

TO: Tom Botsko, Chair of the Property and Casualty Risk-Based Capital (E) Working Group

FROM: John Rehagen, Acting Chair of the Reinsurance (E) Task Force

RE: 2023 Due Diligence Review of Qualified Jurisdictions & Reciprocal Jurisdictions

DATE: November 16, 2023

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### **Executive Summary & Recommendation**

At the 2023 Summer National Meeting call of the Reinsurance (E) Task Force, it was noted that a project had been started by NAIC staff to create a new disclosure to collect more information of insurers catastrophe reinsurance programs. For background, with the recent catastrophe-related insolvencies in the market and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program and any changes from the prior year on an annual basis. As such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in Property/Casualty RBC, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC Blanks.

The first draft of the proposed new disclosure was exposed for comments on Sept. 21, and two comment letters were received. As a result of the comment letters, NAIC staff made changes to their draft document, which is included in this referral. The Task Force reviewed these changes on its call on Nov. 16, and agreed with NAIC staff's changes and recommend that the Property and Casualty Risk-Based Capital (E) Working Group use that as their working document going forward. All these documents are included as attachments to this referral.

We recommend that the Property and Casualty Risk-Based Capital (E) Working Group expose the updated working copy of the proposal at its during the Fall National Meeting. Reinsurance (E) Task Force members and staff support will be available to assist with any questions during this process.

## Capital Adequacy (E) Task Force

### RBC Proposal Form

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|---|---|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input type="checkbox"/> Health RBC (E) Working Group         | <input type="checkbox"/> Life RBC (E) Working Group                         |
| <input checked="" type="checkbox"/> Catastrophe Risk (E) Subgroup             | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup                      |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup    | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;"><b>DATE:</b> <u>September 20, 2023</u></p> <p><b>CONTACT PERSON:</b> <u>Jake Stultz</u></p> <p><b>TELEPHONE:</b> _____</p> <p><b>EMAIL ADDRESS:</b> <u>jstultz@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Reinsurance (E) Task Force</u></p> <p><b>NAME:</b> <u>John Rehagen (Chair)</u></p> <p><b>TITLE:</b> <u>Director, Insurance Company Regulation</u></p> <p><b>AFFILIATION:</b> <u>Missouri DCI</u></p> <p><b>ADDRESS:</b> <u>P.O. Box 690</u> <u>Jefferson City, MO 65102</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <hr/> <p>Agenda Item # <u>2023-13-CR</u> Year <u>2024</u></p> <hr/> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>EXPOSED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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#### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Health RBC Blanks       | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks       |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions      | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula      | <input type="checkbox"/> Property/Casualty RBC Formula           | <input type="checkbox"/> Life and Fraternal RBC Formula      |
| <input type="checkbox"/> OTHER _____             |  |  |

#### DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Given the recent catastrophe-related insolvencies and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program on an annual basis. As such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in Property/Casualty RBC, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC Blanks.

#### Additional Staff Comments:

The RBC Blanks proposal has been developed, exposed for public comment and discussed in detail through the meetings of the Reinsurance (E) Task Force to ensure that it meets regulatory needs and is fit for purpose.

**\*\* This section must be completed on all forms.**

**Revised 2-2023**

INTERROGATORY ON CATASTROPHE RISK REINSURANCE PROGRAM PR027 (This interrogatory is for all natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire.)

(1)

Provide a narrative description of the natural catastrophe reinsurance program in place at the insurer, by peril where appropriate, including but not limited to:

(1a)

Traditional reinsurance coverage in place (e.g., aggregate excess of loss, aggregate stop loss) and layers thereof, attachment points, participating reinsurers (affiliated/not affiliated), exhaustion limits, capacity for each category of risk transfer, information on existing quota share and related attachment points, reinstatement provisions, etc.

(1b)

Non-traditional alternatives to reinsurance (e.g., catastrophe bonds and other insurance-linked securities, sidecars, parametric coverage, weather derivatives, etc.)

