LRBCWG Exposure on Reinsurance Recapture Charge from E Committee Referral

The first change the Financial Condition (E) Committee directed in its referral to the Life Risk-Based Capital (E) Working Group is to create a reinsurance recapture charge for reinsurance to entities in non-reciprocal jurisdictions, starting at year-end 2027. The memo states "*The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves.*"

1. Method – Please assess which of the following methods would most appropriately implement this specific change, as worded in the memo:
    a. Factor Approach - Create an additional RBC charge applied to ceded reserves and modified coinsurance balances to approximate the additional capital required upon recapture, reduced for overcollateralization
    b. Non-Allowance of RBC Credit – Explicitly include adjustments for each RBC component to not allow reinsurance credit for RBC for transactions in scope
    c. Other – Another approach that appropriately captures the specific E Committee change outlined in its directive to the Working Group

2. Asset Composition – One concern is whether excess of loss reinsurance, letters of credit, otherwise non-admitted assets, parental/affiliate guarantees, and similar types of assets can be approved as collateral to offset the new RBC recapture charge. Which of the following appropriately addresses these concerns?
    a. If permitted assets are less than the US statutory reserve credit, charge the difference as RBC
    b. If permitted assets (e.g., defined as AG 48 Primary Security, AG 55 non-Guideline Excluded Assets, etc.) are less than a PBR-type of calculation for ceded reserves, charge the difference as RBC
    c. Any other approaches to address these concerns

Note: The referral has already been approved and issued by the Financial Condition (E) Committee, a parent committee of the Working Group. The Working Group is tasked with determining how to implement the directives therein; the Working Group does not have the authority to change directives from its parent committee. Please keep any comments focused on how to implement the changes outlined in the memo rather than attempting to modify or override them.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Ben Slutsker (MN), Chair of the Life Risk-Based Capital (E) Working Group

From: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

Date: July 27, 2026

Re: Reinsurance Recapture and Counterparty Risk

As you are aware, an increasing number of U.S. life and annuity insurers have ceded large portions of their business to reinsurers in non-U.S. jurisdictions in recent years. Most of this business has been ceded to reinsurers in Bermuda, which has been recognized as a reciprocal jurisdiction and has continued to make meaningful enhancements to its regulatory 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 with experience collaborating with the BMA generally report a favorable view of Bermuda as a reciprocal jurisdiction.

While reinsurance is a risk-mitigation tool that diversifies the risks borne by insurers, it also changes the nature of those risks. In life and annuity reinsurance, pricing/underwriting, reserving and market risks are transferred to the reinsurer and replaced by credit risk. As a result, the cedent's primary concern becomes the reinsurer's ability to meet its obligations and the possibility that the ceded business may need to be recaptured.

Reinsurance has long been used to stabilize life and annuity operations, support growth, and mitigate risk. Historically, however, its use in the U.S. has been relatively limited, accounting for only 6% of policy obligations in 1999.[1] After the global financial crisis (GFC), declining interest rates placed significant pressure on annuity writers, leading many U.S. insurers to sell or reinsure substantial portions of their business. Increasingly, those transactions have been executed with reinsurers domiciled outside the U.S. to take advantage of lower taxes and other regulatory benefits.[2]

[1] See the Federal Reserve, *Accounting for Reinsurance Transactions in the Financial Accounts of the United States, Accessible Data*.

[2] The Society of Actuaries Research Institute February 2026 report, *International Reinsurance Landscape Overview for U.S. Life & Annuities*, synthesizes why and how U.S. carriers are using cross-border solutions, the structures they choose (third-party, affiliates, and sidecars), and where they domicile them.

As more business is ceded to jurisdictions outside the U.S., recapture risk also increases. Beyond the operational complexities of recapturing previously ceded business, returning those policies to the cedent's balance sheet would increase capital requirements.

In 2025, the NAIC adopted *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves for Certain Life Reinsurance Treaties* (AG 55). Preliminary reviews that the NAIC's Valuation Analysis (E) Working Group conducted indicate that business ceded to unauthorized reinsurers generally comes from newer, relatively small annuity writers offering aggressive crediting rates. These transactions also tend to produce larger reductions in total asset requirements than comparable business ceded to Bermuda.

As a result, the ceding company may face greater capital strain if the business must be recaptured or if the reinsurer experiences solvency issues. Many state insurance regulators believe this risk warrants immediate attention given the increase in the continued growth in offshore reinsurance transactions.

Therefore, the Committee directs that the Life Risk-Based Capital (E) Working Group develop the following two changes to the life RBC formula:

- A reinsurance recapture RBC factor to be applied to ceded reserves and modified coinsurance balances for all reinsurance located outside of reciprocal jurisdictions while of course considering an overcollateralizing of the reserves in establishing the required RBC. The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves.
- To account for increased credit risk for reinsurers that have lower financial strength ratings, modify the reinsurance methodology used in the life RBC formula for recoverability risk by aligning with the approach used in the property/casualty (P/C) RBC formula.

Because the NAIC already has a contract with Bridgeway Analytics, the firm is available to assist with this work. The Committee directs that these efforts be prioritized so that the changes are in place for year-end 2027.

If there are any questions regarding this referral, please contact NAIC committee support (Dan Daveline, ddaveline@naic.org) for further clarification.