letter of credit, etc.). The amount of security required to be held (e.g., level of collateral required) corresponds to the rating assigned to the certified reinsurer by the commissioner, which is based on various factors including, but not limited to, the certified reinsurer's business practices, regulatory actions against the certified reinsurer, financial strength and the report of the independent auditor.

6. Reciprocal Jurisdiction Reinsurers

Credit for reinsurance ceded by domestic insurers is available to an assuming insurer that is licensed to write reinsurance by, and has its head office or is domiciled in, a Reciprocal Jurisdiction. For reinsurance with Reciprocal Jurisdiction reinsurers, there are no collateral requirements if the reinsurers have met the minimum standards in the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786). In order to be designated a Reciprocal Jurisdiction by the commissioner, a jurisdiction must meet one of the following requirements: 1) a non-U.S. jurisdiction that is subject to an in-force covered agreement with the U.S.; 2) a jurisdiction that meets the requirements for accreditation under the NAIC financial standards and accreditation program; or 3) a jurisdiction that has been designated by the commissioner as a qualified jurisdiction and meets any additional requirements specified by the regulation. The assuming insurer must also maintain a surplus level of no less than $250 million and a minimum risk-based capital (RBC) ratio of 300% or amounts established by Model #785 and Model #786.

7. Credit for Reinsurance is Required by Law

For those jurisdictions in which reinsurance is required by law, the domestic ceding insurers may take a credit for reinsurance, even though the assuming insurer does not meet the requirements set forth in the above sections. Examples of the assuming insurers for which credit may be allowed include state-owned or controlled insurance or reinsurance companies, guaranty organizations and residual required market mechanisms.

8. Assuming Insurer is Unauthorized and Not Included Within the Previous Categories

A credit for reinsurance may also be granted to the ceding company even when the assuming insurer does not meet any of the above credit-permitted categories. In these instances, if the ceding insurer holds funds or is exclusively entitled to funds held in a U.S. institution provided as security for reinsurance obligations, the ceding insurer is permitted to take a reduction of liability or record an asset. The reduction is not permitted to exceed the liabilities carried by the ceding insurer. The funds held may take the form of cash, qualifying admitted asset securities as indicated by the NAIC Securities Valuation Office, letters of credit, and any other security that has been approved by the insurance commissioner. In order for the letters of credit to be accepted, they must be clean, irrevocable, unconditional, and issued or confirmed by a qualified U.S. financial institution. In addition, they must have an "evergreen" clause that indicates the letter cannot expire without 30-day advance notice, clearly provides for continuous renewal (e.g., successive renewal periods), and provides notice on what laws the letter of credit is governed by (e.g., state law, Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce, or any other publication). An example letter of credit form is included in the Handbook as Part One of Exhibit N.

----------Detail Eliminated for Spacing Purposes----------

EXHIBIT N

REINSURANCE REVIEW

This exhibit includes items that may be useful to examiners while conducting a review of the reinsurance contracts and programs in place at an individual insurer. Part One of the exhibit provides an example letter of credit form that may be used by companies and referenced by examiners in determining whether letters held by the company are acceptable as a basis for receiving a credit for unauthorized reinsurance. Part Two provides a form that may be used by reinsurers applying for accredited or authorized status in states which they are not licensed. This form, entitled Form AR-1, may be submitted as evidence of a company's compliance with requirements to designate the Commissioner as agent for receipt of service of process and to recognize the Commissioner's authority to examine the company's books and records. Part Three of the exhibit provides a ceded reinsurance contract review form that may assist the examiner in determining whether required elements have been included in the contract and in determining whether the contract includes a valid transfer of risk. Each of the items included within this exhibit should be utilized in conjunction with guidance provided in Section 1, Part V- Reinsurance Review.

PART ONE – EXAMPLE LETTER OF CREDIT FORM

(Name of Bank)
(Address)

FOR INTERNAL IDENTIFICATION PURPOSE ONLY

Date_____ ID No._____ Issuing Bank No._____

Clean, Irrevocable, Unconditional Letter of Credit No.:_____

Account Holder (Reinsured):_____

Issuing Bank:_____

Beneficiary (Reinsured):_____

Amount:_____ Expiration Date:_____

Date_____

Clean, Irrevocable Unconditional Letter of Credit No.:_____

To Beneficiary: (Name)_____

(Address)_____

Dear Sir or Madam:

We have established this clean, irrevocable, and unconditional letter of credit in your favor for drawing up to U.S. $_____ effective immediately and expiring at our (bank address) with our close of business on _____. Except when the amount of this letter of credit is increased, this credit cannot be modified or revoked without your consent.

We hereby undertake to promptly honor your sight draft(s) drawn on us, indicating our credit No. _____, for all or any part of this credit upon presentation of your draft drawn on us at our offices prior to the expiration date hereof.

The term "Beneficiary" as used herein includes any successor by operation of law of the named Beneficiary including, without limitation, any liquidator, rehabilitator, receiver or conservator. *

Except as stated herein, this undertaking is not subject to any requirement or qualification. Our obligation under this letter of credit is the individual obligation of the Bank, in no way contingent upon reimbursement with respect thereto, or upon our ability to perfect any lien or security interest.

This letter of credit expires on _____ but will automatically extend without amendment for successive additional periods of one year each from the expiration date or any future expiration date, unless 30 days prior to such expiration date, we notify you by registered mail that this letter of credit will not be renewed.

This letter of credit is subject to the Uniform Customs and Practice for Documentary Credits International Chamber of Commerce publication No. 600 (UCP 600), or its successor, as well as the International Standby Practices Publication No. 590 (ISP98). Notwithstanding Article 17 of said publication (or its successor), in the event that one or more of the occurrences specified occurs, then the bank hereby

specifically agrees that this letter of credit shall be extended so as not to expire during such interruption of business and shall extend for 10 days after such resumption of business.

_____ _____

Signature Title

*If the named Beneficiary is a California domestic insurer, this paragraph should be deleted and replaced by: “The term Beneficiary as used herein includes and is limited to the court appointed domiciliary receiver, conservator, rehabilitator or liquidator.”

----------Detail Eliminated for Spacing Purposes----------

VI. Life Insurance Reserve Review

This section covers procedures and considerations that are important when conducting financial condition examinations of life insurance reserves. The discussion here is divided as follows:

A. Life Insurance Reserve Overview
B. Life Insurance Formula-~~-~~Based Valuation Methodology
C. Life Insurance Principle-Based Valuation Methodology
D. Annuity Reserve Overview
E. Annuity Formula-Based Valuation Methodology
~~C.~~F. Annuity Principle-Based Valuation Methodology
~~D.~~G. Actuarial Opinion and Asset Adequacy Analysis
~~E.~~H. Actuarial Oversight and Internal Controls
~~F.~~I. Long-Term Care Insurance (LTCI) Reserves Overview

A. Life Insurance Reserve Overview

Life insurance reserves represent the liability established by the insurance company to pay future policy benefits such as death benefits upon the death of the insured, endowment benefits upon the maturity of a life insurance policy and cash surrender benefits upon the surrender of the life insurance policy. Historically, the company liability to pay future policy benefits has been determined by calculating a reserve based on a formula valuation methodology as described below. Life insurance products have evolved over time and today, such products may be quite complex offering multiple benefits and/or options to the policyowner or the insured or both the policyowner and the insured within a single contract such as death benefits, accelerated death benefits, secondary guarantees such as no lapse guarantees, policy loans, retirement income benefits such as guaranteed lifetime income benefits and long-term care benefits. The value of some of these complex benefits depends upon the current and future market value of the underlying assets. Regulators have found it increasingly difficult to define or modify a formula-based valuation methodology to value all the options and/or benefits in a single contract. This complexity of current insurance products along with the fact that the value of certain benefits depends upon the current and future market value of underlying assets has led to the development of a principle-based valuation methodology which incorporates the value of both asset and liability cash flows. The principle-based valuation methodology is described below.

In order to implement the principle-based valuation methodology, amendments to the Standard Valuation Law were adopted in 2009 and a Valuation Manual was developed. The Valuation Manual which is referred to in the amended Standard Valuation Law provides reserve requirements for life, health, and annuity products issued on and after the manual's operative date. Requirements include all of the details of the methodology for determining a principle-based reserve (PBR) as well as any changes to the formula-based valuation methodology that occurs on and after the operative date of the Valuation Manual. The operative date of the Valuation Manual is January 1, 2017. Unless a change in the Valuation Manual specifies a later effective date, changes to the Valuation Manual shall be effective January 1 following the date when the change to the Valuation Manual has been adopted by the NAIC by an affirmative vote of at least three-fourths (3/4) of the members of the NAIC voting but not less than a majority of the total membership and such members voting in the affirmative represent jurisdictions totaling greater than 75% of the direct premiums written as reported in the most recent life, accident and health annual statements, health annual statements, or fraternal annual statements. No state legislative adoption is needed to effect changes to the Valuation Manual.

The Valuation Manual defines the insurance contracts that are subject to a principle-based valuation (Section II). Unless otherwise specified in Section II of the Valuation Manual, the principle-based valuation methodology will apply to life insurance contracts issued on or after the operative date of the Valuation Manual, however a company

may elect to defer the implementation of the principle-based valuation methodology to life insurance contracts issued during the first 3 years following the operative date of the Valuation Manual. Since elements of the Actuarial Method in Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model 830) (AG 48) are based on VM-20, Requirements for Principle-Based Reserves for Life Products, a company may "partially implement" the Valuation Manual during the deferral period even though for new business the company otherwise defers implementation.

AG 48 was adopted December 16, 2014 with an effective date of January 1, 2015 and refers to the Actuarial Method which is also a principle based methodology that companies may use in evaluating level of primary assets held by captive insurers in support of reserves. If regulators determine that the insurer under examination has business subject to AG 48, they may also consider the involvement of a credentialed actuary and may apply the concepts discussed in evaluating PBR. Similar considerations apply if a state has adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787), which supersedes AG 48 and applies a principle-based methodology to those policies that AG 48 would have otherwise applied to.

