NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Financial Analysis Solvency Tools (E) Working Group
Exposure Drafts

Comment Period

The Financial Analysis Solvency Tools (E) Working Group is exposing the following items for a 30-day comment period ending **August 31, 2026**:

- **Proposed revisions to the *Financial Analysis Handbook***
  - Cybersecurity Considerations (pp. 1–10)
  - Private Asset Exposures (pp. 11–35)
  - Unauthorized Reinsurance (pp. 36–44)
  - Corporate Divisions and Insurance Business Transfers (p. 45)
  - Risk Assessment Worksheet (p. 46)
  - Use of Artificial Intelligence (p. 47)
  - ORSA Review Template (pp. 48–54)
  - Group Capital Calculation (pp. 55–56)

- **Draft referral to the Financial Regulation Standards and Accreditation (F) Committee**
  - Part B expectations for Group Capital Calculation filing reviews (pp. 57–60)

- **Proposed revisions to the Insurance Regulatory Information System (IRIS)**
  - Life/A&H Ratio 7—Total Affiliated Investments to Capital and Surplus (pp. 61–62)

Submitting Comments

Please address comment letters to Danielle Smith, Chair of the Financial Analysis Solvency Tools (E) Working Group, and send them to NAIC committee support: Rodney Good (RGood@naic.org), Ralph Villegas (RVillegas@naic.org), and John Murray (JMurray@naic.org).

Special Notes: The following procedures do not supersede state regulation but are merely additional guidance analysts may consider useful. The procedures may be completed in part, or in total, at the discretion of the analysts depending on the level of concern, and the area in which the risk was identified.

Form A – Statement of Acquisition of Control of or Merger with a Domestic Insurer

Model Act and Database Procedures

Form A is transaction-specific and is not part of the regular annual/quarterly analysis process. Every Form A review should be tailored to the risks associated with the proposed acquisition, including the target company, acquiring entity, and the complexity of the transaction. The review of these transactions may vary, as some states might have regulations that differ for Form A.

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Compliance Assessment and Review

Transaction Details

3. Review details provided on the transaction for compliance with application filing requirements by determining whether the Form A application provides the required content, which may include the following:
   a. Provides a brief description of how control is to be acquired.
   b. Contains the following information:
      - Name and address (legal residence for an individual or street address if not an individual) of the applicant.
      - States the nature of the applicant's business operations for the past five years, if the applicant is not an individual.
      - Describes the business to be performed by the applicant and its subsidiaries.
      - Identifies and states the relationship of every member of the insurance holding company system on the organizational chart.
   c. Contains the required signature and certification, and include copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and of additional soliciting material relating thereto.
   d. Contains any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by the Form A.
   e. Contains an agreement to provide the information required by Form F – Enterprise Risk Report within the required timeframe.
   f. Includes the number of each class of shares of the insurer's voting securities that the applicant, its affiliates, and any person that plans to acquire; 2) the terms of the offer, request, invitation, agreement, or acquisition; and 3) the method by which the fairness of the proposal was determined.

g. States the amount of each class of any voting security of the insurer that is beneficially owned or concerning that there is a right to acquire beneficial ownership by the applicant, its affiliates, or any person.

h. Gives a full description of any contracts, arrangements, or understandings with respect to any voting security of the insurer in which the applicant, its affiliates, or any person is involved. Discussion includes, but is not limited to, the transfer of any of the securities, joint ventures, loan or option agreements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies.

4. Perform analysis review considerations, in addition to the compliance review in #3 as necessary, to analyze the details of the transaction, which may include, but is not limited to the following:

   a. Document any risks or concerns by carefully reviewing transactional documents (e.g., merger, stock purchase, stock exchange).

      i. Consider disposition of all classes of target shares, including addressment of any beneficial owners.

      ii. Ascertain propriety of disposition of minority interests and concerns, if applicable.

   b. Consider any affiliate or employee benefit as appropriate.

   c. Has the applicant included information on the assignment of specialized personnel (such as an attorney, actuary, or CPA) to the transaction?

   d. Determine how any ancillary regulatory reviews or other interim procedural steps will be completed, including Form E – Pre-Acquisition Notification Form, for other licensed states.

   e. Obtain copies of shareholder communications or sole shareholder consent.

   f. Consider obtaining copies of fairness and other contractually required opinions, if available.

   g. Review relevant portions of board resolutions, power points and related board minutes pertinent to the Form A transaction, using care to keep documents confidential.

   h. Determine if after the change of control:

      i. The insurer will be able to satisfy the requirements for the issuance of a license to write the classes of insurance for which it is presently licensed.

      ii. The insurer's surplus will be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

   i. Review financial projections for the applicant and the insurer to ensure that they are consistent with the description of the intended business plan of the insurer and other assertions and representations made in the Form A filing. Determine whether the projections are based on reasonable expectations.

      i. Determine the target's estimated post-acquisition financial condition and stability.

   j. If not included in the Form A filing, request copies of all contracts between the applicant (or other entities for which it exhibits control) and the insurer. Review these contracts to ensure that the terms are at arm's-length, fair, and reasonable to the insurer.

   k. Will the proposed merger or acquisition comply with the various provisions of the state's General Administrative Amendments or Business Corporation Law (e.g., board resolutions, plans of merger, draft articles of merger, etc.)?

l. Does the Form A describe any plans or proposals for which the applicant might have to declare an extraordinary dividend, to liquidate the insurer, to enter into material agreements (including affiliated agreements), to sell the insurer's assets, to merge the insurer with any person or persons, or to make any other material change in the insurer's business operations, corporate structure, or management?

m. Consider suitability of any new affiliated and non-affiliated material agreements, including managing general agents, third party administrators, any professional organizations and reinsurance arrangements.

n. ~~Consider plans for technological interfacing with new affiliates and any potential adverse impact on operations including claims.~~Review the applicant's plans for integrating IT systems, data, and platforms to identify potential operational disruptions or increased exposure to cybersecurity threats.

   i. Confirm the applicant has a defined timeline and strategy for migrating data and systems, including ensuring that data and systems to be migrated are evaluated for compliance with the group's cybersecurity risk management framework prior to integration.

   ii. Verify that the costs associated with system integration, software licensing, and cybersecurity upgrades are explicitly factored into financial projections.

   iii. Confirm that the applicant has a plan to maintain normal policyholder service and claims handling during the technology transition period.

   iv. Identify if the integration relies on third-party service providers (e.g., cloud services, TPAs, MGAs, or other vendors) for core insurance operations and ensure the applicant has formal contracts or service agreements to govern relationships, including ~~.~~diligence processes, ongoing contractual oversight, and concentration risks.

   v. Assess the group's cybersecurity risk management framework, including identification, mitigation, and monitoring of exposures specifically related to system integration. Identify any potential concerns such as vague risk disclosures, recurring cyber incidents, limited evidence of security testing, or lack of clear corporate oversight of cybersecurity exposure.

   ~~i.~~vi. Consider how vertical integration (e.g., internal technology, shared data management, or centralized administrative services) may create concentrated risks, such as single points of failure, increased internal attack surfaces, legacy system vulnerabilities, or complex data flows across affiliates.

~~n.~~o. Require Form D filings for any affiliated material transactions, post-acquisition; consider including language in the approval order.

~~o.~~p. Consider with disfavor any plans to liquidate the target or sell its assets, consolidate or merge, that may be unfair, unreasonable, or hazardous to policyholders.

~~p.~~q. Review required statutory deposits and authorized lines of business.

~~q.~~r. Has the insurance department identified any reasons or circumstances surrounding the transaction to warrant the hiring of outside experts or consultants?

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SPECIFIC PROCEDURES FOR COMPLETING THE INSURANCE HOLDING COMPANY ANALYSIS

The following procedures are intended to assist analysts completing a holding company analysis documented in the GPS. The following procedures do not represent additional documentation requirements.

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Additional Procedures on Key Risk Areas – Insurance Holding Company System

The following are available procedures that the lead state may consider performing in analyzing the financial condition of the holding company in part or in total to address current or prospective risks at the discretion of analysts, depending on the level of concern, the area in which the risk was identified, and the degree of interdependence within the holding company entities.

Analysts should use his or her judgment in determining if any of the following procedures should be applied to the group analysis, where the primary input for determining what is appropriate would depend on sophistication, complexity and overall financial position of the insurance holding company system. Documentation of the results of holding company analysis is in the GPS. After each additional procedure, examples of the branded risk classification(s) that may be associated with the procedure have been referenced in parentheses for use in mapping the procedures to branded risk classifications in the GPS.