(2)

Provide a graphical representation of the catastrophe reinsurance program (i.e., structure chart or reinsurance tower) in place at the insurer, by peril where appropriate. Please include any relevant data that is requested in Question (1a) above.

(3)

Have there been any significant changes in the reinsurance program structure from the prior year (Y/N)

(3a)

Describe any significant changes from the prior year:

	(4a) Reinsurance Treaty	(4b) Begin Date	(4c) End Date
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November 7, 2023

John Rehagen, Chair  
Reinsurance (E) Task Force  
National Association of Insurance Commissioners  
c/o Jake Stultz and Dan Schelp  
Via email: [jstultz@naic.org](mailto:jstultz@naic.org) and [dschelp@naic.org](mailto:dschelp@naic.org)

**Re: Joint Trades Comments Regarding RBC Reinsurance Program Interrogatory**

Dear Mr. Rehagen:

Thank you for the opportunity to comment on the proposed P&C Risk-Based Capital Interrogatory (the proposal), which is intended to collect additional detail from insurers on the structure of their natural catastrophe reinsurance program, including any changes from the prior year. This letter is submitted on behalf of the American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA).

APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions – protecting families, communities, and businesses in the U.S. and across the globe.

NAMIC consists of more than 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write \$357 billion in annual premiums and represent 69 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

The RBC proposal form provided the following justification for the proposal:

*Given the recent catastrophe-related insolvencies and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program on an annual basis.*

We fully appreciate and support insurance regulators' need to understand insurers' natural catastrophe risk exposure and the reinsurance programs designed to mitigate these risks. We also appreciate that the proposal is designed as an RBC interrogatory to ensure its confidentiality. After reviewing the proposal and discussing it with our members, we had a number of questions about the purpose of the proposal, its scope, and whether its proposed format would provide useful information to state regulators. To address these questions and ensure our comments are fully informed and useful, we held conversations with a member of the Task Force and several NAIC staff. Following is a brief summary of a few of the questions and the answers provided by the NAIC:

Q1 Have there in fact been many recent catastrophe related insolvencies? 2022 P&C RBC Aggregate Report indicates continued improvement in the number of insurers at various RBC action levels.

*A1 Yes, there have been several recent insolvencies in certain catastrophe prone states, but there have also been recent insolvencies and impairments in other states, particularly those exposed to secondary perils such as convective storms. Some smaller insurers are reporting challenges in affording sufficient reinsurance coverage and are retaining more catastrophe risk.*

Q2 Current RBC RCat requires reporting catastrophe risk, net of reinsurance, for Hurricane, EQ and Windstorm (information only) at the 50, 100, 250 and 500 return periods. The change RCat values from prior periods would provide directional and quantitative information about net catastrophe exposure. Do the states really need the high level of detail in the proposal for all insurers subject to RCat reporting?

*A2 Yes. Several states have been requesting this information annually from many of their domestic insurers, and while the reinsurance program is considered in detail on financial examinations, that process is too infrequent. An annual requirement would provide all states with this information for each of their domestic insurers.*

Q3 Has the NAIC considered that most insurance groups purchase insurance at the group level? The disclosures in the proposal would have to be allocated to individual RBC reporting entities and is unlikely to provide consistent and useful information.

*A3 The Task Force might consider allowing group reporting.*

Q4 Would the NAIC consider limiting the scope of the proposal? RBC aggregate data shows nearly 1400 reporting entities with greater than a 1000% RBC ratio. Large groups are required to report similar information in their ORSA, Annual Registration Statement and in public reporting to the SEC.

*A4 The Task Force might consider limiting the scope of the proposal if industry suggested thresholds would not exclude insurers that lack sufficient reinsurance programs for natural catastrophe perils.*

Q5 The narrative description in the proposal is quite detailed, requiring a description of the natural catastrophe reinsurance program by peril, and separately providing granular program details (including type of coverage, layers, attachment points, limits, reinstatement provisions, etc.) for traditional and non-traditional reinsurance, and a graphical representation of the reinsurance program. This level of detailed reporting would be a significant compliance burden for many insurers and is often not available on a legal entity basis.