A Valuation Analysis Working Group (VAWG) consisting of regulators with expertise in actuarial, financial analysis and examination experience reports to the Financial Condition (E) Committee and supports the states in the review of PBR to ensure consistent implementation and application of the methodology. VAWG will also suggest necessary changes to the Valuation Manual to enhance clarification and interpretation of application of the principle-based valuation methodology.

In addition, NAIC actuarial staff is available to provide expertise in modeling insurance cash flows to assist individual states and VAWG in conducting analyses and examinations to verify the PBR and exclusion test calculations performed by the company.

Due to the complexities of life insurance products, the involvement of a credentialed actuary is required on all examinations of life and health insurers with a substantial amount of interest-sensitive business or with a substantial amount of PBR calculations or subject to PBR exclusion tests See Section 1, Part III, E. Using the Work of a Specialist for further reference.

B. Life Insurance Formula--Based Valuation Methodology

Theoretically, the formula-based reserves represent the present value of future guaranteed benefits reduced by the present value of expected future net premiums. The insurance policy is a unilateral contract whereby the insured can cancel the agreement to pay premiums at any time. However, the insurer is "locked in" regardless of future experience and cannot forfeit on its guarantees as long as the premiums are paid. Life reserves are required in order to ensure that commitments made to policyholders and their beneficiaries will be met, even though the obligations may not be due for many years. Since the primary purpose of life reserves is to pay claims when they become due, life reserves must be adequate, and the funds must be safely invested.

The Valuation Manual prescribes the minimum standards to be used in determining the formula-based reserves as applicable in addition to PBR as discussed elsewhere in this document. Currently for most formula-based reserves, the manual refers to requirements in the NAIC *Accounting Practices and Procedures Manual* (AP&P Manual). Insurers may establish life reserves, which equal or exceed these minimum standards. These minimum life reserve standards specify a: 1) valuation mortality table; 2) maximum valuation rate of interest; and 3) valuation method. The valuation method used to define minimum life reserves for statutory accounting purposes is referred to as the Commissioners Reserve Valuation Method (CRVM). The mortality assumptions are higher than what the insurer can expect to realize from medically underwritten insurance policies. The interest rate assumptions are intended to be significantly lower than current money and capital market yields. Thus, the life reserves developed are generally conservative.

There are three general valuation methods under a formula-based valuation methodology used to value life reserves. The net level premium method does not provide for a first-year acquisition cost allowance in determining life reserves. Therefore, this method results in the most conservative, or highest, life reserve valuation of the three methods. The full preliminary term method does provide a first-year expense allowance and then assumes that the remaining premium stream is used to cover policy benefits. The Commissioners Reserve Valuation Method (CRVM) is a form of the full preliminary method. This method allows for a lower life reserve valuation than the net level premium method in the earlier years of the policy term. The modified preliminary term method is a variation of the two methods described above and results in a reserve valuation between the net level premium and preliminary term methods.

As described below, the type of life insurance policy dictates the amount of the life reserve that must be established and the duration for maintaining the reserve. In addition, special situations arise which require unique reserving techniques. The following summarizes the major types of life insurance policies, and the related reserving implications under a formula-based valuation methodology:

1. Ordinary Life Reserves

   Under a whole life plan of insurance, the insurer is obligated to maintain a reserve until the death of the insured. Term life insurance provides coverage only for the period that is specified in the policy. Under a term insurance plan, the insurer must maintain a reserve, which reduces to zero upon expiration of the term period. Similar to term insurance, endowment life insurance provides coverage for a period specified in the policies. Unlike term insurance, the proceeds of endowment insurance are payable if the insured lives to the end of the period. Policies which permit flexible premium payments, are referred to as “universal life” policies and those with fixed premiums are referred to as “interest sensitive” policies. Universal life policies are accumulation type policies where the current account value is determined based upon the accumulation of premiums less mortality charges and expense charges, plus a current interest rate credit. The account value less surrender charges is the cash value. Because of the unique features of universal life and interest sensitive types of policies, unique reserving requirements are specified for them in Appendix A-585, Universal Life Insurance, of the AP&P Manual. The minimum standard for universal life reserves considers guarantees within the policy at the time of issue, present value of future guaranteed benefits, account value and cash value.

2. Group Life Reserves

   Most group life insurance is monthly renewable term insurance. For these policies, gross premiums are typically recalculated periodically, most often annually, using the age and sex census of the group along with experience adjustments. Therefore, the reserve is usually calculated as the unearned premiums or a percentage thereof to estimate the claim exposure. However, some group life insurance policies provide permanent or longer term benefits analogous to individual coverages. In these cases, the reserving methods are similar to those employed for individual insurance, using appropriate mortality tables. Appendix A-820 does not specify a mortality table for group life insurance but leaves that to the discretion and approval of the domiciliary state.

3. Industrial Life Reserves

   Industrial life insurance is unique in that it involves higher unit premiums, smaller face amount policies and higher mortality expectations. The minimum standards for reserves are the same as the traditional life insurance except that a unique mortality table is used.

4. Credit Life Reserves

Credit life insurance policies are designed to discharge a debt upon the debtor's death. They are usually funded as a single premium. Reserve requirements vary among the states. Key considerations include claims reserves and policy reserves based on a state-specified combination of mortality reserves, unearned premium reserves, and potential refunds. Credit Life and Disability Reserves are addressed in Valuation Manual (VM)-26.

5. Life Reserves Relating to Riders

Life insurance policies frequently include riders for additional benefits such as accidental death and disability and waiver of premium upon disability. The minimum valuation standards for reserves are the same as for the base life insurance except that specialized mortality and disability tables are used, and the net level premium valuation method is required. Detailed guidance for requirements for life reserves relating to riders is found in Section II of the *Valuation Manual*.

6. Miscellaneous Life Reserves

There are various other special situations involving life reserves. First, a deficiency reserve may be required in situations where the actual policy gross premium is less than the valuation net level premium. This situation occurs when pricing assumptions are used that are different from the minimum reserve valuation standards. This does not necessarily indicate that the policy is being sold at a loss by the insurer, but rather is a reflection of the highly conservative nature of the minimum reserve valuation standards. Second, there may be unusual situations where the cash surrender value of a life insurance policy is greater than the minimum reserve standard. In these situations, life reserves must be increased by the amount of this excess.

7. Minimum Aggregate Reserves

In the aggregate, policy reserves for all life insurance policies valued under a formula-based valuation methodology that are reported in the statutory financial statements must equal or exceed reserves calculated by using the assumption and methods that produce the minimum formula standard valuation.

C. Life Insurance Principle-Based Valuation Methodology

In general, under a principle-based valuation methodology, all of the liability cash flows emanating from the contract benefits provided in the product are determined for each period and compared with all of the asset cash flows for each period determined from the assets the insurance company has purchased or plans to purchase or sell to fund the liability cash flows. The resulting differences between the asset and liability cash flows for each period are valued under a range of likely or plausible economic scenarios.

The principle-based valuation methodology developed for life insurance contracts defines 3 components of a principle- based reserve: 1) a net premium reserve (NPR); 2) a deterministic reserve (DR); and 3) a stochastic reserve (SR). The level of risk embedded in a life insurance contract will determine whether the PBR will consist of all 3 reserve components (NPR, DR, SR), or only 2 reserve components (NPR, DR); or only 1 reserve component (NPR). The principle-based valuation methodology defines a stochastic exclusion test and a deterministic exclusion test each of which are designed to measure the level of risk embedded in a life insurance contract. Life insurance contracts that pass an exclusion test are then exempt from the calculation of the associated PBR component. For example, all life insurance contracts that pass the stochastic exclusion test but fail the deterministic exclusion test, must calculate the NPR and DR components. Life insurance contracts that pass both the stochastic and deterministic exclusion tests need only calculate the NPR component. For groups of policies other than variable life or universal life with a secondary guarantee, a company may provide a certification by a qualified actuary that the group of policies is not subject to material interest rate risk or asset return volatility risk in lieu of performing the stochastic exclusion ratio test or stochastic exclusion demonstration test. In addition, a company is not required to compute stochastic reserves and deterministic reserves on any of its ordinary life policies if it meets the conditions

of Section II of the *Valuation Manual* under the requirements referred to as the "Life PBR Exemption." If the domestic commissioner does not reject a company's application for the Life PBR Exemption pursuant to Section II of the *Valuation Manual*, then the company will compute reserves for its ordinary life policies per applicable requirements provided in VM-A, Appendix A – Requirements, and VM-C, Appendix C – Actuarial Guidelines, of the *Valuation Manual*. Note that the domestic commissioner may apply the PBR requirements of VM-20 to only a portion of the ordinary life policies that are requested for exemption under the Life PBR Exemption.

The stochastic reserve under a principle-based valuation methodology is determined as a function of the discounted value of the differences between the asset and liability cash flows for each period over the range of economic scenarios. Economic scenarios may consist of interest rates or market returns or both depending on the nature of the asset and liability cash flows. A single economic scenario represents multiple consecutive periods (such as 30 or 40 years) of movements in the underlying interest rate or market rate returns. The length of the scenario period is determined by the length of the liabilities being valued. The economic scenarios are stochastically (randomly) generated using a prescribed ~~Economic Scenario Generator (ESG)~~Generator of Economic Scenarios (GOES). The prescribed ~~ESG~~ GOES can be found on the ~~Society of Actuaries~~Conning's website. The objective is to determine if there is a reasonable likelihood that assets are insufficient to cover the obligations of the company, and by what amount they may be insufficient. Under economic scenarios where assets are insufficient, the principle-based methodology determines all the amounts of the insufficiencies and discounts them back to the valuation date. The largest discounted value is known as the Greatest Present Value of Accumulated Deficiencies, or "GPVAD", for that scenario. The stochastic reserves may be set at a CTE(70) level (conditional tail expectation at the 70% level). The function CTE(70) means the average of the 30% (100%-70%) worst (largest) GPVADs. So for example if a company randomly generates 1,000 economic scenarios, it would then determine the largest accumulated amount of deficiency for each of the 1,000 scenarios. The CTE(70) stochastic reserve level would be determined by taking the average of the 300 [1,000 x (100% - 70%)] worst GPVADs out of the 1,000 scenarios.