1. Review the distribution of the insurance holding company's invested assets in order to assess the overall asset quality and note any shift in the mix. (CR, MK, LQ, ST)
2. Is the insurer(s) the only member(s) or the primary member(s) of the insurance holding company system that holds cash and invested assets? (CR, MK, LQ, ST)
3. If there are significant investments in non-investment grade bonds, unlisted stocks, mortgages, real estate or other invested assets, review the supporting schedules in greater detail to determine exposure to default, credit, and liquidity risk. (CR, MK, LQ, ST)
4. Review the distribution of the non-invested assets, and assess the overall collectability risk. (CR, LQ)
5. Review the level of goodwill and intangible assets. Determine the level of goodwill and intangible assets relative to the value of equity. (LQ, OP) If significant, summarize the following:
    a. Nature of intangible assets
    b. Change or trend in goodwill
    c. Source of goodwill
    d. Impairment of goodwill

6. Assess whether the insurance holding company system is reliant on the insurance operations for any of the following (LQ, ST):
   a. Service debt
   b. Provide financing
   c. Provide revenue streams
   d. Provide services and/or facilities/equipment
   e. Provide guarantees for the benefits of its affiliates
   f. Pledge assets for the benefit of its affiliates
   g. Contingently liable on behalf of its affiliates
7. Has debt shown an increasing pattern? If “yes,” explain any unusual changes. (ST)
8. Determine the level of insurance holding company debt and its relative value-to-equity. (ST, LQ) If significant, summarize the following:
   a. Type of debt
   b. Terms of the debt covenants
   c. Maturity schedules
   d. Interest payment schedules
   e. Ability to meet payments (e.g., principal and interest)
   f. Business purpose
9. Review the insurance holding company system’s commitments and contingent liabilities.
   a. Has the insurance holding company been subject to substantial complaints, class action lawsuits or other litigation or investigations? If "yes”, document the nature and outcome of those matters. (RP, LG)
   b. Are any contingencies expected to have a material impact on the financial condition of the insurance holding company? If so, document whether the holding company estimated the potential costs and established a reserve liability. (RV, LG)

10. Gain an understanding of and document the use of collateral across the holding company system. (ST, LQ).

11. Evaluate the group-wide cybersecurity exposures including the potential impact of vertical integration and third-party dependencies on the group's exposures (utilizing available group disclosures such as ORSA, Form F, and CGAD).

    a. Assess the group's cybersecurity risk management framework, including identification, mitigation, and monitoring of exposures. Identify any potential concerns such as vague risk disclosures, recurring cyber incidents, limited evidence of security testing, or lack of clear corporate oversight of cybersecurity exposure.

    b. Consider how vertical integration (e.g., internal technology, shared data management, or centralized administrative services) may create concentrated risks, such as single points of failure, increased internal attack surfaces, legacy system vulnerabilities, or complex data flows across affiliates.

    c. Evaluate the group's reliance on third-party service providers (e.g., cloud services, TPAs, MGAs, or other vendors that may be affiliated or non-affiliated) for core insurance operations, including due diligence processes, ongoing contractual oversight, and concentration risks.

    ~~c.~~

Financial Position

~~10.~~12. Review the insurance holding company's statement of shareholders' equity. (ST, OP)

a. Has equity decreased from the prior year or deteriorated over the past three years? If "yes," describe the reason(s) for the decline.

b. Does the net worth of the insurer(s) represent the total net worth or the majority of the net worth of the insurance holding company system?

c. Is the net worth of the insurance holding company system less than the net worth of the insurer(s)?

~~11.~~13. If publicly traded, review the changes in the insurance holding company's outstanding common stock. Document and understand the nature and business purpose of the following: new stock issuance; stock repurchase, stock split, short sales, or change in major exchange listings. (ST)

~~12.~~14. Have any insurer(s) of the insurance holding company paid extraordinary dividends upstream? If "yes":

a. Assess the nature of the dividends and the amount of dividends paid in relation to prior year surplus to determine the materiality of the insurance company dividends. (OP, ST)

b. Compare current year extraordinary dividends to prior year dividends to identify any excessive trends in payments. (ST)

~~13.~~15. Review the revenue of the group.

a. Identify each business segment as identified on the 10K, and review the net income from each. Discuss any notable changes in performance. Are there any business segments that are troubled or pose unusual risks to the insurance holding company system? (PR/UW, ST)

   i. Is the insurer(s) the only or primary revenue producer within the insurance holding company system?

   ii. If affiliates produce net income independently of the insurer(s), what percentage of total net income is produced independently of the insurer(s)?

b. Has the insurance holding company entered into any new lines of business or types of non-insurance business or discontinued any business? (ST, OP)

c. Has the volume of business increased or decreased significantly over the prior year? If "yes," explain the reason for the change. (ST, OP)

~~14.~~16. If the insurance holding company group places a significant amount of gross business with reinsurers, assess the following regarding reinsurance agreements:

a. Risk transfer (CR)

b. Collateralization to unauthorized reinsurance (CR)

c. Recent reinsurance transactions (CR, ST)

d. Credit quality of the reinsurer (CR)

e. Collectability of recoverables (CR)

f. Level of surplus aid (ST)

~~15.~~17. The annual group capital calculation (GCC) is a new analytical tool. To gain an understanding of the framework and results provided in the filing:

a. Follow the five procedure steps as outlined in VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures to review and document the results of the GCC.

b. Review the background information and context concerning the issues/considerations an analyst should consider when using the GCC for an insurance holding company group that completed the GCC where required as provided in VI.I. Group-Wide Supervision – Group Capital Calculation (Lead State) Analyst Reference Guide.

Profitability

~~16.~~18. Review investment income and realized capital gains and losses.

a. Has net investment income increased or decreased significantly over the prior year? If "yes," explain the reason for the change. (ST, MK)

b. Document the amount of investment income by sector that is attributed to dividends received from insurance subsidiaries. (ST)

c. Document the annual investment yield. Has the yield decreased materially over the prior year? If "yes," explain the reason(s) for the change. (ST, CR, MK)

d. Review the components of investment income. Has investment income from any asset category changed significantly over the prior year? If "yes," explain the reason for the change. (ST, CR, MK)

e. Did the insurance holding company report material realized capital gains/losses? If "yes," identify the cause of the loss. (ST, CR, MK)

~~17.~~19. Review all other sources of revenue, and note any material changes or weaknesses. (PR/UW, ST)

~~18.~~20. Review expenses.

a. Have losses increased or decreased substantially over the prior year? If "yes," explain the reason for the change. (RV)

b. Have administrative and other expenses increased significantly over the prior year? If "yes," explain the reason for the change. (OP)

c. Summarize the loss and expense ratios by line of business for material insurance lines and review the trend. (OP, RV, PR/UW)

~~19.~~21. Has the insurance holding company reported any non-recurring revenues or expenses that materially inflate or reduce earnings? If "yes," describe the reason for the revenue or expense. (ST, OP)

~~20.~~22. Did the insurance holding company report income or losses from discontinued operations? If "yes," summarize the nature of those operations and evaluate the earnings from those operations. (ST, OP)

~~21.~~23. Examine cash flow and document if there has been a negative trend in operating, investing, or financing activities over the past year or the past three years. (LQ)

~~22.~~24. Evaluate any downstream payments and explain the reason(s) for the downstream contributions. (LQ)

PROCEDURES #1 - 3 assist analysts in reviewing the invested assets of the group, noting any significant increases or decreases from the prior reporting period. Identify the most significant concentration of assets, and review the quality distribution of the asset portfolio. Assess the group's asset risk including credit, default, sector, and/or concentration risk. Include a review of affiliated ownership and any upstream holdings.

PROCEDURES #4 - 5 assist analysts in reviewing the non-invested assets of the group, noting any significant increases or decreases from the prior reporting period. Assess the group's exposure to risk related to high recoverable and receivables and miscellaneous balances. Also, assess the risk related to any miscellaneous assets such as goodwill or other intangible assets.

PROCEDURES #6 - 10 assists analysts in reviewing the liabilities of the group, noting any significant increases or decreases from the prior reporting period. Determine if debt exists at the holding company level that may be material and could affect the insurance companies. Debt includes not only long-term debt financed through the issuance of bonds, but also includes other long-term debt granted by a financial institution, as well as short-term vehicles such as commercial paper, repurchase agreements or bank credit facilities. Consider all types of debt arrangements when determining the amount and timing of cash flow payments.

PROCEDURE #11 assists analysts in evaluating group-wide cybersecurity exposure and operational resilience of the holding company system. Specifically, the procedure provides guidance to assess the maturity of the group's technology risk governance, identify concentrated risks stemming from vertical integration (e.g., single points of failure across integrated affiliates or non-affiliates), and evaluate the group's reliance on third-party service providers for core insurance operations.

PROCEDURES #~~11~~ 12 - ~~13~~ 14 assist analysts in reviewing the holding company's overall financial position. Holding company equity is usually reported on a GAAP consolidated basis and represents the retained earnings of the holding company and its ownership share of the equity of its subsidiaries.

The initial focus of insurance holding company analysis centers on the current level of equity. The amount of equity is primary in evaluating the organization's capacity to write business and its ability to cover unanticipated loss payments and expenses, uncollectible premiums and receivables, and capital losses to invested assets. Analysts should take note of the trend over past reporting periods and the factors that have significantly influenced an increase or decline.

PROCEDURES #~~14~~ 15 - ~~15~~ 16 assist analysts in reviewing the operations of the group. A required component of certain holding company filings, including SEC filings, is the reporting of premium or other non-insurance business segments. The segment disclosure is fairly broad, including information for each segment on net income, total revenue, and total assets. This information is helpful because it provides analysts with information that management considers in evaluating the results of the entire organization. Reporting segments may include:

- **Operational**—This segment reports the holding company results by categories such as property/casualty, life, bank, non-insurance, or financing and may describe the major operational divisions.
- **Special Sectors**—This segment may identify writing categories or specific lines of business in which an organization specializes. Examples include program business such as artisan contractors.

- **Geographic Concentrations**—Some organizations report their results according to the geographic areas in which the insurance coverage is written or the location of the controlling branch office. This is a fairly common type of reporting for international organizations.
- **Managing General Agents (MGA) and Third-Party Administrators (TPA)**—This segment identifies business produced by MGAs or TPAs. For additional information regarding MGAs and TPAs, refer to Part III. Analyst Reference Guide—Operational Risk.

Analysts should focus on the overall profitability of the segments as well as the stability of earnings over a period of time. To the extent that the segment has reported inconsistent earnings or has reported any losses, analysts may wish to obtain a greater understanding of the causes.

Review the insurer's overall plan of operations, including mission statement, business plan, financial projections, marketing strategies, investment policy and management's philosophy.

- **Mission Statement**—Overall focus and philosophy is clearly stated.
- **Business Plan/Financial Projections**—Determine whether the group has a current business plan that includes details on its primary lines of business and growth strategies, geographic focus, and a plan of operation that contains the group's annual financial and marketing goals. Determine that the group has projected future financial results that appear reasonable based on the variances between plan versus actual results.
- **Marketing Strategies**—Determine whether the group has in place a viable marketing plan that outlines the methods of marketing its products and services, (e.g., direct marketing, agent force, managing general agents, projected sales growth, geographic strategies, and the development and sales of new products).
- **Investment Policy**—Determine the methodology of investment practice, (e.g., investment pool, investment manager, and investment consultants). Ensure that the domestic insurer is in compliance with state investment laws. Evaluate management's philosophy on high-risk securities, affiliated investments (both insurance and non-insurance), and asset and liability matching.
- **Management's Philosophy**—Gain an understanding of the group's culture, management's expertise, and management's future vision of the group.