*A5 The proposal was designed based on public company disclosures. Regulators expect that insurers also report at this level of detail to their management and board of directors.*

We appreciate the dialogue with the NAIC about the purpose of the proposal and the rationale for its current design. We agree with the NAIC that state regulators should expect insurers to have robust processes and controls in place to manage natural catastrophe risk through an effective reinsurance program and through other means. We request that you consider the following suggestions for improvement to the proposal.

Group Reporting Option:

Public company financial reporting is reported on a consolidated basis, with details provided only for material amounts and risks. Based on the trades review of several large insurance groups' 10K filings, none report the level of detail requested in the proposal and none provide a reinsurance coverage tower graphic. Because catastrophe risk is managed, and reinsurance is purchased at the group level, the legal entity detail requested in the proposal will be challenging to complete and is unlikely to provide useful information to state regulators. Purchasing reinsurance protection at the group level, provides coverage for multiple catastrophe perils, provides administrative efficiency, and provides more effective coverage, since it covers several potential natural catastrophe losses in the group and is not sub-limited to specific legal entities. Multiple cedant reinsurance contracts require allocation agreements that allocate premiums and recoveries, but many elements of the proposal, such as coverage limits, attachments points, etc. cannot be allocated to individual entities. If these elements were allocated to individual entities, they would not provide useful information.

Example: An insurance group has a multiple cedant reinsurance contract that pays \$5 million XS of \$5 million and is spread among 5 entities in the group that write equal premiums. These entities might report \$1 million of limit each. If company A has a \$2 million loss from a covered event, but none of its affiliates have a loss from that event, a reader of this interrogatory might assume that company A has reinsurance protection, but because the reinsurance contract attaches at \$5 million, there would be no recovery.

We request that the Task Force consider modifying the proposal to allow group reporting rather than entity level reporting. Group level reporting is consistent with how insurance groups manage their catastrophe risks and artificial entity level allocations will not provide meaningful or comparable information to state regulators. We recommend that the interrogatory be prepared on a group level, include a list of the legal entities included in the group and perhaps also provide a summary of the allocation agreement. Identical filings could be included in each individual entity's RBC Interrogatory.

Material Perils:

Based on our review of several public filings, no reporting entities that we observed report the requested level of detail in the proposal for material natural catastrophe perils. Often this is broken out separately for hurricane and earthquake and frequently for only two major geographic areas (e.g., U.S. and Canada or U.S. and non-U.S.) Sometimes this information is only provided on an all perils basis world-wide. Providing this level of detail for immaterial risks will be time consuming, is inconsistent with financial reporting requirements for GAAP and Statutory Accounting and is unlikely to provide useful information to state insurance regulators.

Reinsurance Tower Graphic:

None of the public companies we observed provided a graphical presentation of the reinsurance program in their public filings. This is likely because they have overlapping reinsurance coverage for multiple perils, purchase reinsurance using a variety of different programs covering several geographic regions, use multiple, varying reinsurance structures for the same or similar risks and use facultative reinsurance cover for individual policies for program business. As a result, such graphical presentations would be very difficult to prepare and are unlikely to yield useful information. Preparing the requested graphics by peril will be costly and will unlikely provide useful information to state regulators.

We suggest the Task Force consider requiring separate reinsurance tower graphics for the top two or three perils that are material to the reporting entity's catastrophe reinsurance program. Based on our discussions with reinsurance intermediaries, most smaller insurers typically have only one major reinsured catastrophe peril, and do prepare a reinsurance tower graphic or receive it from their broker.

Redefining the Scope:

According to NAIC staff, approximately 870 RBC reporting entities are subject to RCat currently. This group is likely to grow if and when wildfire risk, convective storm risk and other catastrophe perils are eventually included in the RCat requirement. Basing the proposal only on insurers subject to RCat may in fact miss many insurers that are exposed to catastrophe risks other than hurricane and earthquake. For those insurers, a separate request of the insurer, as part of the annual financial analysis process, may be the best way for state insurance regulators to obtain information about catastrophe exposed insurers' reinsurance programs.