Note that some states incorporated a "companywide exemption" in the Standard Valuation Law that may override Section 2 of VM-20. In such cases the state's Standard Valuation Law will determine whether a company is not subject to computing the stochastic and deterministic reserves. Note also, the commissioner may exempt specific product forms or product lines of a domestic company that is licensed and doing business only in a single state as defined in Section 15 of the amended NAIC Model Standard Valuation Law.

As part of the calculation process, the principle-based valuation methodology allows companies to aggregate or group policies with similar risk characteristics. For example, all term policies that provide only a death benefit and do not provide any cash surrender values may be grouped together by underwriting class. The exclusion tests are then applied on a group or aggregated basis and not a contract by contract basis. Also, the DR and the SR are calculated on the aggregated or group basis. However, the SR must be performed using aggregation subgroups that do not intermingle multiple product groups (Term, ULSG, Other). The NPR component is a fully prescribed formula-based reserve and must be applied on a contract by contract basis.

The annual statement blank contains a VM-20 Supplement. This supplement breaks out the PBR into its various components of NPR, DR and SR. Regulators may request the assistance of NAIC modeling staff and or VAWG in verifying exclusion testing as well as various components of the PBR on a smaller sample set of company contracts.

D. Annuity Reserve Overview

Annuity reserves represent the liability established by the insurance company to pay future contractual obligations to annuity contractholders, such as future benefit payments under deferred or immediate annuity contracts, surrender values upon the surrender of the contract, guaranteed minimum benefits (e.g., guaranteed minimum death, income, withdrawal, or accumulation benefits) and policyholder dividends, net of expected future considerations. Historically, the company liability to pay future annuity benefits has been determined by calculating a reserve based on a formula valuation methodology. Annuity products have evolved over time and

today, such products may be quite complex, offering multiple benefits and/or options to the contractholder within a single contract such as guaranteed lifetime income benefits, guaranteed withdrawal benefits, and indexed crediting features tied to equity or other market indices. The value of many of these complex benefits depends upon the current and future market value of the underlying assets, the level of interest rates, equity market performance and contractholder behavior. Regulators have found it increasingly difficult to define or modify a formula-based valuation methodology to value all the options and/or benefits in a single annuity contract.

The annuity contract is a unilateral contract whereby the contractholder can cancel the agreement (subject to applicable surrender charges or other contractual provisions) at any time. However, the insurer is "locked in" regardless of future experience and cannot forfeit on its guarantees as long as the contract remains in force. Annuity reserves are required in order to ensure that commitments made to contractholders and their beneficiaries will be met, even though the obligations may not be due for many years and, for certain products, may extend over the remaining lifetime of the annuitant. Since the primary purpose of annuity reserves is to pay benefits when they become due, annuity reserves must be adequate, and the funds must be safely invested in assets whose cash flow characteristics support the underlying liability obligations.

The Valuation Manual prescribes the minimum standards to be used in determining the formula-based reserves as applicable. Insurers may establish annuity reserves which equal or exceed these minimum standards. These minimum annuity reserve standards specify a: 1) valuation mortality table; 2) maximum valuation rate of interest; and 3) valuation method. The valuation method used to define minimum annuity reserves for statutory accounting purposes under a formula-based methodology is principally referred to as the Commissioners Annuity Reserve Valuation Method (CARVM). The mortality assumptions used in the prescribed tables are intended to be conservative relative to expected experience, and the valuation interest rate assumptions are intended to be significantly lower than current money and capital market yields. Thus, the annuity reserves developed under a formula-based valuation methodology are generally conservative.

CARVM establishes minimum reserves as the greatest of the present values of the future guaranteed benefits available to the contractholder under each elective benefit pattern, valued using the prescribed valuation interest rate and mortality basis. This approach is intended to recognize the optionality embedded in many annuity contracts (e.g., the contractholder's ability to surrender, annuitize, or elect a guaranteed living benefit). Formula-based annuity reserve requirements are further supplemented by Actuarial Guidelines that provide additional clarification and methodology for specific product types and benefit features.

For certain in-scope variable annuity contracts (under VM-21) and non-variable annuity contracts (under VM-22), the Valuation Manual extends the reserving framework beyond the formula-based methodology to a principle-based valuation methodology that incorporates stochastic and deterministic projections of liability cash flows under prescribed economic scenarios. During the transition period for VM-22, both formula-based and principle-based methodologies may apply to different blocks of an insurer's non-variable annuity business depending on the insurer's transition election and the date of contract issue. Examiners should determine the methodology applicable to each material block of annuity business and tailor the examination procedures accordingly.

Because the calculation, validation and review of annuity reserves require specialized actuarial expertise, examiners should consider engaging a credentialed actuary on examinations of insurers with a substantial amount of annuity business, particularly where principle-based valuation methodologies apply. See Section 1, Part III, E. Using the Work of a Specialist for further reference.

E. Annuity Formula-Based Valuation Methodology

Under a formula-based valuation methodology, annuity reserves are determined using prescribed valuation interest rates, prescribed mortality tables, and prescribed methods set forth in the Standard Valuation Law (SVL) and referenced in the Valuation Manual. The principal formula-based method for annuity reserves is the Commissioners Annuity Reserve Valuation Method (CARVM), which establishes the minimum reserve as the

greatest of the present values of the future guaranteed benefits available to the contractholder under each elective benefit pattern, valued using the prescribed valuation interest rate and mortality basis.

The Valuation Manual section currently codified as VM-V (formerly designated VM-22, redesignated coincident with the adoption of the principle-based VM-22) establishes prescribed valuation interest rates and methodology for certain non-variable immediate annuities and similar contracts that remain subject to formula-based valuation.

F. Annuity Principle-Based Valuation Methodology

In general, the principle-based valuation methodology applied to annuity contracts shares the same conceptual foundation as the methodology described in the subsection for life insurance. All of the liability cash flows emanating from the contract benefits provided in the product are determined for each period and compared with all of the asset cash flows for each period determined from the assets the insurance company has purchased or plans to purchase or sell to fund the liability cash flows. The resulting differences between the asset and liability cash flows for each period are valued under a range of likely or plausible economic scenarios.

The Valuation Manual establishes two parallel principle-based frameworks for annuity contracts: VM-21, applicable to variable annuities and similar contracts containing guaranteed benefits, and VM-22, applicable to non-variable annuities. The two frameworks differ in scope, reserve components and applicability of exclusion testing, but share the same stochastic projection mechanics and use of the prescribed economic scenarios.

VM-21 — Variable Annuities

VM-21 became effective January 1, 2020 and applies to variable annuity contracts (with or without guaranteed minimum death benefits (GMDB) or variable annuity guaranteed living benefits (VAGLB)), any group annuity contracts containing guarantees similar in nature to GMDBs or VAGLBs, and other contracts containing guarantees similar in nature to GMDBs or VAGLBs. The principle-based valuation methodology developed for variable annuity contracts defines two components of a principle-based reserve: 1) a Stochastic Reserve (SR); and 2) an Additional Standard Projection Amount (ASPA). The VM-21 reserve is determined as the sum of the SR and the ASPA. The ASPA is computed using prescribed (rather than prudent estimate) assumptions for policyholder behavior, mortality and other key drivers and is intended to constrain the impact of company-specific assumption setting on the reserve outcome. Where the insurer's hedging program meets the requirements of a Clearly Defined Hedging Strategy (CDHS), the impact of the hedging program may be reflected in the projection in accordance with VM-21.

The stochastic reserve under VM-21 is determined as a function of the discounted value of the differences between the asset and liability cash flows for each period over the range of economic scenarios. Economic scenarios may consist of interest rates or market returns or both depending on the nature of the asset and liability cash flows. A single economic scenario represents multiple consecutive periods of movements in the underlying interest rate or market rate returns; the length of the scenario period is determined by the length of the liabilities being valued. The economic scenarios are stochastically (randomly) generated using the prescribed Generator of Economic Scenarios (GOES). The prescribed GOES can be found on Conning's website. The objective is to determine if there is a reasonable likelihood that assets are insufficient to cover the obligations of the company, and by what amount they may be insufficient. Under economic scenarios where assets are insufficient, the principle-based methodology determines all the amounts of the insufficiencies and discounts them back to the valuation date. The largest discounted value is known as the Greatest Present Value of Accumulated Deficiencies, or "GPVAD," for that scenario. The stochastic reserve under VM-21 is set at a CTE(70) level (conditional tail expectation at the 70% level). The function CTE(70) means the average of the 30% (100%-70%) worst (largest) GPVADs. So, for example, if a company randomly generates 1,000 economic scenarios, it would then determine the largest accumulated amount of deficiency for each of the 1,000 scenarios. The CTE(70) stochastic reserve level

would be determined by taking the average of the 300 [1,000 x (100% - 70%)] worst GPVADs out of the 1,000 scenarios.

The VM-21 reserve is calculated on an aggregated basis for all contracts subject to VM-21 and is then allocated to contracts using prescribed methods. Aggregation is permitted across variable annuity contracts with similar risk characteristics within the constraints set out in the Valuation Manual.

VM-22 — Non-Variable Annuities

VM-22 has an optional effective date of January 1, 2026, and a mandatory effective date of January 1, 2029. During the transition period, an insurer may elect to apply VM-22 to in-scope non-variable annuity contracts, subject to the Valuation Manual's transition provisions. Once elected for a category of business, VM-22 generally applies to all subsequent issues within that category. VM-22 replaces the formula-based CARVM methodology for in-scope contracts. The prior VM-22 (interest rate requirements for certain immediate annuities) has been redesignated as VM-V and continues to apply under the formula-based framework. The principle-based valuation methodology developed for non-variable annuity contracts defines 2 principal components of a principle-based reserve: 1) a Deterministic Reserve (DR); and 2) a Stochastic Reserve (SR). The level of risk embedded in a non-variable annuity contract will determine whether the PBR will consist of both reserve components (DR and SR) or only the DR component. VM-22 defines a Stochastic Exclusion Test (SET) that is designed to measure the level of risk embedded in the contract; blocks of business that pass the SET are exempt from the calculation of the SR. VM-22 also defines a Single Scenario Test (SST), a test that may be applied to blocks of business where contractholder behavior is not materially influenced by economic conditions. A group of contracts that passes the SST may be valued using only the DR, without computing the SR.