Determine whether the reinsurance programs in place support the overall risk profile of the group. Determine whether significant errors exist relating to the accounting for reinsurance. Review reinsurance recoverables for materiality and collectability. Identify whether reinsurance between affiliates within the group involve any unusual shifting of risk from one affiliate to another. Determine whether any of the companies within the group are using reinsurance for fronting purposes, and if so, whether any potential problems exist.

PROCEDURE #~~16~~ 17 assist analysts in gaining insight into the background, context, and framework of the GCC analytical tool. The procedure primarily instructs the analyst to refer to the specific procedures provided in VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures in reviewing and documenting the results of the GCC. However, before proceeding with these steps, it is recommended the analyst follow the background information outlined in VI.I. Group-Wide Supervision – Group Capital Calculation (Lead State) Analyst Reference Guide.

PROCEDURES #~~17~~ 18 - ~~21~~ 22 assist analysts in evaluating the profitability of a holding company, which is measured by its ability to generate earnings and reported on a consolidated basis as net earnings (loss). The earnings statement includes revenues and expenses and the contributing factors to net income. Attention should be focused on special reporting items such as earnings or expenses from discontinued operations. Losses from discontinued operations may represent a significant source of drain on the holding company's earnings. These operations should be investigated thoroughly to identify the types of operations involved, expected durations, and their impact on holding company earnings.

PROCEDURES #~~22~~ 23 - ~~23~~ 24 assist analysts in reviewing a group's cash flow. The three primary sections within a holding company cash flow statement include cash from operating, investing, and financing. These categories detail the cash inflows and the expenses associated with the activities of the holding company.

A positive cash flow from operations is essential to the continued financial stability of a holding company. A negative cash flow from operations or a negative cash flow trend could present a drain on assets.

Analysts should assess the level of liquid assets to current liabilities to determine the proper matching of assets to claims obligations. Analysts should also assess the material risk associated with low-quality assets and understated reserves.

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ANNUAL CREDIT RISK ASSESSMENT

----------Detail Eliminated to Conserve Space----------

Exposure to Private Credit Securities, Level 3 Securities, and Bonds with Private Letter Ratings

In recent years, the insurance industry has seen 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. While this increase is generally consistent with the broader capital markets trend of increased issuance of private assets, the potential lack of transparency related to private assets can complicate the assessment of credit quality and reduce the liquidity of the portfolio.

Private credit generally refers to debt, or debt-like, securities that are not publicly issued or traded. Private credit is an evolving, alternative funding source. Non-bank lenders, including insurance companies, private debt funds, and business development companies, issue private loans directly to mostly small and middle-market companies that do not have—or have limited—access to the public corporate bond and loan markets. These small middle-market companies often have more debt than larger companies that access capital via leveraged loans and public bonds and, therefore, are more susceptible to economic downturns and the impact of rising interest rates.

Private credit has a variety of strategies that include direct lending, distressed debt, venture debt, mezzanine finance, and special situations. Direct lending is the largest segment and accounts for about 40% of the U.S. private credit market. The largest investors in private credit are typically pension funds, insurance companies, and sovereign wealth funds. While direct lending to corporate issuers is the simplest and most common type of private credit, it is evolving into more complex investments like feeder fund structures, private credit CLOs, and asset-based financing (where loans are secured by collateral such as inventory, receivables, equipment, or property).

Risks and mitigating factors include:

- Less liquidity: Private credit is generally issued directly by a non-bank lender or a small group of lenders, resulting in a relatively illiquid market where secondary trading is limited.
- Less transparency: The availability of information about a private credit security is often contractually restricted, which contributes to lower transparency compared to public securities.
- Less frequent pricing: Private credit may be subject to less frequent valuation and pricing; and it may rely on third-party valuations and/or modeling, which may be subjective.
- Assessment of credit quality:
    - While lack of transparency can make credit quality more difficult to assess, private credit lenders can often benefit from stronger control over documentation than lending through a syndicate of banks and are able to customize terms of the transaction given their direct relationship with borrowers. In the event of stress, lenders and investors should be able to work directly with the borrower to modify the transaction terms or add investor safeguards.

- Private credit also has the potential to provide a broader pool of debt issuers that results in portfolio diversification.

- Future performance:
  - Private credit generally offers higher spreads and yields than public corporate bonds and loans to compensate investors for the relative market illiquidity (lack of a secondary market) and complexity depending on the transaction type.
  - As the nature of private credit evolves and expands, there is no assurance that current/historical performance trends (largely favorable) will continue. The solid historical performance of private lending may not be comparable performance as the market grows and as new entrants change focus to non-traditional alternative assets and more challenging and stressed credit environments occur, particularly higher interest rates.

Refer also to guidance published by the NAIC Capital Markets Bureau on private credit and its characteristics.

Note that the Annual Statement includes new disclosures and reporting requirements to improve the identification of different types of private placements. For year-end 2026, insurers will be required to disclose the SEC registration status for each investment: public, Rule 144A, private placements (defined to include Regulation D, Section 4(a)(2) exempt or other exclusion from SEC registration), or not applicable because the investment is not within the scope of the Securities Act of 1933. An aggregate disclosure in Note 5.T—Private Securities to capture key data by each grouping of investments by registration status to allow for ease of regulator review. The reporting will be provided in an electronic column in all investment reporting schedules (held, acquired, disposed) for short-term investments, cash equivalents, issuer credit obligations, asset-backed securities, common stock, preferred stock and other long-term investments.

Fair Value Measurement Hierarchy

An important element in evaluating risks associated with valuation of private investments (equity or credit) is the level of input available to determine fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy (see SSAP No. 100) prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or prices derived from inputs that are observable (e.g., interest rates and yield curves).

- **Level 3** inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available. These inputs often involve significant judgment and estimation, including the use of internal models and assumptions.

Information associated with fair value measurement is provided in Note 20 (Fair Value Measurements) of the Annual Statement and can assist regulators in assessing the risks associated with an insurer's private investment holdings. In addition, information on fair value hierarchy reported in the investment schedules can be utilized to identify individual securities warranting additional review.

Private Letter Ratings (PLRs)

Privately rated securities reported by U.S. insurance companies have become more prevalent in recent years. The greater use of PLRs is generally consistent with the overall increase in private credit investments by insurers, particularly life companies. PLRs provide proprietary details of investments and are only communicated to the issuer and a specified group of investors. Therefore, these investments do not benefit from the market validation that comes from market transparency (multiple investors, publicly viewable ratings, etc.) and often come as a single rating rather than multiple ratings. The NAIC has required insurance companies to submit PLRs for verification since 2018, whereby the NAIC's SVO reviews that the letter submitted is for the appropriate security and the current year. In addition, effective in 2022, insurers are required to file full rating rationale reports for PLR requests with the SVO, to partially mitigate concerns regarding the lack of transparency of PLRs.

Procedures / Data

- Review the Private Security Code details in the investment schedules, and aggregate private securities information in Note 5.T.; or utilize iSite+ tools, to identify a concentration in private securities.
  - Ratio of Private securities in aggregate and by security code category to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
- Review the SVO Administrative Symbols provided for the insurer's bond portfolio on Column 6 of Schedule D, or utilize iSite+ tools, to identify a concentration in securities backed by PLRs (i.e., symbols PL and PLGI).
  - Ratio of securities backed by PLRs to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
  - Change in securities backed by PLRs from the prior year
- Review information provided in Note 20C of the Annual Statement (Fair Value Measurement) or utilize iSite+ tools, to identify the extent investments (by type of financial instrument) have a fair value determined with unobservable inputs (i.e., Level 3 inputs).
  - Ratio of Level 3 securities to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
  - Change in Level 3 securities from the prior year

Additional Review Considerations

- For insurers with a concentration in bonds with Private Letter Ratings PLRs:
  - Request the support of the NAIC's Securities Valuation Office (SVO) to investigate the rating sources for the securities (with a focus on concentrations with any one rating agency and/or securities with

only one rating) and consider the potential impact on the insurer's RBC charges and investment risk exposures.

- Request details from the company on its own internal ratings for securities backed by PLRs where applicable and compare with rating agency rating for discrepancies.

- If private placements, private credit investments, Level 3 or 2D securities, or assets with PLRs are material, consider inquiring of the insurer its infrastructure and investment management policies and procedures (i.e. portfolio management and credit analyst expertise, including approach to making investment decisions) in place either internally, or via an affiliate, and/or outsourced investment manager, to manage these investments.
- If necessary, consider utilizing an investment specialist to assist in asset valuation considerations.
- If appropriate, consult with or request an Opinion from the NAIC's SVO or Structured Securities Group (SSG) on a specific investment holding or transaction. [A state insurance regulator can ask for SVO or SSG analytical assistance with respect to any investment related activity or in connection with an assessment of investment-related aspects of a Regulatory Transaction (defined in the P&P Manual). The department can direct an insurance company to file relevant information with the SVO or SSG for the purpose of that analysis and the SVO or SSG will issue a report back to the department.]

Request a Preliminary Analysis from the NAIC's Capital Markets Bureau (CMB) to assess the insurer's overall portfolio investment risk exposures and suggest additional follow-up procedures that can be performed by the department to address overall portfolio issues identified. Request analytical assistance from the CMB to better understand and measure the investment risks related to a particular asset class, investment-related activity, or market trend.