In order to better direct this requirement toward insurers facing increased solvency risk, the Task Force should consider narrowing the scope to focus on insurers with a higher risk of financial impairment or a higher risk of triggering an RBC action level as a consequence of their natural catastrophe risk and reinsurance program. A more focused scope should include insurers with significant catastrophe risk net of reinsurance, a high reliance on reinsurance to manage their catastrophe risk and perhaps include RBC ratios as an additional filter. Based on our analysis of annual statement data and review of several public company 10K filings, we suggest the following potential scope thresholds for consideration by the Task Force.

Proposed Scope Thresholds:

The following scope thresholds would be more effective identifying insurers that have significant net catastrophe exposure and that should be subject to the proposed RBC interrogatory and increased supervisory attention.

1. RBC Ratio below 1000% AND Reinsurance Utilization Rate greater than 30% (instead of reinsurance utilization, the Task Force could use a ratio derived from Schedule F, Part 6 “Restatement of Balance Sheet to Identify Net Credit for Reinsurance” at perhaps >50% of surplus)

OR

2. Probable Maximum Loss (PML) net of reinsurance as a percentage of Surplus of 25% or more

An RBC ratio greater than 1000% should in most cases indicate that the risk of insolvency in the near future is remote. However, RBC alone might not identify insurers that are heavily reliant on reinsurance if their net retention is low or if the catastrophe exposure is not a peril included in RCat. As a result, we propose pairing RBC with a reinsurance utilization rate threshold. Reinsurance utilization is typically measured as ceded reinsurance premium divided by gross written premiums and is a measure of the reliance on reinsurance. Industry aggregate data show that the industry aggregate reinsurance utilization ratio fluctuates in a very narrow band around 18%, so 30% may be a reasonable threshold. Based on our analysis of NAIC Annual Statement data these two criteria would result in 524 legal entities in scope for the proposed interrogatory.

Alternatively, the Task force might consider using a ratio of the effect of reinsurance on the balance sheet as a percentage of surplus, which can be derived easily from data in Schedule F, Part 6. We have not performed an analysis of this alternative using Annual Statement data, but a reasonable threshold might be a net benefit of reinsurance of 50% or more of an insurer’s surplus.

We are proposing net PML as a percentage of surplus as an additional threshold. This information is available in the RCat filings and the Annual Statement, so should be easily verifiable for any insurer currently subject to RCat. We believe that this threshold is more likely to focus regulators’ attention on the types of insurers that prompted this proposal. Since this data is confidential, we do not have the information to make an informed recommendation on the threshold but based on public company reporting and other public information, perhaps net PML of 25% of surplus at the 1-in-250 return period would be a good starting point. The Task force might want to consider

adding a change in PML to surplus ratios as an additional criterion. Finally, while the current scope of the proposal only includes insurers subject to RCat, using the net PML criteria could form the basis for separate state requests for similar information from other insurers that may have significant natural catastrophe risk other than hurricane and earthquake risk.

Thank you again for the opportunity to provide comments. We look forward to further engagement on these issues.

Sincerely,

Joseph B. Sieverling, SVP and Director of Financial Services  
Reinsurance Association of America

Matthew Vece, Director, Financial & Tax Counsel  
American Property and Casualty Insurance Association

Colleen W. Scheele, Public Policy Counsel and Director of Financial and Tax Policy  
National Association of Mutual Insurance Companies

cc: Tom Botsko, Chair Property Casualty RBC (E) Working Group  
Wanchin Chou, Chair, Catastrophe Risk (E) Subgroup



## Association of Bermuda Insurers and Reinsurers

O'Hara House  
One Bermudiana Road  
Hamilton HM 08 Bermuda  
Tel: 441 294-7221

600 Pennsylvania AVE SE  
Front 2, #15872  
Washington, DC 20003-9998  
Tel: 202-783-2434

October 30, 2023

Director Chlora Lindley-Myers (MO), Chair  
c/o John Rehagen  
Reinsurance (E) Task Force  
National Association of Insurance Commissioners

