Financial Examiners Handbook (E) Technical Group Exposures

The following documents were exposed for a 30-day comment period ending October 9th, 2026. These are also available on the Financial Examiners Handbook (E) Technical Group webpage: https://content.naic.org/committees/e/financial-examiners-handbook-tg).

Comments should be directed to Elise Klebba (eklebba@naic.org) and Travis Lenz (tlenz@naic.org). Word versions of the following documents are available upon request.

1. Private Asset Exposures
    a. FAWG Referral (Page 2)
    b. Investments Repository (Pages 3-19)

2. Unauthorized Offshore Reinsurance
    a. FAWG/VAWG/IAWG Referral (Page 20)
    b. Reinsurance Ceding Repository (Pages 21-29)

3. Reinsurance Clauses
    a. Exhibit N (Page 30-33)

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

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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.

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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.	consistent with the insurer's risk appetite, investment guidelines and/or product/line of business needs.	review the underlying details to determine if the investments are properly classified in the respective investment schedules in the annual statement.
				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	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	

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: ______________________________

____