----------Detail Eliminated to Conserve Space----------

Inadequate Collateral for Mortgage Loan Risk

An important consideration in the analysis of mortgage loans is the adjusted loan-to-value and debt service coverage ratio for each property owned, which are used in the determination of the mortgage's Commercial Mortgage Risk Category and are detailed in the RBC worksheet. Out-of-date appraisals may result in inaccurate valuation, resulting in an undervalued underlying collateral asset.

Procedures / Data

- Review information available in the RBC filing (LR004) and Schedule B detail to identify a concentration in loans with unfavorable debt service coverage (DSC) ratios and adjusted loan-to-values (LTV) (i.e., book value/recorded investment of each loan compared to the value of the land and buildings mortgaged) of the individual mortgage loans to determine whether the mortgage loans, or in office property types are adequately collateralized.

Additional Review Considerations

- For mortgage loans with interest overdue or in process of foreclosure, review the date of the last appraisal or valuation (Schedule B – Part 1) to determine whether updated appraisals should be obtained.
- If significant or concerning concentrations in mortgage loans with unfavorable DSC or LTV ratios or in office property types are identified, request additional information from the insurer to further assess their credit risk in this area and evaluate any risk mitigation strategies in place.

----------Detail Eliminated to Conserve Space----------

Credit Quality of Assets Supporting Collateral Loans (Life/A&H Insurers)

The procedure assists analysts in determining whether concerns exist due to the level of investment in collateral loans. Collateral loans are unconditional obligations for the payment of money secured by the pledge of an investment. They are subject to the same market and credit risks as their underlying collateral but are likely even riskier given their illiquid and less transparent nature. Market conditions such as rising interest rates and market volatility can impact the value of the underlying collateral and, in turn, an insurer's ability to fulfill policyholder obligations. However, interest rates, while still relatively high, were lowered for the first time in almost a year, and collateral loans are not a core investment for U.S. insurance companies. While collateral loans represent less than 1% of U.S. insurers' total cash and invested assets industry-wide, for private-equity-owned insurers, collateral loans are typically a larger proportion of their total cash and invested assets as compared to the overall U.S. insurance industry. Analysts should review Annual Financial Statement, Schedule BA. In most states, collateral loans are required to be secured or collateralized by assets which have a value in excess of the amount of the loan and which are considered admitted assets for an insurer.

Procedures / Data

- Review the following ratios to determine the level of concentration in collateral loans.
  - Ratio of collateral loans to total net admitted assets.
  - Ratio of collateral loans to capital and surplus plus AVR.

Additional Review Considerations

- Compare the fair value of the collateral to the amount loaned to determine whether the loan is adequately collateralized. In those instances where the underlying collateral is comprised of securities, analysts might consider verifying the rate used to obtain the fair value of the securities by referencing the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).
- Review Annual Financial Statement, Schedule BA – Other Invested Assets Owned and perform the following for each such loan:
  - Determine whether the collateral for the loan is invested in a quality asset.
  - Determine whether the collateral loan is to an officer, director, parent, subsidiary, or affiliate.

----------Detail Eliminated to Conserve Space----------

Impairment of Invested Assets Exposed to Climate Change and/or Transition Risk

Identify and assess the potential exposure of the insurer's investment portfolio to the impact of material climate change and/or energy transition risks. Transition risks refer to stresses on certain investment holdings arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change. A few examples of investment holdings and sectors generally subject to greater levels of transition risk include oil/gas, transportation, heavy manufacturing, and agriculture. The insurer's investment portfolio is subject to prospective devaluation or impairment of the assets or changes in the asset return associated with its holdings of climate-affected assets.

Procedures / Data

- Review the information disclosed by the insurer in its responses to the NAIC's Climate Risk and Disclosure Survey (if available) on its exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review other relevant information provided in the Own Risk and Solvency Assessment (ORSA) Summary Report, and/or U.S. Securities and Exchange Commission (SEC) 10K or 10Q filings (if available) that discusses the insurer's exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review results of basic scenario analysis conducted by the NAIC using insurers' Annual Statement filings in the NAIC's U.S. Insurance Industry Climate Affected Investment Analysis to identify potential concentrations in insurer exposure.
- Review the Climate Affected Assets Dashboard to assess an insurer's exposure to assets that might be subject to transition risk in the coming years. The dashboard allows the user to view an individual insurer's investment portfolio as of year-end, which has been classified into buckets of climate affected assets (i.e., Fossil Fuel, Energy Intensive), with the ability to view those categories as a percentage of the overall portfolio. Companies that do not have assets subject to transition risk (i.e., Treasuries, Cash) will not be included.

Additional Review Considerations

- Review the insurer's investment policies and strategies to assess whether material climate change, transition and asset devaluation risk considerations have been appropriately implemented into the investment processes.
- Review the most recent examination report and summary review memorandum (SRM) for any findings regarding climate change/energy transition risks.
- If concerns exist, consider requesting information from the insurer regarding its management of exposure to material climate change/energy transition risk, including how it identifies and estimates current and prospective exposures and the limits (if any) in place to avoid concentrations.

----------Detail Eliminated to Conserve Space----------

Credit Quality, Adequacy and Appropriateness of Assets Held for Modco or FWH Agreements (Life/A&H Insurers)

Concerns may exist regarding the quality, adequacy and appropriateness of assets held to support Modified Coinsurance (Modco) or Funds Withheld (FWH) reinsurance, particularly as investments become increasingly complex. Concerns may include controls and governance over investment practices, valuation and ratings of assets, and if material amounts of assets involve related party transactions.

Where collateral held is related to Modco and FWH reinsurance, the analyst should review the information in Note to the Financials #5L(1), #5L(4) and #5L(5), and Schedule S—Part 8—Reinsurance Agreements with Funds Withheld and Modified Coinsurance, in conjunction with other credit, operational and strategic risk of the insurer's reinsurance program. Additionally, review the analysis considerations related reserve reporting required by AG 53 (complex assets) and AG 55 (assets supporting reinsurance) outlined in the Reserving Risk Assessment and SOA procedures and guidance.

Where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held by investment schedule, and gain

an understanding of the materiality of aggregate BACV of the collateral received to the insurer's asset portfolio. Further, the Note #5L(5) disclosure identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. The analyst can use the information in Schedule S—Part 8 to identify any concerns with the types of assets and credit quality of assets held under ceded or assumed Modco or FWH agreements.

Procedures / Data

- Identify the types of reinsurance agreements and jurisdiction of the reinsurer [Annual Financial Statement, Schedule S – Part 3] and determine if concerns may exist over the adequacy and quality of assets held by reinsurers in support of ceded reserves that may require further analysis or inquiry to the insurer.
- Compare the BACV of the collateral received and assets held under Modco/FWH Reinsurance Agreements to the recognized obligation for Modco and FWH assets. [Annual Financial Statement, Notes to the Financials #5L(4)(m and n)].
- Identify if investments held under FWH agreements (including Modco) are related to the Modco/FWH reinsurer [Annual Financial Statement, Notes to the Financials 5L(5)(o-v)].
- Identify if the insurer is engaged in ceding business under Modco and FWH agreements with offshore reinsurers.
    - Gain an understanding, through review of Schedule S - Part 3, of the types of insurance business ceded, the reinsurer's jurisdiction, if affiliated or non-affiliated, and applicable collateral requirements by type of reinsurer (i.e. authorized, unauthorized, reciprocal jurisdiction, certified)
- Review Schedule S – Part 8 to determine if concerns exist regarding the types of assets held or the credit quality of assets held under Modco/FWH agreements. Consider if the aggregate of medium or lower quality assets held represent a material amount of the related Modco/FWH liabilities.
    - Review Schedule S – Part 8 in comparison to Life RBC (asset schedules) to ensure asset subtotals match. If differences exist, inquire of the insurer, as differences may have an impact on the RBC calculation.
- Determine if assets held under Modco or FWH agreements are also pledged under other agreements [Annual Financial Statement, Notes to the Financials #5L(5)].

- Determine if assets held under Modco or FWH agreements contain a material amount of private credit assets or related party investments (or related to the reinsurer managing the portfolio). If so, consider additional procedures in the Private Credit section above and/or Related Party section below.

----------Detail Eliminated to Conserve Space----------

Collectability or Default of Investments Involving Related Parties

Determine related party exposure in the investment portfolio and assess any related credit risk.

Related parties are entities that have common interests as a result of ownership, control, affiliation or by contract as definited in *SSAP No. 25—Affiliates and Other Related Parties* (SSAP No. 25). Refer to the *Insurance Holding Company System Model Act* (Model #440) and SSAP No. 25 for a broader definition of "affiliate," "related party" and "control".

Related party transactions are subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair and reasonable to the reporting entity or its

policyholders. As such, related party transactions require specialized accounting rules and increased regulatory scrutiny.

The anlayst should utilize the tools available in iSite+ to identify if the insurer has a material exposure to investments involving related parties, either on an asset category basis or in aggregate, and by the related party designation noted below. If a material exposure exists, further assessment of the credit risk may be warranted. For example, what is the NAIC designation of investments involving related parties? Analysts may also consider the extent to which related parties are involved in securitizing or originating business for the insurer, and what differences may exist in how investments involving related parties are valued (market risk). If the role of the related party is that of a third-party advisor, factors to consider may include for example, the expertise of the related party advisor, any potential conflicts of interest, and if related parties are originating investments only for the insurer or also to the public, the latter being subject to SEC requirements.

Within the Annual Financial Statement investment Schedules B, BA, D, DA, DB, DL, and E (Part 2), all investments involving related parties must incude disclosure to ensure full transparency. This disclosure is in the column "Investments Involving Related Parites". It designates investments by the following roles:

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships, and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer, or another similar influential role.
5. The investment is identified as a related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

Procedures / Data

- Review the Annual Financial Statement investment schedules, as disclosed in the column "Investments Involving Related Parties" and utilizing iSite+ tools, determine if the insurer has material related party exposures in its investment portfolio. This disclosure is included in:
  - Schedule B – Part 2
  - Schedule BA – Part 2
  - Schedule D – Part 1, Sections 1 and 2
  - Schedule DA – Part 1
  - Schedule DB – Part A Section 1
  - Schedule DL – Part 1 and 2
  - Schedule E, Part 2

Consider exposure by asset class and in aggregate, and by the role of the related party in the investment as designed by the "Investments Involving Related Parties" disclosure.