NAIC staff: [jstultz@naic.org](mailto:jstultz@naic.org); [dschelp@naic.org](mailto:dschelp@naic.org)

**RE: Proposed New Disclosures for Catastrophe Reinsurance Programs for P&C RBC**

On behalf of the 31 members of The Association of Bermuda Insurers and Reinsurers ("ABIR"), we kindly thank the National Association of Insurance Commissioners ("NAIC") for the opportunity to comment on its consultation of the proposed new disclosures for catastrophe reinsurance programs for P&C RBS ("Disclosures"), which is currently exposed until November 7, 2023.

ABIR represents the public policy interests of Bermuda's leading insurers and reinsurers. ABIR members operate from more than 150 countries around the world. ABIR members employ over 37,000 Americans in the U.S. and for over three decades have protected consumers around the world by providing affordable and accessible insurance protection and peace of mind.

The Bermuda market makes up about 35% of the global reinsurance market based on property & casualty net premiums earned. ABIR members at year end 2022 wrote global group gross written premiums of \$145 billion and net premium written of US\$111.8 billion. Since 1997, Bermuda insurers & reinsurers have paid nearly half a trillion USD in claim payments to American consumers and business, predominantly for natcat, specialty and financial risk recovery.

As a jurisdiction, Bermuda earned the designation as one of the inaugural, NAIC reciprocal jurisdictions effective January 1, 2020. The Bermuda market is proud of its leadership role in providing risk-diversifying capital through international reinsurance.

### **The Disclosures**

We understand the catalyst for this development of this proposed annual disclosure is recent catastrophe-related insurer insolvencies and the increasing cost of catastrophe reinsurance coverage. We recognize and appreciate the NAIC's desire to ensure that regulated insurers are adequately reinsured for catastrophes, and we encourage the development of catastrophe reinsurance market. We acknowledge that the Disclosures may results in the identification of gaps in a cedants reinsurance program and therefore could possibly have a positive impact to reinsurers.

**Recommendations**

We believe that proposed approach which requires each insurer, by individual program, to provide detailed disclosures that could lead to violations of confidentiality provisions and discourage certain reinsurers from providing capacity in some situations. Further, we believe that such detailed disclosures could jeopardize the development of reinsurance structures for future catastrophe protection. While we recognize that the state regulators must have oversight into regulated insurers' catastrophe risk protection, we would suggest that the required disclosures be limited to providing the aggregate protection from traditional and non-traditional catastrophe reinsurance programs along with a narrative describing such programs.

ABIR and its member companies stand ready to provide additional information to the NAIC and state insurance regulators as may be required during this consultative process.

If you have any questions in the meantime, please do not hesitate to contact Suzanne Williams-Charles on 441-705-4422 or at [suzanne.williams-charles@abir.bm](mailto:suzanne.williams-charles@abir.bm).

Sincerely,



John Huff  
President and CEO



Suzanne Williams-Charles  
Director of Policy and Regulation, Corporate Secretary  
And Data Privacy Officer

INTERROGATORY ON CATASTROPHE RISK REINSURANCE PROGRAM PR027

NOTE: This interrogatory is intended for completion by all property and casualty RBC filers that are exposed to natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire and the associated RCAT exemptions. Insurance entities that participate in group reinsurance programs may respond to the interrogatory at a group level.

(1)	Provide an overall narrative description of the natural catastrophe reinsurance program in place at the insurer/group, by peril where appropriate, including elements such as the types of reinsurance coverage in place, attachment points/retention levels, exhaustion limits, reinstatement provisions, etc. When possible and relevant, provide a graphical reinsurance tower as an attachment.	
		(2) Y/N
(2)	Have there been any significant changes in the reinsurance program structure from the prior year (i.e., change in cost, level of coverage) (Y/N)	
(2a)	If yes, describe any significant changes from the prior year:	
		(3) MM/DD/YYYY
(3)	Provide the primary program renewal date (i.e., 1/1/XX or 7/1/XX):	