The stochastic reserve under VM-22 follows the same general framework as VM-21. Economic scenarios are stochastically (randomly) generated using the prescribed Generator of Economic Scenarios (GOES), and the GPVAD is determined for each scenario. The stochastic reserve under VM-22 is set at a CTE 70 (conditional tail expectation) determined by averaging the worst GPVADs across the generated scenarios. VM-22 also incorporates reinvestment guardrails to constrain assumed reinvestment yields under stochastic scenarios so that the projected reinvestment behavior remains within prescribed bounds.

As part of the calculation process, VM-22 allows companies to aggregate or group contracts with similar risk characteristics. For example, all fixed deferred annuities with similar crediting features and guaranteed minimum values may be grouped together. The SET is then applied on a group or aggregated basis and not a contract by contract basis, and the DR and SR are likewise calculated on the aggregated or group basis. Aggregation is permitted across payout and accumulation product categories within prescribed boundaries; however, aggregation decisions can materially affect the reserve outcome and should be reviewed for reasonableness and consistency with the insurer's risk management framework.

The annual statement blank includes supplements for VM-21 and VM-22 that break out the principle-based reserve into its components. Regulators may request the assistance of NAIC modeling staff and/or the Valuation Analysis (E) Working Group in verifying exclusion testing as well as various components of the PBR on a smaller sample set of company contracts.

~~D.~~G. Actuarial Opinion and Asset Adequacy Analysis

Due to the complexity in determining life reserves, insurers must rely on actuaries to assist with valuation of these reserves. Insurers are required to annually obtain an opinion regarding the reasonableness of the reserves by a qualified actuary who is appointed by the company. The actuarial opinion requirements are provided in VM-30, Actuarial Opinion and Memorandum Requirements, of the *Valuation Manual*. These requirements also include requirements for asset adequacy analysis. As a result of the asset adequacy analysis conducted by the appointed

actuary, the actuary may conclude that the insurer's assets are not adequate to cover future liabilities as valued by the calculated reserves. When this occurs, reserves must be increased by the estimated deficiency resulting from asset adequacy testing.

Actuarial Guideline 53

Beginning with annual 2022, certain insurers will be required to document support for asset adequacy analysis for high-yielding complex assets pursuant to Actuarial Guideline LIII – Application of the Valuation Manual for Testing of Adequacy of Life Insurer Reserves (AG-53).

As noted in AG-53, "regulators have observed a lack of uniform practice in the implementation of asset adequacy analysis. The variety of practice in incorporating the risk of complex assets into testing does not provide regulators comfort as to reserve adequacy. Examples of complex assets are structured securities, including asset-backed securities and collateralized loan obligations, as well as assets originated by the company or an affiliated or contracted entity. An initial increase in this activity has been noted in support of general account annuity blocks; however, recent activity was noted in other life insurer blocks. AG-53 is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers."

This Guideline applies to a limited scope of life insurers, specifically those with:

A. Over $5 billion of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets; or,

B. Over $100 million of general account actuarial reserves (from Exhibits 5, 6, 7, and 8 of the Annual Statement) and non-unitized separate account assets and over 5% of supporting assets (selected for asset adequacy analysis) in the category of Projected High Net Yield Assets, as defined in Section 3.F. of the AG-53.

The NAIC Life Actuarial (A) Task Force has developed a template for reporting of AG-53 documentation. The templates include reporting by asset classes, affiliated vs. non-affiliated, and initial assets vs. reinvestment assets. The template along with a narrative are submitted for the filing.
The NAIC Valuation Analysis Working Group (VAWG) conduct reviews of AG-53 filings and can serve as a resource for state insurance departments for their own AG-53 reviews.

Actuarial Guideline 55

Beginning with annual 2025, certain insurers will be required to document support for asset adequacy analysis for the assets that support reinsurance transactions exceeding certain amount of reserve credit plus modified coinsurance reserves pursuant to *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG-55). The goal of AG-55 is to enhance reserve adequacy requirements for life insurance companies by requiring that asset adequacy analysis use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.

As stated in AG55, the reporting provides information for the analyst "to better understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, there is risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate releases of reserves that prejudice the interests of their policyholders. The goal of this Guideline is to enhance reserve adequacy requirements for life insurance companies by requiring that asset adequacy analysis use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business."

This Guideline applies to all life insurers with asset intensive reinsurance transactions exceeding certain amount of reserve credit plus modified coinsurance reserves (see AG 55 for specific scope limits).
The AG 55 documentation, sensitivity test results, and attribution analysis referenced within AG 55 are to be incorporated as a separate, easily identifiable section of the actuarial memorandum required by VM-30 or as a standalone document, with a due date of April 1 following the applicable valuation date. Similar memorandum may also be allowed under certain circumstances.

The NAIC Valuation Analysis Working Group (VAWG) conduct reviews of AG-55 asset adequacy analysis filings, on a targeted basis, and coordinating with states as appropriate. VAWG will serve as a resource for state insurance departments for their own AG-55 reviews as well as providing periodic reports identifying outliers and concerns regarding the analysis to help inform regulators about the effectiveness of this Guideline in meeting the objectives.

~~E.~~H. Actuarial Oversight and Internal Controls

Appendix G of the Valuation Manual provides guidance that while not expanding the existing legal duties of a company's board of directors, senior management, and appointed actuary and/or qualified actuaries, provides guidance that focuses on their roles in the context of PBR. Some of the duties and expectations for the board of directors and senior management are provided below. If an actuarial specialist is involved in an examination, Appendix G includes additional requirements that should be considered during the review of the company's actuarial oversight and associated internal controls.

1. The Board of Directors should:

    a. Receive and reviews reports, including the certification of the effectiveness of internal controls with respect to the principle-based calculation, as provided in Section 12.B.(2) of the Standard Valuation Law.
    b. Understand the process undertaken by senior management to correct any material weaknesses in the internal controls with respect to a PBR valuation, if any is identified.
    c. Understand the infrastructure (consisting of policies, procedures, controls, and resources) in place to implement and oversee PBR processes.
    d. Ensure the proper documentation of review and action undertaken by the board relating to the PBR function in the minutes of all of the board meetings where such function is discussed.

2. Senior Management should:

    a. Ensure that an adequate infrastructure (consisting of the risk tolerances, policies, procedures, controls, risk management strategies and resources) has been established to implement the PBR function.
    b. Review for reasonableness the PBR elements (consisting of the assumptions, methods and models used to determine PBR of the insurer company or group of insurance companies) that have been put in place.
    c. Review the PBR results for consistency with established risk tolerances of the insurance company or group of insurance companies in relation to the risks of the products of the insurance company or group of insurance companies offers, the various strategies used to mitigate such risks, and its emerging experience, in order to understand the general level of conservatism incorporated into PBR.
    d. Review and address any significant and/or unusual findings in light of the results of the PBR valuation processes and applicable sensitivity tests of the insurance company or group of insurance-companies.

As examiners perform both the Corporate Governance assessment and the examination interviews, the topics above should be considered to ensure that the companies with transactions governed by PBR are adequately implementing the relevant portions of the Valuation Manual.

Additional procedures regarding the examiners' assessment of the insurer's PBR related risks, controls, and possible test procedures can be located in Section 3 Reserves/Claims Handling (Life) repository.

~~F.~~I. Long-Term Care Insurance (LTCI) Reserves Overview

Per the *Long-Term Care Insurance Model Act* (#640), "'[l]ong-term care insurance' means any insurance policy or rider advertised, marketed, offered or designed to provide coverage for not less than twelve (12) consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis; for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance or personal care services, provided in a setting other than an acute care unit of a hospital." Historically, insurers that wrote LTCI encountered difficulties accurately projecting claims costs, lapse rates, investment returns, and other factors associated with LTCI; subsequently, many writers have experienced unprofitability in older (legacy) blocks of LTCI business. This has led many companies to request significant rate increases, offer policyholders the option of modifying product benefits, or exit the product line altogether.

As many insurers continue to experience significant solvency challenges related to this line of business, state insurance regulators should continue to carefully evaluate and monitor the solvency position of all insurers with a material amount of LTCI business. As some insurers look for avenues to minimize or eliminate its risk from the LTCI block, they may look to new reinsurance opportunities and non-traditional buyers.

These same risks also affect reinsurers because the reinsurance contract may not arbitrarily allow for ceded premium increases. Additionally, in order to effectuate a true transfer of risk, the reinsurer may not have the ability to require the direct writer to request rate increases. The *Life and Health Reinsurance Agreements Model Regulation* (#791) provides additional guidance with respect to qualifying for risk transfer and reinsurance accounting within life and health reinsurance agreements.

In addition, periods of economic downturn and low interest rates increase the risk that LTCI writers will be challenged to generate sufficient returns to support this line. Declines in projected investment returns could also have a significant impact on LTCI reserve assumptions.

1. *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51)

   Effective for reserves reported with the Dec. 31, 2017, financial statement, AG 51 now applies. The *Health Insurance Reserves Model Regulation* (#10) and VM-25, Health Insurance Reserves Minimum Reserve Requirements, contain requirements for the calculation of LTCI reserves. AG 51 is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTCI block of contracts. AG 51 requires reporting to the department within the appointed actuary's actuarial memorandum required by VM-30 or in a special actuarial memorandum containing LTCI-specific information on the results of the analysis, assumptions on mortality, voluntary lapse, morbidity, investment returns, and rate increase assumptions.

2. Reserve Increase Factors

   a. Background

----------Detail Eliminated for Spacing Purposes----------

XI. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT

This section of the Handbook provides general guidance for use in reviewing, assessing, and utilizing the results of an insurer's confidential Own Risk and Solvency Assessment (ORSA) in conducting risk-focused examinations. Therefore, this guidance may be used in support of the risk management assessments outlined in other sections of the Handbook (e.g., Phase 1, Part Two: Understanding the Corporate Governance Structure, Exhibit M – Understanding the Corporate Governance Structure) at the discretion of Lead State examiners.