- If concerns exist regarding a material related party exposure in the investment portfolio, assess the credit quality of those investments and assess any historical default experience.
- Determine if related party investments include a material amount of private credit assets (e.g. related investment manager or related reinsurer managing the Modco/FWH reinsurance assets). If so, consider additional procedures in the Private Credit or Modco/FWH sections above.

LIQUIDITY RISK: Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

The Liquidity Risk Assessment is focused primarily on overall liquidity, liquidity of investments, receivables, and cash flow from operations. In analyzing liquidity risk, analysts may analyze specific types of investments and receivables held by insurers. An analyst's risk-focused assessment of liquidity risk should take into consideration the following areas (but not be limited to):

- Liquidity ratios/metrics
- Liquidity of certain investments, such as: private credit securities, including private placement bonds~~ and~~ common stock~~,~~; highly structured investments~~,~~; investments on Schedule BA~~,~~; and affiliated investments
- Liquidity of certain receivables, including health care receivables and special deposits
- Cash flow from operations
- Stockholder dividends
- Surrender and withdrawal activity for life insurers

----------Detail Eliminated to Conserve Space----------

Impact of Market Volatility on the Liquidity of the Aggregate Investment Portfolio

An important consideration when markets experience significant volatility and strains is the potential negative impact may not be on just one or a small number of investments held by insurers. Rather, market strains can have a significant impact on an entire asset class, several asset classes, or the entire investment portfolio. Particularly vulnerable are asset classes that represent smaller markets that are typically less liquid, are more complex or are assets that would be considered less traditional for insurers. Therefore, state insurance regulators should consider the potential impact of significant market challenges on different asset classes in the investment portfolios of insurers.

Procedures

- Review and monitor material asset classes for significant changes in fair value and/or significant changes in relative liquidity. Utilize data in the Annual Statement, Financial Profile, Snapshot Investment Summary and investment dashboards. Also refer to specific liquidity guidance in this chapter on asset groups such as bonds, BA assets and mortgage loans. Do not limit considerations to one asset class, but also consider the aggregate of all such vulnerable asset classes. Examples of asset groupings that may represent notable exposures in insurer portfolios and that should be considered are:
  - Below investment grade bonds.
  - Weaker investment grade ("BBB" rated) bonds.
  - Commercial mortgage loans, particularly office properties.
  - Mezzanine loans.

- Real estate equity.
- Structured securities, especially collateralized loan obligation (CLO) tranches (including CLO Combo Notes and Middle Market CLOs).
- Residential mortgage-backed securities (RMBS), specifically as to cash flow variability.
- Emerging markets investments.
- Hedge funds.
- Private equity funds.
- Private credit, including private placements (specifically non-144A) and private letter ratings.
- Derivatives transactions.
- Concentrations in exposure to the auto, technology, consumer products and retail sectors (due to the potential impact of tariffs).

- Refer to the Procedures for review of Actuarial Guideline 53 and Actuarial Guideline 55 in the Reserve Risk Chapter for additional related investment liquidity review.

Additional Review Considerations

i. For the identified asset classes above, where there is not a readily available or exchange traded market, verify pricing and valuation sources and methods. Close attention should be given to asset classes like private equity and real estate that usually report on a 3-month lag, as well as private credit whose valuations may be subjective.

ii. Inquire as to how the insurer is managing the potential risk of rating migration. Inquire as to how they may apply a credit rating transition matrix and calculate the resulting increased RBC charges.

iii. Inquire as to how the insurer is managing the above-mentioned challenges and other potential challenges in the investment marketplace. For example, consider the following questions:
   a. How is the insurer managing its liquidity needs given the changes in investment markets, especially given historically liquid assets may not be as liquid?
      1. How is the insurer managing changes in cash-flow expectations from prepayments, both generally and specifically associated with mortgage-backed securities?
   b. How is the insurer managing significant changes in fair value of portfolio assets, especially for longer dated investments?
      1. Are other-than-temporary- impairments (OTTI) appropriate?
      2. If there is an ongoing risk, should the insurer consider shortening the duration of future investments?

iv. Review the insurer's Liquidity Stress Test submission (if applicable) to evaluate results and assess the insurer's stress testing process and assumptions.

v. Inquire as to how changes in the investment profile (particularly duration) may impact asset/liability matching, asset adequacy analysis and cash-flow testing.

vi. Request an Opinion from the NAIC's Securities Valuation Office (SVO) or Structured Securities Group (SSG) on a specific investment holding or transaction. A state insurance regulator can ask for SVO or SSG analytical assistance with respect to any investment related activity or in connection with an

assessment of investment-related aspects of a Regulatory Transaction (defined in the P&P Manual). The department can direct an insurance company to file relevant information with the SVO or SSG for the purpose of that analysis and the SVO or SSG will issue a report back to the department.

vii. Request a Preliminary Analysis from the NAIC's Capital Markets Bureau (CMB) to assess the insurer's overall portfolio of investment risk exposures and obtain additional follow-up procedures that can be performed by the department to address any overall portfolio issues identified. Request analytical assistance from the CMB to better understand and measure the investment risks related to a particular asset class, investment-related activity, or market trend.

----------Detail Eliminated to Conserve Space----------

Exposure to Private Credit Securities, Level 3 Securities, Bonds with Private Letter Ratings and Unfunded Commitments

In recent years, the insurance industry has seen 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. While this increase is generally consistent with the broader capital markets trend of increased issuance of private assets, the potential lack of transparency related to private assets can complicate the assessment of credit quality and increase the liquidity risk of the portfolio.

Private credit generally refers to debt, or debt-like, securities that are not publicly issued or traded. Private credit is an evolving, alternative funding source. Non-bank lenders, including insurance companies, private debt funds, and business development companies, issue private loans directly to mostly small and middle-market companies that do not have—or have limited— access to the public corporate bond and loan markets. These small middle-market companies often have more debt than larger companies that access capital via leveraged loans and public bonds and, therefore, they are more susceptible to economic downturns and the impact of rising interest rates.

Private credit has a variety of strategies that include direct lending, distressed debt, venture debt, mezzanine finance, and special situations. Direct lending is the largest segment and accounts for about 40% of the U.S. private credit market. The largest investors in private credit are typically pension funds, insurance companies, and sovereign wealth funds. While direct lending to corporate issuers is the simplest and most common type of private credit, it is evolving into more complex investments like feeder fund structures, private credit CLOs, and asset-based financing (where loans are secured by collateral such as inventory, receivables, equipment, or property).

Risks and mitigating factors include:

- Less liquidity: Private credit is generally issued directly by a non-bank lender or a small group of lenders, resulting in a relatively illiquid market where secondary trading is limited.
- Less transparency: The availability of information about a private credit security is often contractually restricted, which contributes to lower transparency compared to public securities.
- Less frequent pricing: Private credit may be subject to less frequent valuation and pricing; and it may rely on third-party valuations and/or modeling, which may be subjective.

- Assessment of credit quality:
  - While lack of transparency can make credit quality more difficult to assess,private credit lenders can often benefit from stronger control over documentation, as compared to a syndicate of lenders, and are able to customize terms of the transaction given their direct relationship with borrowers. In the event of stress, lenders and investors should be able to work directly with the borrower to modify the transaction terms or add investor safeguards.
  - Private credit also has the potential to provide a broader pool of debt issuers that results in portfolio diversification.
- Future performance:
  - Private credit generally offers higher spreads and yields than public corporate bonds and loans to compensate investors for the relative market illiquidity (lack of a secondary market) and complexity depending on the transaction type.
  - As the nature of private credit evolves and expands, there is no assurance that current/historical performance trends (largely favorable) will continue. The solid historical performance of private lending may not be comparable performance as the market grows and as new entrants change focus to non-traditional alternative assets and more challenging and stressed credit environments occur, particularly higher interest rates.

Refer also to guidance published by the NAIC Capital Markets Bureau on private credit and its characteristics.

Note that the Annual Statement includes new disclosures and reporting requirements to improve the identification of different types of private placements. For year-end 2026, insurers will be required to disclose the SEC registration status for each investment: public, Rule 144A, private placements (defined to include Regulation D, Section 4(a)(2) exempt or other exclusion from SEC registration), or not applicable because the investment is not within the scope of the Securities Act of 1933. An aggregate disclosure in Note 5.T—Private Securities to capture key data by each grouping of investments by registration status to allow for ease of regulator review. The reporting will be provided in an electronic column in all investment reporting schedules (held, acquired, disposed) for short-term investments, cash equivalents, issuer credit obligations, asset-backed securities, common stock, preferred stock and other long-term investments.

Fair Value Measurement Hierarchy

An important element in evaluating risks associated with valuation of private investments (equity or credit) is the level of input available to determine fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy (see SSAP No. 100) prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets in active

markets, quoted prices for identical or similar assets in inactive markets, or prices derived from inputs that are observable (e.g., interest rates and yield curves). Level 2D reflects use of internal models.

- **Level 3** inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available. These inputs often involve significant judgment and estimation, including the use of internal models and assumptions.

Information associated with fair value measurement is provided in Note 20 (Fair Value Measurements) of the Annual Statement and can assist regulators in assessing the risks associated with an insurer's private investment holdings. In addition, information on fair value hierarchy reported in the investment schedules can be utilized to identify individual securities warranting additional review.

Private Letter Ratings (PLRs)

Privately rated securities reported by U.S. insurance companies have become more prevalent in recent years. The greater use of PLRs is generally consistent with the overall increase in private credit investments by insurers, particularly life companies. PLRs provide proprietary details of investments and are only communicated to the issuer and a specified group of investors. Therefore, these investments do not benefit from the market validation that comes from market transparency (multiple investors, publicly viewable ratings, etc.) and often come as a single rating rather than multiple ratings. The NAIC has required insurance companies to submit PLRs for verification since 2018, whereby the NAIC's SVO reviews that the letter submitted is for the appropriate security and the current year. In addition, effective in 2022, insurers are required to file full rating rationale reports for PLR requests with the SVO, to partially mitigate concerns regarding the lack of transparency of PLRs.

Unfunded Private Equity Commitments

Insurers have continued to expand their allocations to private equity, as evidenced by the increase in unfunded commitment (liability) levels in recent years. These funding commitments—contractual obligations to contribute capital to private equity funds over time—have grown along with insurers' appetite for higher-yielding, long-duration assets amid heightened market volatility. This trend underscores a strategic shift toward private markets, although it also introduces additional considerations around liquidity management and possible valuation uncertainty. Unfunded commitments may be commitments to private credit funds, but can also include commitments to private equity, hedge funds and real estate limited partnerships.

Procedures / Data

- Ratio of private-placement bonds owned to policyholder surplus (P/C), to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
- Increase in private placement bonds from the prior year
- Review the Private Security Code details in the investment schedules, and aggregate private securities information in Note 5.T.; or utilize iSite+ tools, to identify a concentration in private securities.
  - Ratio of Private credit securities in aggregate, by asset type, and by security code category to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
- Review the SVO Administrative Symbols provided for the insurer's bond portfolio on Column 6 of Schedule D, or utilize iSite+ tools, to identify a concentration in securities backed by PLRs (i.e., symbols PL and PLGI).

- Ratio of securities backed by PLRs to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
- Change in securities backed by PLRs from the prior year, in aggregate and by asset type

- Review information provided in Note 20C of the Annual Statement (Fair Value Measurement) or utilize iSite+ tools, to identify the extent investments (by type of financial instrument) have a fair value determined with unobservable inputs (i.e., Level 3 inputs).
  - Ratio of Level 3 or Level 2D securities in aggregate and by asset type, to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
  - Change in Level 3 or Level 2D securities from the prior year, in aggregate and by asset type
- Review Note 14A1 to identify if the insurer has a material exposure to contingent commitments.
  - Change in contingent commitments (liabilities) since the prior year, in aggregate.

Additional Review Considerations

- Review Note 14 – Liabilities, Contingencies, and Assessments, to assess the insurer's exposure to unfunded commitments to private credit funds.
- If exposure to unfunded commitments is significant, consider whether the insurer's management and board have a clear understanding of differences in liquidity and market value drivers, as well as the reasons for different yield and cash-flow characteristics, as unfunded commitments contractually obligate the insurer to contribute capital to private equity funds over a designated period of time.
- Review Annual Financial Statement, Schedule D – Part 1A to determine the amount, issue type, NAIC designations, maturity distribution of privately-placed bonds owned, and the amount of privately placed bonds that are freely tradeable under U.S. Securities and Exchange Commission (SEC) Rule 144 or qualified for resale under SEC Rule 144A.
- For insurers with a concentration in bonds with Private Letter Ratings (PLRs):
  - Request the support of the NAIC's Securities Valuation Office (SVO) to investigate the rating sources for the securities (with a focus on concentrations with any one rating agency and/or securities with only one rating) and consider the potential impact on the insurer's RBC charges and investment risk exposures.
  - Request details from the company on its own internal ratings for securities backed by PLRs where applicable and compare with rating agency rating for discrepancies.
- For insurers with a significant concentration in Level 3 or Level 2D securities, consider reviewing the investment schedule detail to identify whether the investments with Level 3 or Level 2D fair values are private, whether a private letter rating is the source of the NAIC designation for these items, and the extent the investments have aggregate deferred interest or paid-in-kind (PIK) interest.
- Utilize information on fair value hierarchy reported in the investment schedules to identify individual securities warranting additional review.
- If private placements, private credit investments, Level 3 or 2D securities, or assets with PLRs are material, consider inquiring of the insurer its infrastructure and investment management policies and procedures (i.e. portfolio management and credit analyst expertise, including approach to making investment decisions) in place either internally, or via an affiliate, and/or outsourced investment manager, to manage these investments.
- Consider requesting additional information on the ongoing performance of these assets and/or the pricing assumptions and methodologies used in fair value measurement.

- If necessary, consider utilizing an investment specialist to assist in asset valuation considerations.
- If appropriate, consult with or request an Opinion from the NAIC's SVO or Structured Securities Group (SSG) on a specific investment holding or transaction. [A state insurance regulator can ask for SVO or SSG analytical assistance with respect to any investment related activity or in connection with an assessment of investment-related aspects of a Regulatory Transaction (defined in the P&P Manual). The department can direct an insurance company to file relevant information with the SVO or SSG for the purpose of that analysis and the SVO or SSG will issue a report back to the department.]
- Request a Preliminary Analysis from the NAIC's Capital Markets Bureau (CMB) to assess the insurer's overall portfolio investment risk exposures and suggest additional follow-up procedures that can be performed by the department to address overall portfolio issues identified. Request analytical assistance from the CMB to better understand and measure the investment risks related to a particular asset class, investment-related activity, or market trend.

~~Exposure to Private Placement Bonds~~

~~Significant investments in privately-placed bonds may cause concerns regarding the insurer's liquidity because some of these investments cannot be resold, while those that can be resold have restrictions on whom they can be sold to, including restrictions under securities laws. There is no structured market for privately-placed bonds like there is for publicly-traded bonds. Therefore, even if the privately-placed bonds can be sold, it may be difficult to find a willing buyer.~~

~~Procedures / Data~~

- ~~Ratio of private placement bonds owned to policyholder surplus (P/C), to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)~~
- ~~Increase in private placement bonds from the prior year~~

~~Additional Review Considerations~~

- ~~Review Annual Financial Statement, Schedule D – Part 1A to determine the amount, issue type, NAIC designations, maturity distribution of privately placed bonds owned, and the amount of privately placed bonds that are freely tradeable under U.S. Securities and Exchange Commission (SEC) Rule 144 or qualified for resale under SEC Rule 144A.~~
- ~~For significant privately-placed bonds rated by a chief revenue officer, review the issuer's rating or request the Securities Valuation Office's assessment of the designation to evaluate the issuer's financial position and ability to repay its debt.~~

----------Detail Eliminated to Conserve Space----------

Invested Asset Exposure to Climate Change, Transition and Asset Devaluation Risk

Identify and assess the potential exposure of the insurer's investment portfolio to the impact of material climate change and/or energy transition risks and asset devaluation risk. The insurer's investment portfolio is subject to prospective devaluation of the assets/changes in the asset return associated with its holdings of climate-affected assets. Transition risks refer to stresses on certain investment holdings arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change. A few examples of investment holdings and sectors generally subject to greater levels of transition risk include, oil/gas, transportation, heavy manufacturing, and agriculture. In assessing an insurer's exposure to these risks, the analyst is encouraged to review information disclosed by the insurer in its responses to the NAIC's Climate Risk Disclosure Survey, U.S. Securities and Exchange Commission (SEC) filings, and/or the Own

Risk and Solvency Assessment (ORSA) Summary Report filings. In addition, the analyst is encouraged to review the results of basic scenario analysis conducted by the NAIC using insurers' Annual Statement filings (U.S. Insurance Industry Climate Affected Investment Analysis) to identify potential concentrations in exposure.

Procedures

- Review information provided in the insurer's response to the NAIC's Climate Risk and Disclosure Survey (if available) on its exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review relevant information provided in the Own Risk and Solvency Assessment (ORSA) Summary Report, and/or U.S. Securities and Exchange Commission (SEC) 10-K or 10-Q filings (if available) that discusses the insurer's exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review information provided in the NAIC's U.S. Insurance Industry Climate Affected Investment Analysis to identify potential concentrations in insurer exposure.
- Review the Climate Affected Assets Dashboard to assess an insurer's exposure to assets that might be subject to transition risk in the coming years. The dashboard allows the user to view an individual insurer's investment portfolio as of year-end, which has been classified into buckets of climate affected assets (i.e., Fossil Fuel, Energy Intensive), with the ability to view those categories as a percentage of the overall portfolio. Companies that do not have assets subject to transition risk (i.e., Treasuries, Cash) will not be included.

----------Detail Eliminated to Conserve Space----------

ANNUAL MARKET RISK ASSESSMENT

----------Detail Eliminated to Conserve Space----------

Significant Investment Concentration by Asset Class

Determine whether the insurer's investment portfolio appears to be adequately diversified to avoid an undue concentration of investments by asset type, duration or issuer.

Various types of investments to total net admitted assets (excluding separate accounts for Life/A&H) are a measure of the diversity of the insurer's investment portfolio by type of investment. The results of these ratios may also provide some indication of the insurer's liquidity. In addition, the ratio of the investment in any one issuer to total net admitted assets (excluding separate accounts for Life/A&H) is a measure of the diversity of the insurer's investment portfolio by issuer.

For foreign securites, market risk may include material exposures that could result in credit losses if those investments are affected by negative changes in geopolitical or foreign economic environments.

For mortgage loans, market risk may include the risk that the insurer is not properly identifying, handling and recording foreclosed mortgage loans.