A. Background Information
B. General Summary of Guidance for Each Section
C. Review of Background Information
D. Review of Section I – Description of the Insurer's Risk Management Framework
E. Review of Section II – Insurer's Assessment of Risk Exposure
F. Review of Section III – Group Assessment of Risk Capital
G. ORSA Review Documentation
H. Utilization of ORSA Results in the Remaining Phases of the Examination

----------Detail Eliminated for Spacing Purposes----------

F. Review of Section III – Group Assessment of Risk Capital

The focus of financial analysis in reviewing Section III will be to understand the insurer's assessment of the risk capital of the entire group to withstand potential unexpected losses and detrimental events, as well as the prospective outlook of the insurer's solvency position. The focus of the Lead State examiner in reviewing Section III should be on understanding the process the insurer used to determine its capital needs. To perform this review, the Lead State examiner may need to request additional detail supporting the group capital calculations that the insurer performed.

----------Detail Eliminated for Spacing Purposes----------

External Capital Models

Many insurers utilize the output of external models (e.g., cat models, ~~economic scenario generators~~Generator of Economic Scenarios [GOES~~ESGs~~]) as an input into their internally developed capital models. These models are typically developed by third-party vendors and made available to the insurer through either a licensing or outsourced service agreement. In other instances, the insurer may use an external capital model developed for rating agency or regulatory purposes to assist in quantifying its own capital needs.

If an insurer bases its group capital assessment on third-party vendor tools, rating agency capital calculations or regulatory capital requirements, the Lead State examiner should consider what validation efforts have been conducted to allow reliance to be placed on external models. In addition, the Lead State examiner should consider whether the insurer applies a reasonable range of stress scenarios to the outputs of these models under a wide range of different scenarios.

Prospective Solvency Assessment

The ORSA Guidance Manual requires the insurer to consider the prospective solvency of the group. Many companies will include information developed as part of their strategic planning, including pro forma financial information displaying possible outcomes as well as projected capital adequacy in those future periods based on the insurer's defined capital adequacy standard. However, the Lead State examiner should review the information provided to understand the impact such an exercise has on the ongoing business plans of the group. For example, to the extent such an exercise suggests that at the insurer's particular capital adequacy under expected outcomes, the group

----------Detail Eliminated for Spacing Purposes----------

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Eli Snowbarger (OK) and John Litweiler (WI), Co-Chairs, Financial Examiners Handbook (E) Technical Group

FROM: Greg Chew (VA), Chair, Financial Analysis (E) Working Group

DATE: May 12, 2026

RE: Enhanced Financial Examination Guidance for Assessing Private Asset Exposures

The Financial Analysis (E) Working Group (FAWG) meets periodically to discuss, among other things, potentially troubled insurers and insurance groups. During these meetings, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following issue to your group.

In reviewing 12/31/25 industry results, FAWG members continued to note an ongoing increase in the amount of private assets held by U.S. domestic insurers, including securities with NAIC designations supported by private letter ratings and securities that are valued based on Level 3 (unobservable) inputs. As the potential lack of transparency related to private assets can complicate the assessment of credit quality and reduce the liquidity of the portfolio, FAWG recommends consideration of enhancements to NAIC financial examination guidance to assist financial regulators in identifying, assessing, and testing an insurer's risks and controls in these areas. In so doing, we recommend the development of additional exam considerations related to an insurer's governance and risk management processes related to investment strategies and oversight in this area.

Thank you for your consideration of this referral. Please note that a similar referral has been sent to the Financial Analysis Solvency Tools (E) Working Group (FASTWG) related to the development of analysis tools and risk assessment guidance in this area. We encourage monitoring the efforts of FASTWG in this regard and coordinating to the extent deemed appropriate.

If there are any questions regarding the issues discussed, please contact me or NAIC staff (Bruce Jenson at bjenson@naic.org) for clarification.

EXAMINATION REPOSITORY – INVESTMENTS

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Bonds
Stocks (Preferred and Common)
Mortgage Loans on Real Estate
Cash, Cash Equivalents and Short-Term Investments
Derivatives
Other Invested Assets
Securities Lending – Reinvested Collateral Assets

Other Annual Statement line items related to investments, whose risks are less common, have not been included in this examination repository. They include the following:

Real Estate
Aggregate Write-Ins for Invested Assets
Contract Loans
Receivables for Securities
Payable for Securities
Investment Income Due and Accrued *(P&C Companies)*
Drafts Outstanding
Unearned Investment Income *(Life Companies)*
Liability for Deposit-Type Contracts *(Life Companies)*
Miscellaneous Liabilities – Asset Valuation Reserve
Contract Liabilities Not Included Elsewhere – Interest Maintenance Reserve
Contract Liabilities Not Included Elsewhere – Surrender Values on Cancelled Contracts *(Life Companies)*

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the investment process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 2 — Cash, Cash Equivalents, Drafts, and Short-Term Investments
No. 7 — Asset Valuation Reserve and Interest Maintenance Reserve
No. 21 — Other Admitted Assets
No. 23 — Foreign Currency Transactions and Translations
No. 26 — Bonds
No. 30 — Unaffiliated Common Stock
No. 32 — Preferred Stock
No. 34 — Investment Income Due and Accrued
No. 37 — Mortgage Loans
No. 38 — Acquisition, Development and Construction Arrangements
No. 39 — Reverse Mortgages
No. 40 — Real Estate Investments
No. 41 — Surplus Notes
No. 43 — Asset-Backed Securities
No. 44 — Capitalization of Interest
No. 48 — Joint Ventures, Partnerships and Limited Liability Companies
No. 49 — Policy Loans

No. 56 — Separate Accounts
No. 74 — Insurance-Linked Securities Issued Through a Protected Cell
No. 83 — Mezzanine Real Estate Loans
No. 86 — Derivatives
No. 90 — Impairment or Disposal of Real Estate Investments
No. 93 — Investments in Tax Credit Structures
No. 97 — Investments in Subsidiary, Controlled and Affiliated Entities
No. 103 — Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan. †	MK CR	Other	AIPS LC	The insurer has a governance structure that routinely challenges, approves and reviews its investment strategy and portfolio in conjunction with the risks facing the business. The insurer considers, current market conditions (including interest rates) and takes into account shifting markets and near-term expectations. The insurer has an investment strategy based on its tolerance for market risks (including market price volatility, securities lending and interest rate risks) with guidelines as to the quality, maturity/duration, expected rates of return, different investment structures and diversification of investments. The insurer has an investment strategy that	Review the insurer's investment committee and governance structure related to the portfolio decisions. Consider level of expertise in relation to the complexity of the company's investment strategy, as appropriate. Review recent committee minutes for evidence of discussions related to future market expectations. Review the insurer's investment policy to determine if guidelines relating to the quality, maturity and diversification of investments in accordance with market risk factors have been included in the policy. Review how the insurer tracks performance of	Review recent performance and benchmark reports in comparison with the company's plan. Review the insurer's investment policy guidelines for appropriateness relating to market risks. Determine whether market risk management specific to high-risk investments is adequate by using an investment specialist. Use the I-Site+ insurer's Snapshot Investment Summary to identify high risk investments where the company's position is greater than average for its competitors in areas such as: • Bonds with call options and varied payment timing. • Foreign investments. • Hybrid capital securities.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				includes a counterparty risk appetite statement, if applicable, and outlines asset allocation by asset type, credit quality, duration and liquidity, with acceptable ranges based on the different investments and their specific characteristics. Correlations across different assets are considered within the strategy. The insurer performs routine stress testing and/or scenario analysis that specifically takes into account recent and expected market value volatility by sector and industry in order to determine whether adjustments to the insurer's investment strategy are necessary. The insurer has its own process that is not solely dependent upon credit rating agencies, including private letter ratings, to evaluate the credit worthiness of securities	different asset classes, with a particular focus on market value volatility and losses/impairments. Review the insurer's most recent stress testing/scenario analysis testing documentation to determine the adequacy of the insurer's analysis. Ensure inclusion of complex and volatile assets in investment policy, director review, stress testing, and asset liability matching. Review the insurer's investment policy and processes to understand the inputs into such decisions and the extent to which it requires credit analysis and is not solely	• Mezzanine loans. • Affiliated investments. • Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) CO/collateralized loan obligation (CLO) or similar bond collateral types. • Structured securities on negative watch Perform stress testing/scenario analysis on the insurer's investment portfolio (by using an investment specialist if necessary) to identify potential solvency risks. Test the insurer's investments for compliance with its corporate strategy and

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				for investment purposes. The process is used prior to significant purchases and on an ongoing basis. The insurer monitors its asset concentrations (including private assets that are less transparent) by industry, borrower type, and other relevant risk characteristics. The insurer monitors its reliance on private letter ratings, including concentrations in the use of a particular rating agency, especially for single-rated investments. The insurer has a process in place to monitor key risk indicators for private credit investments, such as: • Defaults • Payment-in-Kind (PIK), both at origination and ongoing monitoring	reliant on credit rating agencies, including private letter ratings. Obtain evidence of the insurer's process to research the quality of the investments. Review documentation demonstrating that the insurer monitors asset concentrations (-including private credit) by industry, borrower type and/or any other relevant risk characteristics. Review documentation demonstrating that the insurer monitors concentration in the use of private letter ratings and individual rating agencies. Review evidence demonstrating the insurer has a process in place for monitoring key risk identifiers noted, specifically for private credit investments.	investment policy guidelines. Obtain and review a sample of private letter rating documentation to understand the firm's rationale and appropriateness of the rating. Review the concentration of credit rating agencies utilized to value private credit investments for appropriateness.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				• Non-accruals • Spreads (widening or tightening) The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including: • Liquidity • Contagion or reputational risk • Valuation uncertainty • Impact on capital resources • Nature of the group (or IAIG) business • Financial condition of the legal entities within the group	Review the insurer's/group's investment strategy to determine if guidelines relating to intra-group investments are included.	
The insurer's investment portfolio and/or strategy are exposed to a potentially significant impact from transition and asset devaluation risks associated with	ST MK CR	Other	AIPS	The insurer has a methodology to identify the assets in the portfolio that are exposed to transition and devaluation risks associated with material climate change risks.	Review the NAIC Climate Disclosure Survey, if available, to understand how the insurer has considered the impact of material climate change risks on its investment portfolio and the climate scenarios the insurer uses	Compare information provided in the climate disclosure survey against the exam team's understanding of the insurer's control processes to verify and validate the completeness and accuracy of