Procedures/Data

- Consider evaluating the following assets classes in comparison to total admitted assets[i] to determine the level of concentration *(See also Credit Risk Assessment for diversification of other asset classes):*
  - Asset-Backed Securities.
  - Foreign bonds.
  - Common stocks.
  - Mortgage loans.
  - Real Estate (before encumbrances), including home office real estate.
  - Total derivatives (notional value).
  - Investment in affiliates.
  - Any one single investment in foreign bonds, common stock, real estate and derivatives (excluding afiliated investments) *(Note that single investments in financial asset-backed securities are considered within the Credit Risk Assessment).*

Additional Review Considerations

- Review the percentage distribution of assets for significant shifts in the mix of investments owned during the past five years.
- Industry and Peer Comparison: Note that comparisons should be based on insurer type, but also should reflect the size of the company and more specific aspects of the insurer's liabilities.
  - Compare the insurer's distribution of cash and invested assets and recent changes in asset categories, with a particular focus on the last year or the previous few years, to industry averages and peer

[i] For ratios in this asset concentration procedure, net admitted assets excludes separate accounts for Life/A&H.

averages utilzing ~~on~~ iSite+ tools to determine significant deviations from the industry averages~~.~~ and comparison to peer companies.

- Compare the insurer's investment portfolio to an appropriate peer group. Consider using the NAIC Peer Analysis Financial Profile report or the Snapshot Investment Summary in iSite+ to identify an compare to an appropriate group of peer companies for this purpose.
- ~~The comparison should focus on an appropriate peer group based on insurer type and asset size.~~

- If the insurer's investments include a significant amount of foreign bonds, review the Annual Supplemental Investment Risks Interrogatories (#4 through #11). Consider the insurer's potential foreign currency exposure from holding bonds denominated in a foreign currency.
- Review of the Annual Supplemental Investment Risks Interrogatories to identify any unusual items or areas and determine whether the insurer's investment portfolio is adequately diversified to avoid significant aggregate market risk.
- Review of the Legal Risk Assessment to determine whether the insurer's investment portfolio is in compliance with the investment limitations and diversification requirements per the state's insurance laws.
- Review the most recent examination report and Summary Review Memorandum (SRM) for any findings regarding market risks associated with investment concentration and exposure to riskier asset classes.
- Inquire of the insurer its planned asset mix, and diversification strategies.

----------Detail Eliminated to Conserve Space----------

Impact of Market Volatility on the Aggregate Investment Portfolio

An important consideration when markets experience significant volatility and strains is the potential negative impact may not be on just one or a small number of investments held by insurers. Rather, market strains can have a significant impact on an entire asset class, several asset classes, or the entire investment portfolio. Particularly vulnerable are asset classes that represent smaller markets that are typically less liquid, are more complex or are assets that would be considered less traditional for insurers. Therefore, state insurance regulators should consider the potential impact of significant market challenges on different asset classes in the investment portfolios of insurers.

Procedures

- Review and monitor material asset classes for significant changes in fair value and/or significant changes in relative liquidity. Utilize data in the Annual Statement, Financial Profile, Snapshot Investment Summary and investment dashboards. Also refer to specific liquidity guidance in this chapter on asset groups such as bonds, BA assets and mortgage loans. Do not limit considerations to one asset class, but also consider the aggregate of all such vulnerable asset classes. Examples of asset groupings that may represent notable exposures in insurer portfolios and that should be considered are:
  - Below investment grade bonds.
  - Weaker investment grade ("BBB" rated) bonds.
  - Commercial mortgage loans, particularly office properties.
  - Mezzanine loans.

- Real estate equity.
- Structured securities, especially collateralized loan obligation (CLO) tranches (including CLO Combo Notes and Middle Market CLOs).
- Residential mortgage-backed securities (RMBS), specifically as to cash flow variability.
- Emerging markets investments.
- Hedge funds.
- Private equity funds.
- Private credit, including private placements (specifically non-144A) and private letter ratings.
- Derivatives transactions.
- Concentrations in exposure to the auto, technology, consumer products and retail sectors (due to the potential impact of tariffs).

Additional Review Considerations

- For the identified asset classes above, where there is not a readily available or exchange traded market, verify pricing and valuation sources and methods. Close attention should be given to asset classes like private equity and real estate that usually report on a 3-month lag, as well as private credit whose valuations may be subjective.

- Inquire as to how the insurer is managing the potential risk of rating migration. Inquire as to how they may apply a credit rating transition matrix and calculate the resulting increased RBC charges.

- Inquire as to how the insurer is managing the above-mentioned challenges and other potential challenges in the investment marketplace. For example, consider the following questions:
  - How is the insurer managing significant changes in fair value of portfolio assets, especially for longer-dated investments?
  - Are other-than-temporary- impairments (OTTI) appropriate?
  - If there is an ongoing risk, should the insurer consider shortening the duration of future investments?

- Review the insurer's Liquidity Stress Test submission (if applicable) to evaluate results and assess the insurer's stress testing process and assumptions.

- Inquire as to how changes in the investment profile (particularly duration) may impact asset/liability matching, asset adequacy analysis and cash-flow testing.

- Request an Opinion from the NAIC's Securities Valuation Office (SVO) or Structured Securities Group (SSG) on a specific investment holding or transaction. [A state insurance regulator can ask for SVO or SSG analytical assistance with respect to any investment related activity or in connection with an assessment of investment-related aspects of a Regulatory Transaction (defined in the P&P Manual). The department can direct an insurance company to file relevant information with the SVO or SSG for the purpose of that analysis and the SVO or SSG will issue a report back to the department.]

- Request a Preliminary Analysis from the NAIC's Capital Markets Bureau (CMB) to assess the insurer's overall portfolio of investment risk exposures and obtain additional follow-up procedures that can be performed by the department to address any overall portfolio issues identified. Request analytical assistance from the CMB

to better understand and measure the investment risks related to a particular asset class, investment-related activity, or market trend.

Exposure to Private Credit Securities, Level 3 Securities, Bonds with Private Letter Ratings and Unfunded Commitments

In recent years, the insurance industry has seen 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. While this increase is generally consistent with the broader capital markets trend of increased issuance of private assets, the potential lack of transparency related to private assets can complicate the assessment of credit quality and increase the liquidity risk of the portfolio.

Private credit generally refers to debt, or debt-like, securities that are not publicly issued or traded. Private credit is an evolving, alternative funding source. Non-bank lenders, including insurance companies, private debt funds, and business development companies, issue private loans directly to mostly small and middle-market companies that do not have—or have limited— access to the public corporate bond and loan markets. These small middle-market companies often have more debt than larger companies that access capital via leveraged loans and public bonds and, therefore, they are more susceptible to economic downturns and the impact of rising interest rates.

Private credit has a variety of strategies that include direct lending, distressed debt, venture debt, mezzanine finance, and special situations. Direct lending is the largest segment and accounts for about 40% of the U.S. private credit market. The largest investors in private credit are typically pension funds, insurance companies, and sovereign wealth funds. While direct lending to corporate issuers is the simplest and most common type of private credit, it is evolving into more complex investments like feeder fund structures, private credit CLOs, and asset-based financing (where loans are secured by collateral such as inventory, receivables, equipment, or property).

Risks and mitigating factors include:

- Less liquidity: Private credit is generally issued directly by a non-bank lender or a small group of lenders, resulting in a relatively illiquid market where secondary trading is limited.
- Less transparency: The availability of information about a private credit security is often contractually restricted, which contributes to lower transparency compared to public securities.
- Less frequent pricing: It may be subject to less frequent valuation and pricing.
- Assessment of credit quality:
    - While lack of transparency can make credit quality more difficult to assess, private credit lenders can often benefit from stronger control over documentation and are able to customize terms of the transaction given their direct relationship with borrowers. In the event of stress, lenders and investors should be able to work directly with the borrower to modify the transaction terms or add investor safeguards.
    - Private credit it also has the potential to provide a broader pool of debt issuers that results in portfolio diversification.
- Future performance:

- Private credit generally offers higher spreads and yields than public corporate bonds and loans to compensate investors for the relative market illiquidity (lack of a secondary market) and complexity depending on the transaction type.
- As the nature of private credit evolves and expands, there is no assurance that current/historical performance trends (largely favorable) will continue. The solid historical performance of private lending may not be comparable performance as the market grows and as new entrants change focus to non-traditional alternative assets and more challenging and stressed credit environments occur, particularly higher interest rates.

Refer also to guidance published by the NAIC Capital Markets Bureau on private credit and its characteristics.

Note that the Annual Statement includes new disclosures and reporting requirements to improve the identification of different types of private securities. For year-end 2026, insurers will be required to disclose the SEC registration status for each investment: public, Rule 144A, private placements (defined to include Regulation D, Section 4(a)(2) exempt or other exclusion from SEC registration), or not applicable because the investment is not within the scope of the Securities Act of 1933. An aggregate disclosure in Note 5.T—Private Securities to capture key data by each grouping of investments by registration status to allow for ease of regulator review. The reporting will be provided in an electronic column in all investment reporting schedules (held, acquired, disposed) for short-term investments, cash equivalents, issuer credit obligations, asset-backed securities, common stock, preferred stock and other long-term investments.

Fair Value Measurement Hierarchy

An important element in evaluating risks associated with valuation of private investments (equity or credit) is the level of input available to determine fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy (see SSAP No. 100) prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or prices derived from inputs that are observable (e.g., interest rates and yield curves).

- **Level 3** inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available. These inputs often involve significant judgment and estimation, including the use of internal models and assumptions.

Information associated with fair value measurement is provided in Note 20 (Fair Value Measurements) of the Annual Statement and can assist regulators in assessing the risks associated with an insurer's private investment

holdings. In addition, information on fair value hierarchy reported in the investment schedules can be utilized to identify individual securities warranting additional review.

Private Letter Ratings (PLRs)

Privately rated securities reported by U.S. insurance companies have become more prevalent in recent years. The greater use of PLRs is generally consistent with the overall increase in private credit investments by insurers, particularly life companies. PLRs provide proprietary details of investments and are only communicated to the issuer and a specified group of investors. Therefore, these investments do not benefit from the market validation that comes from market transparency (multiple investors, publicly viewable ratings, etc.) and often come as a single rating rather than multiple ratings. The NAIC has required insurance companies to submit PLRs for verification since 2018, whereby the NAIC's SVO reviews that the letter submitted is for the appropriate security and the current year. In addition, effective in 2022, insurers are required to file full rating rationale reports for PLR requests with the SVO, to partially mitigate concerns regarding the lack of transparency of PLRs.