----------Detail Eliminated for Spacing Purposes----------

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Structured security, private credit, or other complex investments originated and managed by an affiliate or related party may present an increased exposure to solvency risks.	CR ST MK	Other	AIPS VIIA	The insurer verifies that its affiliate/related party asset manager has adequate experience and knowledge in originating and managing the types of investments held by the insurer. The insurer verifies that its affiliate/related party asset manager follows appropriate underwriting practices in originating investments and performs an independent assessment of credit quality, structure and risk characteristics, rather than relying solely on affiliate analysis.	Review documentation demonstrating that management reviews the credentials of the affiliate/related party, including confirming registration as investment advisor/manager and that no conflict of interest exists. Obtain and review evidence of the affiliate/related party asset manager's experience and knowledge in originating and managing the types of investments held by the insurer. Review internal audit (IA) work, board minutes, and/or other documentation demonstrating effective oversight of the affiliated/related party asset origination process, including evidence that management monitors adherence to established underwriting practices and evaluates whether investments are	Review significant investment advisory/management agreements for appropriate provisions. Test the insurer's investments for compliance with its investment policy guidelines and regulatory requirements. If necessary, use an investment specialist to analyze the insurer's structured securities and/or private credit portfolio. Review Jumpstart reports to identify potential designation exceptions for structured securities and address exceptions, as appropriate. If deemed necessary, review individual securities for compliance with NAIC designation reporting requirements. If deemed appropriate, select a sample of material investments and

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer has established criteria for evaluating affiliate or related-party originated investments and demonstrates the ability to challenge and reject transactions that do not meet its investment guidelines, risk tolerance, and/or product/line of business needs. The insurer has established guidelines for investments originated and managed by affiliates/related parties to ensure that: • The fee structure is transparent, equitable, and avoids overlapping and excessive fees. • The terms of investments are fair and reasonable relative to comparable third-party transactions. • The economic substance of	consistent with the insurer's risk appetite, investment guidelines and/or product/line of business needs. Review documentation demonstrating that the insurer has reviewed the economic substance of investments originated and managed by an affiliate or related party for compliance with regulatory investment limitations and reporting requirements, and has evaluated whether the terms of affiliated private credit and structured security investments are fair and reasonable in relation to comparable third-party transactions. Review documentation demonstrating that the insurer monitors	review the underlying details to determine if the investments are properly classified in the respective investment schedules in the annual statement.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				investments, including underlying collateral and structural features, is evaluated rather than relying solely on ratings. • Concentration of such investments is in accordance with affiliated investment limitations, including consideration of exposure by individual affiliate, type of structure, and overall portfolio impact, and concentrations identified through private security code reporting (e.g., Schedule D, Column 37) and Note 5T private securities disclosures. • Investments offered to the public are in	investment concentrations by individual affiliate, type of structure and overall portfolio impact.	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				compliance with applicable requirements. The insurer has a process in place to have its structured securities effectively rated by a qualified third party and assesses the appropriateness of ratings and designations. The insurer has a process in place to ensure that investments managed and originated by affiliates/related parties are properly identified and reported in accordance with statutory accounting guidelines. • This includes proper classification of holdings reported in the "Investments Involving Related Parties" column of each investment schedule in the annual statement.	Obtain documentation demonstrating management's review and approval of third-party ratings for structured securities. Review the insurer's process for identifying reporting investments managed and originated by affiliates/related parties, and determine whether it is operating effectively. Obtain documentation demonstrating how management determines the classification of investments in the annual statement.	

----------Detail Eliminated for Spacing Purposes----------

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer does not review its liquidity position to determine if adjustments are necessary to meet its potential near-term cash flow needs. **Please Note:** Examiners may wish to refer to the Exam Planning Questionnaire section on liquidity (Exhibit B, Section IV, Part J) to assist in identifying and assessing potential risk in this area.	OP ST LQ	Other	LC	The insurer has a liquidity measurement, monitoring and management framework that includes a written liquidity plan with contingency and stress-testing features.	Determine whether management's review of the liquidity plan and stress testing procedures and assumptions is reasonable considering its experience and market history.	Validate that the company's illiquid assets (including private placement, non-marketable funds, real estate-related assets, special deposits/restricted assets and affiliate investments) were all considered, and determine whether it relies heavily upon nontraditional or non-insurance activities (e.g., commercial paper and securities lending) for liquidity. Validate company liquidity testing to confirm results under stressed scenarios. If necessary, use an investment specialist and/or actuary to analyze the insurer's liquidity position.
Financial Reporting Risks						
The insurer's bonds, stocks and short-term investments that are considered hard-to-value, high-	MK	VA	VIIA	The insurer reconciles its investments to the statements received from its investment	Inspect reconciliations of the insurer's recorded investments to the investment statements	Review Jumpstart investment exception reports to determine whether the company's quality assurance controls

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
risk and/or subject to significant price variation are incorrectly valued.				managers/custodians on a regular basis. In the event the insurer manages its own investments, it obtains pricing information from a recognized independent source, such as Bloomberg. The insurer periodically reviews the prepayment and default assumptions for loan-backed securities and evaluates the proper valuation per SSAP No. 43. The insurer has procedures in place to review for wash sales and to determine whether they have been properly valued and disclosed in accordance with SSAP No. 103. The insurer has a process in place to ensure the correct currency conversion is used in	received from investment managers/custodians. Test the controls in place surrounding the independent pricing process to determine whether guidelines (mid-market, bid, ask) are reasonable and consistently applied. Review the insurer's process to review prepayment assumptions for loan-backed securities, and inspect relevant documents as necessary. Review the insurer's procedures for identifying wash sales, including its listing of such sales. Ensure that this list is updated at least on a quarterly basis and is properly reviewed by the insurer. Discuss with management the process used to ensure correct currency conversions are in place. Test the process to	were functioning for accurate Committee on Uniform Security Identification Procedures (CUSIP), designation and market values. Confirm the value of securities with investment managers/custodians, and agree the amount confirmed to the insurer's records. Select a sample of pricing of securities, and verify quotes with other independent sources. Review insurer assumptions for reasonableness. Review the insurer's investment transactions to test the completeness of the insurer's listing of wash sales. If wash sales are identified, determine whether they have been properly valued and disclosed in accordance with SSAP No. 103.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				accordance with SSAP No. 23. If investment transaction services are outsourced, the insurer either audits the performance of its service providers on a regular basis or obtains and reviews a Service Organization Control (SOC) 1 report on a regular basis. The insurer has processes to evaluate the valuation of private credit investments where observable market prices are not readily available, including consideration of borrower financial performance, expected cash flows, covenant compliance, comparable market information, impairment indicators, and other relevant risk indicators used to support reported values.	determine whether these procedures are reasonable and operating as intended. Obtain and review the insurer's audit reports of its service providers or available SOC 1 Type II reports from investment managers/custodians, and review for evidence of periodic managerial review. Review the insurer's process for evaluating the valuation of private credit investments when observable market pricing is limited. Test the process to determine whether these procedures are reasonable and operating as intended.	Select a sample from the insurer's wash sale listing and determine whether they have been properly valued and disclosed in accordance with SSAP No. 103.* Select a sample in which a currency conversion was used. Independently price the conversion factor, and compare with the insurer's calculation. If deemed appropriate, select a sample of private credit investments and review supporting documentation to evaluate whether reported values are supported by available information and consistent with the insurer's valuation processes. **Note:** Private credit investments may be identified through annual statement reporting (e.g., Schedule D fair values of level 2D-3), including private placement identifiers, private letter

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
						ratings (PLRs), Schedule BA classifications, and fair value hierarchy disclosures.
				The insurer has a process to periodically obtain independent third-party valuation information for selected private credit investments and compare the results to investment manager and annual statement reported valuations.	Review the insurer's process for obtaining and evaluating independent third-party valuation information for selected private credit investments and determine whether identified valuation differences are appropriately reviewed and resolved.	Select a sample of private credit investments that were subject to independent valuation review and inspect supporting documentation to determine whether the insurer compared third-party valuation information to investment manager reported values and appropriately evaluated material differences. If necessary, use an investment specialist and/or actuary to analyze the valuation of the insurer's private credit investments, including the reasonableness of reported values, supporting assumptions, available market information, and consistency with the insurer's valuation policies and procedures.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer may not properly write down the value of securities that are other than temporarily impaired.	CR LQ	VA PD	VIIA	The insurer has a process in place to monitor potentially impaired securities, including the valuation of private credit and other investments where observable market inputs are limited. Potential impairments are identified on a watch list to provide a heightened level of management oversight. Written policies and procedures provide guidance to determine other-than-temporarily impaired (OTTI) securities. The insurer's policy should follow the appropriate guidance (statutory accounting principles [SAP] or generally accepted accounting principles [GAAP]). The insurer has a policy in place to ensure impairments (OTTI and permanent) are written down in a timely manner	Verify that the insurer has a watch list. Review and ensure it has been reviewed by management. Inquire as to how often the list is updated. Verify that the insurer is aware of the OTTI guidance and what the suggested triggers are. Verify that triggers are consistent with applicable SAP and GAAP reporting. Test the operating effectiveness of the OTTI triggers. Review the insurer's policy, and determine whether it is operating effectively.	Test the insurer's watch list for completeness. Review Schedules B, D and BA for potentially impaired securities. Review downgraded securities and investments with substantial differences between amortized cost and fair value to identify potentially impaired securities. Review the insurer's classification of impairment, and determine whether the classification is appropriate. Review supporting documentation of write-downs posted in the appropriate time period.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				and disclosed, as appropriate, under SAP or GAAP. Insurer management receives regular communication on impairments from asset management. The insurer has processes to identify and monitor investment structures that may delay or obscure indications of credit deterioration, including investments with payment-in-kind (PIK) or deferred interest.	Review the asset manager's process for communicating impairments. Review the insurer's process for identifying and monitoring investments with PIK or other non-cash interest features and determine whether the process is operating effectively.	Select a sample of investments with PIK or deferred interest features and review supporting documentation to determine the appropriateness of the credit quality and performance of the underlying borrower.
The investments in high-risk mortgage loans are incorrectly valued.	CR LQ MK	VA CO	VIIA	The insurer has designated personnel who review the following key risk indicators: • adjusted loan-to-value (ALTV) ~~and~~ • ~~-~~debt service coverage ratio (DSC) • Capitalization Rate • ~~, a~~Amortization of discount or premium	Discuss with management and review related evidence on how it monitors ~~the valuation and amortization of~~key risk indicators of mortgage loans. Review documentation relating to the valuation process to test whether the process is operating effectively.	Obtain a listing of mortgage loans. Select a sample, and recalculate the valuation of the loan, as well as the discount or premium. For a sample of outstanding loans, review documentation on loan-to-value, based on updated value estimates since the last appraisal, debt service coverage

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				• Net Operating Income (NOI) • Weighted Average Lease Expiry (WALE) • Occupancy • Property type • Ageing of past due accounts • ~~and i~~Impairment~~.~~ The personnel would also identify any loans in default/being foreclosed. The insurer has a process in place to ensure that any prepayments of principal and interest are properly recorded in accordance with SSAP No. 37. The insurer has a process in place to ensure that due and accrued interest that is 180 days past due and collectible is non-admitted. The process also ensures that interest 180 days past due and not collectible is written off in accordance with SSAP No. 37.	Discuss with management how prepayments are recorded. Determine whether the process is appropriate and operating effectively. Discuss with management how due and accrued interest is monitored. Determine whether due and accrued interest is analyzed on a quarterly basis to ensure proper treatment in accordance with SSAP No. 37. Obtain and inspect the schedule of due and accrued interest to determine whether the process is operating effectively.	ratios and rent rolls on the underlying properties. Obtain a schedule of prepayments. Recalculate and test that the prepayments are recorded in accordance with SSAP No. 37. Obtain a schedule of mortgage loans and the accrued interest over 180 days past due. Ensure the listing is complete. Select a sample of mortgage loans, and recalculate the days past due for accuracy. Take the total 180 days past due report, and agree it to the amount written off within the balance sheet. Obtain a master schedule of appraisal dates. Select a sample of mortgages to test and ensure the most current appraisal has been obtained and is located within the file. Ensure that a sample of the insurer's appraisers have a Member Appraisal Institute (MAI) certification

----------Detail Eliminated for Spacing Purposes----------

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Eli Snowbarger (OK), and John Litweiler (WI), Co-Chairs of the Financial Condition Examiners Handbook (E) Technical Group

From: Greg Chew (VA), Chair of the Financial Analysis (E) Working Group
Fred Andersen (MN), Chair of the Valuation Analysis (E) Working Group
Carrie Mears (IA), Chair of the Investment Analysis (E) Working Group

Date: June 16, 2026

Re: Cessions to Unauthorized Offshore Reinsurers

As you are aware, there has been an emerging trend in recent years where an increasing number of U.S. life and annuity insurers have been ceding large portions of their business to reinsurers in non-U.S. jurisdictions. Most of this business has been ceded to reinsurers in Bermuda, which has undergone the process of being recognized as a reciprocal jurisdiction and has continued to make meaningful enhancements to their system in recent years. Overall, many of the regulatory changes adopted by the Bermuda Monetary Authority (BMA) have been viewed positively by U.S. regulators and states that have experience collaborating with the BMA generally report a favorable view of Bermuda as a reciprocal jurisdiction.

Corresponding with the timing of regulatory and tax changes in Bermuda, unauthorized jurisdictions have emerged as growing destinations for life and annuity reinsurance. U.S. regulators don't have the same comfort with the regulatory system in those jurisdictions, with many having experience in reviewing transactions going there reporting significant concerns with the lack of: 1) defined capital and reserving framework, 2) coherence between permitted accounting, reserving and capital frameworks, 3) transparency and 4) collaboration.

The Financial Analysis (E) Working Group is charged with the following among other things, to "…Support, encourage, promote, and coordinate multistate efforts in addressing solvency problems, including identifying adverse industry trends."

Given the reinsurance trends mentioned above, and the potential for some of these trends to create solvency problems, the Financial Analysis (E) Working Group, in coordination with the Valuation Analysis (E) Working Group, and the Investment Analysis (E) Working Group and U.S. state insurance regulators of insurers with material cessions to unauthorized reinsurers, have collaborated to leverage shared and complementary expertise to identify key concerns and recommendations.

Key Takeaways

- While material affiliated reinsurance agreements are reviewed by the cedent's domestic regulator for non-disapproval, non-affiliated agreements are not typically subject to regulatory review by the cedent's domestic regulator prior to the effective date of the transaction. This limits the ability of the domestic regulator to gain comfort ahead of time regarding third-party transactions.
- Regulators that reviewed the affiliated agreements and were able to get comfortable with the transactions, did so through a variety of considerations and steps in the Form D review and approval

EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers
Funds Held by or Deposited with Reinsured Companies
Other Amounts Receivable Under Reinsurance Contracts
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)
Funds Held by Company Under Reinsurance Treaties (P&C Companies)
Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers (Life Companies)
Provision for Reinsurance
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance
Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (Life Companies)
Funds Held Under Coinsurance (Life Companies)

Risk-Based Capital (RBC) Filing

RCAT (PR027) may be used to identify and assess the insurer's current exposure to catastrophic events at the modeled worst year in 50, 100, 250, and 500 levels on both a gross (direct and assumed) and net basis (after reinsurance).

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5 — Liabilities, Contingencies, and Impairments of Assets
No. 25 — Affiliates and Other Related Parties
No. 61 — Life, Deposit-Type and Accident and Health Reinsurance
No. 62 — Property and Casualty Reinsurance
No. 63 — Underwriting Pools
No. 64 — Offsetting and Netting of Assets and Liabilities
No. 65 — Property and Casualty Contracts

† Risks identified with this symbol may warrant additional procedures or consideration at the head of the internationally active insurance group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer does not accurately identify, accumulate, and track its aggregate loss exposures that may require reinsurance coverage. † (Refer also to Examination Repository – Underwriting and Examination Repository – Reinsurance Assumed.)	OP	Other	AARP	The insurer has a risk management function in place to identify, track and monitor various loss exposures (e.g., catastrophic risk, mortality, morbidity, epidemic, etc.). The insurer has processes in place to ensure that policy information is correctly captured in the system on direct and assumed business. (Note: This function may be outsourced to a TPA/MGA.) If this process is outsourced to a third-party administrator (TPA) or managing general agent (MGA), the insurer has a process in place to ensure that the TPA/MGA correctly inputs data into the system. The insurer's underwriting and reinsurance functions have an ongoing and continuous dialogue on	Review and test the operating effectiveness of the insurer's processes to identify, track and monitor relevant loss exposures. Test controls relating to the accuracy of policy data uploaded (by the insurer or a TPA/MGA) to the system on direct and assumed business. Review evidence of interaction between the underwriting, claims, and reinsurance areas.	Select a sample of directly underwritten policies to verify that the insurer has correctly recorded loss exposure data associated with relevant policies. Analytically review the loss exposure data reported to the company by ceding insurers/brokers on assumed business to identify potential inconsistencies.

----------Detail Eliminated for Spacing Purposes----------

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				insurance-linked securities) • Retention and reinstatement provisions, aggregate versus occurrence structures • Attachment and exhaustion levels		risk where there is heavy reliance on the reinsurer or reviewing the reinsurance treaties to identify exclusions that may leave the insurer exposed to unexpected losses. Consider involving an exam actuary or reinsurance specialist in assessing the adequacy of the insurer's catastrophic reinsurance coverage. The specialist should determine if there are retrospective provisions (such as loss limiting features) that would cause the insurer to retroactively pay a higher reinsurance premium. If this trigger is present, determine if the insurer has the financial resources to pay the higher premium.
The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties. †	CR LQ	Other	AARP	The insurer has policies in place requiring utilization of multiple reinsurers to reduce concentration with any one entity.	Test the operating effectiveness of the insurer's controls to track compliance with the concentration policy. Obtain evidence of the insurer's process to	Based on a review of significant contracts, determine whether the insurer is properly diversified. Perform procedures to evaluate the quality of significant reinsurers

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer has a process to approve reinsurance counterparties.	approve reinsurance counterparties and to determine the credit worthiness of counterparties.	utilized by the insurer; for example: • Review agency ratings • Review financial results Contact the domestic regulator regarding any concerns.
				The insurer has a process in place to preapprove and set maximum limits to be ceded to reinsurers that are monitored and revised, as necessary.	Obtain evidence of the pre-approval process and documentation of maximum reinsurance limits.	For select reinsurers, verify that the balance currently ceded is within the maximum limits set by the insurer.
				The insurer continually monitors the financial solvency of its reinsurers throughout the duration of the reinsurance contracts, through review of financial statements, credit ratings, regulatory filings, operating performance, and other available information used to assess the reinsurer's ability to satisfy its obligations under the agreement.	Obtain evidence of the insurer's ongoing review of its reinsurers, including documentation supporting management's assessment of reinsurer financial condition, operating performance, credit ratings, regulatory developments, and ability to satisfy obligations under the agreement.	Evaluate the insurer's exposure to significant Unauthorized Offshore reinsurers by reviewing the financial condition, credit ratings, and other available financial information of selected reinsurers and assessing the potential impact of deterioration in the reinsurer's financial condition on the insurer's recoverables, reserve support, liquidity, or surplus.
				The insurer includes recapture provisions	Obtain and review the reinsurance contracts to	

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				within its reinsurance contracts to reclaim business ceded in the event of the reinsurer's financial decline and/or viability concerns. Collateral is held in association with significant treaties to encourage prompt settlement and fulfillment of obligations. Where collateral is held related to modco or funds withheld (FWH) reinsurance (life/A&H insurers), the reinsurance agreement includes guidelines and limits for the reinsurer regarding investments and overall credit quality of the collateral assets, as well as affiliated/related party considerations.	verify recapture provisions are included. Obtain evidence of the insurer's process to consider/require collateral to be held for significant treaties. Obtain the reinsurance agreement to validate that the insurer has set forth guidelines/limits regarding the investments and overall credit quality of the collateral assets, as well as affiliated/related party considerations.	Review the liquidity of the assets used to secure the collateral and verify that these assets are correctly attributed to the reinsurers. Review the assets held for collateral in modco and FWH reinsurance agreements (refer to information in Schedule S, Part 8, and Note to the Financials #5L) for reasonableness and assess the credit quality of the assets held, individually and in the aggregate. Verify that the collateral held and affiliated/related party concentrations of the reinsurer align with the guidelines laid out in the modco/FWH reinsurance agreement. Verify the existence and adequacy of collateral assets supporting reinsurance arrangements and determine whether collateral balances are

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer has procedures in place to continually monitor the valuation, liquidity, credit quality, and performance of the collateral assets.	Obtain evidence of the insurer's ongoing monitoring and review of the collateral assets held as well as their valuation and performance.	consistent with contractual requirements. Review a sample of collateral assets held to test for proper valuation.
				Investment management agreements and investment guidelines applicable to significant reinsurance arrangements (e.g., offshore reinsurance contracts) are reviewed and approved by management and establish permissible investments, concentration limits, liquidity requirements, credit quality standards and restrictions on affiliated investments.	Obtain and review investment management agreements and investment guidelines applicable to significant reinsurance arrangements and determine whether they were approved by appropriate levels of management and are subject to periodic review.	Obtain investment management agreements and investment guidelines associated with significant reinsurance arrangements and evaluate whether they appropriately address asset quality, diversification, liquidity, concentration risk, affiliated investments, and reporting requirements. For a sample of assets supporting significant reinsurance arrangements, determine whether the assets comply with applicable investment guidelines and contractual restrictions.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				The insurer performs periodic, post-agreement assessments of significant reinsurance arrangements, including evaluation of contract performance, the adequacy and performance of collateral assets, and the appropriateness of reserves supported by the arrangement, particularly for business ceded to unauthorized or non-U.S. reinsurers.	Obtain and review documentation evidencing the insurer's periodic, post-agreement assessments of significant reinsurance arrangements, including management's evaluation of reinsurer performance, collateral adequacy, and reserve support. Review for appropriate frequency, scope and management oversight, with particular consideration given to arrangements involving unauthorized or non-U.S. reinsurers.	For a sample of significant reinsurance arrangements, evaluate whether actual reinsurer results are consistent with expected performance and assess the extent to which the ceding insurer is dependent on the reinsurer. Evaluate whether reserves ceded under significant reinsurance arrangements remain appropriately supported, including whether the collateral and structural features of the arrangement are sufficient to support the reported reserve credit.
Financial Reporting Risks						
Reinsurance contracts with affiliates have not been filed in accordance with applicable state statutes and do not include equitable	OP ST	CM AC	AARP RPHCC	The insurer has policies and procedures in place to ensure all contracts with affiliates are filed with the insurance department as required by applicable state statutes (Form D filing).	Review the insurer's policies and procedures in place to ensure such policies adhere to applicable statutes and would adequately identify transactions requiring a filing.	Obtain and review the significant contracts between the insurer and its affiliates and ensure that agreements are filed with the insurance department in accordance with applicable state

----------Detail Eliminated for Spacing Purposes----------

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				reviewed by management to ensure accuracy.		Identify any significant amounts included in the calculation not previously examined. Perform procedures to ascertain the validity of the amounts and their utilization in the calculation. Recalculate the provision for reinsurance.
Insurer is taking credit for reinsurance contracts with unauthorized reinsurers. † (*Non-P&C Companies*) *Refer to further collateral testing procedures in the risk identifier "The insurer is over-exposed to credit and liquidity risks in its use of reinsurance counterparties" of this repository.				The insurer has processes in place to segregate authorized, unauthorized and certified reinsurer contracts in accordance with the requirements set forth in Appendix A-785 – Credit for Reinsurance. The insurer includes appropriate collateral requirement provisions in all contracts with unauthorized and certified reinsurers. The insurer has procedures in place to monitor and obtain additional collateral as it becomes necessary to do so.	Perform a walkthrough to gain an understanding of the insurer's process to segregate authorized, unauthorized and certified reinsurer contracts. Obtain contracts to determine whether provision for collateral requirement is included and adequate. Test the company's processes to review and adjust collateral balances as necessary.	Perform procedures to verify that reserve credits are taken appropriately under the requirements of Appendix A-785 of the *Accounting Practices and Procedures Manual* or applicable state laws and regulations. For example, verify the amount and validity of collateral held in support of credits taken.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
The insurer is overestimating the reinsurance credit on incurred but not reported (IBNR) loss and IBNR LAE reserves. † (See also Examination Repository – Reserves/Claims Handling)	OP	VA AC	RRC	The insurer estimates reinsurance credit on IBNR loss and IBNR LAE reserves by reviewing reinsurance treaties in place at the insurer, as well as historical results. The insurer's appointed actuary is involved in calculating and/or estimating/reviewing the credit amount.	Test the operating effectiveness of the insurer's process to calculate reinsurance credits on IBNR loss and IBNR LAE reserves, including involvement of the appointed actuary, management approval and sign-off.	Consider the reasonableness of reinsurance credits taken, based on a review of the insurer's reinsurance program and treaties in place. Utilize the insurance department actuary or an independent actuary to review the reasonableness of ceded reinsurance estimates included in the opining actuary's report. Compare the credit amounts recorded by the insurer to reinsurers' estimated liability, if available. Recalculate or test actual credits taken on a sample of contracts and verify whether the ceding insurer is correctly applying the terms.

EXHIBIT N

REINSURANCE REVIEW

This exhibit includes items that may be useful to examiners while conducting a review of the reinsurance contracts and programs in place at an individual insurer. Part One of the exhibit provides an example letter of credit form that may be used by companies and referenced by examiners in determining whether letters held by the company are acceptable as a basis for receiving a credit for unauthorized reinsurance. Part Two provides a form that may be used by reinsurers applying for accredited or authorized status in states which they are not licensed. This form, entitled Form AR-1, may be submitted as evidence of a company's compliance with requirements to designate the Commissioner as agent for receipt of service of process and to recognize the Commissioner's authority to examine the company's books and records. Part Three of the exhibit provides a ceded reinsurance contract review form that may assist the examiner in determining whether required elements have been included in the contract and in determining whether the contract includes a valid transfer of risk. Each of the items included within this exhibit should be utilized in conjunction with guidance provided in Section 1, Part V- Reinsurance Review.

----------Detail Eliminated for Spacing Purposes----------

PART THREE – CEDED REINSURANCE CONTRACT REVIEW

The examiner should complete the following workpaper in accordance with the review of the company's ceded reinsurance contracts. For those items that are not applicable, indicate N/A:

1. Affiliated transaction (Y/N)? _____
2. Treaty of certificated number: _____
3. Name of reinsured: _____
4. Name of reinsurer and authorization status (Authorized/Unauthorized):

   _____

   _____
5. Do all reinsurers meet the company's minimum acceptability standards?

   _____
6. Does collateral meet the NAIC standards? Document the collateral provided by the unauthorized reinsurers:

   _____

   _____

   _____
7. Document any reinsurance intermediaries used: _____

   _____
8. Document the type of the reinsurance contract, the effective date, expiration date and the date the contract was signed by both parties: _____

   _____

   _____
9. Identify and document the contract termination provisions: _____

   _____
10. Identify and document whether the following insurance clauses are included in the contract:

    Insolvency clause: _____

    Arbitration clause: _____

    Intermediary clause: _____

    Errors & Omissions clause: _____
11. Document the classes or line of business reinsured: _____
12. Document any exclusions noted in the contract: _____
13. Does the agreement apply on a "loss occurring" or on a "risks attaching" basis? _____
14. How does the contract define a loss occurrence, and what time and/or spatial parameters apply?

    _____

~~14.~~15. Document the territory the contract covers:

_____

~~15.~~16. Does the agreement cover losses occurred prior to its inception date? If so, verify that the contract has been properly accounted as retroactive reinsurance:

_____

_____

~~16.~~17. Document the company's retention under the contract:

_____

~~17.~~18. Does the contract contain ~~a~~ "loss corridor" or co-participation provisions?

_____

~~18.~~19. Indicate the reinsurer's limits under the contract, including any reinstatements and whether or not they're prepaid: _____

_____

~~19.~~20. Is there an aggregate limitation applicable to a period of coverage, a single loss event, or to the agreement overall?

_____

~~20.~~21. Document the premium stipulations set forth in the contract:

Annual reinsurance premium: _____

Minimum reinsurance premium: _____

Deposit premium: _____

Date premiums are adjustable: _____

~~21.~~22. Determine whether the reinsurance rate or premiums are adjustable based on loss experience. If they are adjustable, indicate the minimum and maximum level, how often they can be adjusted, whether adjustments have resulted in a deficit or credit carry forward, and that premiums adjustments have been properly accrued:

_____

_____

~~22.~~23. Identify the contract settlement provisions. Determine the payment schedules, adjustable retention provisions, accumulating retentions from multiple years, or other provisions which serve to defer settlement of the reinsurer's obligations:

_____

_____

~~23.~~24. Determine whether a managing general agent produced the reinsurance contract. Document the MGAs responsibilities regarding the reinsurance arrangement:

_____

_____

~~24.~~25. Determine how often the reports of premiums/losses are to be rendered:

_____

~~25.~~26. Does the agreement contain a "cash call" provision?

_____

~~26.~~27. Is there a significant transfer of risk (underwriting and timing)? If not, has the deposit method of accounting been properly followed? (Refer to Section 1 - Part V of this handbook.) Does a cash flow analysis need to be performed? ***Note:*** *Examiners are encouraged to review Property & Casualty Interrogatory 9 and the Reinsurance Summary Supplemental Filing to determine if the company utilizes any contracts that have common characteristics of Finite Reinsurance.* _____

_____

~~27.~~28. Is the reinsurance credit taken by the company consistent with the provisions of the contract?

_____

_____

~~28.~~29. Identify and document any amendments or addenda to the contract:

_____

_____