Unfunded Private Equity Commitments

Insurers have continued to expand their allocations to private equity, as evidenced by the increase in unfunded commitment levels in recent years. These funding commitments—contractual obligations to contribute capital to private equity funds over time—have grown along with insurers' appetite for higher-yielding, long-duration assets amid heightened market volatility. This trend underscores a strategic shift toward private markets, although it also introduces additional considerations around liquidity management and possible valuation uncertainty.

Procedures

- Review the Private Security Code details in the investment schedules, and aggregate private securities information in Note 5.T.; or utilize iSite+ tools, to identify a concentration in private securities.
  - Ratio of Private securities in aggregate and by security code category to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
- Review the SVO Administrative Symbols provided for the insurer's bond portfolio on Column 6 of Schedule D, or utilize iSite+ tools, to identify a concentration in securities backed by PLRs (i.e., symbols PL and PLGI).
  - Ratio of securities backed by PLRs to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
  - Change in securities backed by PLRs from the prior year
- Review information provided in Note 20C of the Annual Statement (Fair Value Measurement) or utilize iSite+ tools, to identify the extent investments (by type of financial instrument) have a fair value determined with unobservable inputs (i.e., Level 3 inputs).
  - Ratio of Level 3 securities to capital and surplus plus AVR (Life/A&H) and to capital and surplus (Health)
  - Change in Level 3 securities from the prior year
- Utilize information on fair value hierarchy reported in the investment schedules to identify individual securities warranting additional review.
- Review Note 14 – Liabilities, Contingencies, and Assessments, to assess the insurer's exposure to unfunded commitments.

Additional Review Considerations

- For insurers with a concentration in bonds with PLRs:
    - Request the support of the NAIC's Securities Valuation Office (SVO) to investigate the rating sources for the securities (with a focus on concentrations with any one rating agency and/or securities with only one rating) and consider the potential impact on the insurer's RBC charges and investment risk exposures.
    - Request details from the company on its own internal ratings for securities backed by PLRs where applicable and compare with rating agency rating for discrepancies.
- For insurers with a significant concentration in Level 3 securities, consider reviewing the investment schedule detail to identify whether the investments with Level 3 fair values are private, whether a private letter rating is the source of the NAIC designation for these items, and the extent the investments have aggregate deferred interest or paid-in-kind (PIK) interest.
- Consider requesting additional information on the ongoing performance of these assets and/or the pricing assumptions and methodologies used in fair value measurement.
- If exposure to unfunded commitments is significant, consider whether the insurer's management and board have a clear understanding of differences in liquidity and market value drivers, as well as the reasons for different yield and cash-flow characteristics, as unfunded commitments contractually obligate the insurer to contribute capital to private equity funds over a designated period of time.
- If necessary, consider utilizing an investment specialist to assist in asset valuation considerations.
- If appropriate, consult with or request an Opinion from the NAIC's SVO or Structured Securities Group (SSG) on a specific investment holding or transaction. [A state insurance regulator can ask for SVO or SSG analytical assistance with respect to any investment related activity or in connection with an assessment of investment-related aspects of a Regulatory Transaction (defined in the P&P Manual). The department can direct an insurance company to file relevant information with the SVO or SSG for the purpose of that analysis and the SVO or SSG will issue a report back to the department.]
- Request a Preliminary Analysis from the NAIC's Capital Markets Bureau (CMB) to assess the insurer's overall portfolio investment risk exposures and suggest additional follow-up procedures that can be performed by the department to address overall portfolio issues identified. Request analytical assistance from the CMB to better understand and measure the investment risks related to a particular asset class, investment-related activity, or market trend.

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Invested Asset Exposure to Climate Change, Transition and Asset Devaluation Risk

Identify and assess the potential exposure of the insurer's investment portfolio to the impact of material climate change and/or energy transition risks. The insurer's investment portfolio may be subject to prospective devaluation of the assets/changes in the asset return associated with its holdings of climate-affected assets. Transition risks refer to stresses on certain investment holdings arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change. A few examples of investment holdings and sectors generally subject to greater levels of transition risk include oil/gas, transportation, heavy manufacturing, and agriculture. In assessing an insurer's exposure to these risks, review information disclosed by the insurer in its responses to the NAIC's Climate Risk Disclosure Survey, U.S. Securities and Exchange Commission (SEC) filings, and/or the Own Risk and Solvency Assessment (ORSA) Summary Report filings. In addition, review the results of basic scenario analysis conducted by the NAIC using insurers' Annual

Statement filings (U.S. Insurance Industry Climate Affected Investment Analysis) to identify potential concentrations in exposure.

Procedures

- Review information provided in the insurer's response to the NAIC's Climate Risk and Disclosure Survey (if available) on its exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review relevant information provided in the Own Risk and Solvency Assessment (ORSA) Summary Report, and/or U.S. Securities and Exchange Commission (SEC) 10-K or 10-Q filings (if available) that discusses the insurer's exposure to material climate change/energy transition risk and related mitigation activity in this area.
- Review information provided in the NAIC's U.S. Insurance Industry Climate Affected Investment Analysis to identify potential concentrations in insurer exposure.
- Review the Climate Affected Assets Dashboard to assess an insurer's exposure to assets that might be subject to transition risk in the coming years. The dashboard allows the user to view an individual insurer's investment portfolio as of year-end, which has been classified into buckets of climate affected assets (i.e., Fossil Fuel, Energy Intensive), with the ability to view those categories as a percentage of the overall portfolio. Companies that do not have assets subject to transition risk (i.e., Treasuries, Cash) will not be included.
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Additional Review Considerations

- Review the insurer's investment policies and strategies to assess whether material climate change, transition and asset devaluation risk considerations have been appropriately implemented into the company's investment processes.
- Review the most recent examination report and summary review memorandum (SRM) for any findings regarding climate change/energy transition risks.
- If concerns exist, consider requesting information from the insurer regarding how the insurer manages its exposure to material climate change/energy transition risk, including how it identifies and estimates current and prospective exposures and the limits (if any) in place to avoid concentrations.

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ANNUAL CREDIT RISK ASSESSMENT

----------Detail Removed to Conserve Space----------

Credit Quality~~, Adequacy~~ and Appropriateness of Asset Intensive Reinsurance~~s Held for~~Placed Through Modco or FWH Agreements (Life/A&H Insurers)

Modified Coinsurance and Funds Withheld Agreements

Concerns may exist regarding the quality, adequacy and appropriateness of assets held to support asset intensive reinsurance placed through Modified Coinsurance (Modco) or Funds Withheld (FWH) ~~reinsurance~~agreements, particularly as investments become increasingly complex. Concerns may include controls and governance over investment practices, valuation and ratings of assets, and if material amounts of assets involve related party transactions.

Where collateral held is related to Modco and FWH reinsurance, the analyst should review the information in Note to the Financials #5L(1), #5L(4) and #5L(5), and Schedule S—Part 8—Reinsurance Agreements with Funds Withheld and Modified Coinsurance, in conjunction with other credit, operational and strategic risk of the insurer's reinsurance program. Additionally, review the analysis considerations related reserve reporting required by AG 53 (complex assets) and AG 55 (assets supporting reinsurance) outlined in the Reserving Risk Assessment and SOA procedures and guidance.

Where the company is engaged in material Modco and FWH arrangements, the analyst can use the detail of collateral received and held under Note 5L(4) to identify the types of assets held by investment schedule, and gain an understanding of the materiality of aggregate BACV of the collateral received to the insurer's asset portfolio. Further, the Note #5L(5) disclosure identifies if securities held as collateral under Modco or FWH agreements are also pledged under other arrangements, in which case they would not be for the benefit of the reinsurer or available to fulfill the liabilities of the reinsurance contract. The analyst can use the information in Schedule S—Part 8 to identify any concerns with the types of assets and credit quality of assets held under ceded or assumed Modco or FWH agreements.

Procedures / Data

- Identify the types of reinsurance agreements and jurisdiction of the reinsurer [Annual Financial Statement, Schedule S – Part 3] and determine if concerns may exist over the adequacy and quality of assets held by reinsurers in support of ceded reserves that may require further analysis or inquiry to the insurer.
    - Compare the BACV of the collateral received and assets held under Modco/FWH Reinsurance Agreements to the recognized obligation for Modco and FWH assets. [Annual Financial Statement, Notes to the Financials #5L(4)(m and n)].
    - Identify if investments held under FWH agreements (including Modco) are related to the Modco/FWH reinsurer [Annual Financial Statement, Notes to the Financials 5L(5)(o-v)].
    - Identify if the insurer is engaged in ceding business under Modco and FWH agreements with offshore reinsurers.

- Gain an understanding, through review of Schedule S - Part 3, of the types of insurance business ceded, the reinsurer's jurisdiction, if affiliated or non-affiliated, and applicable collateral requirements by type of reinsurer (i.e. authorized, unauthorized, reciprocal jurisdiction, certified). See the following sections for additional procedures for assessing risk for offshore unauthorized reinsurance.

- Review Schedule S – Part 8 to determine if concerns exist regarding the types of assets held or the credit quality of assets held under Modco/FWH agreements. Consider if the aggregate of medium or lower quality assets held represent a material amount of the related Modco/FWH liabilities.
  - Review Schedule S – Part 8 in comparison to Life RBC (asset schedules) to ensure asset subtotals match. If differences exist, inquire of the insurer, as differences may have an impact on the RBC calculation.
- Determine if assets held under Modco or FWH agreements are also pledged under other agreements [Annual Financial Statement, Notes to the Financials #5L(5)].

Additional Review Considerations

- If concerns exist regarding the types of assets held or the credit quality of assets held under Modco or FWH agreements, or concerns over reinsurance reporting, inquire of the insurer to:
  - Identify the applicable reinsurers and reinsurance agreements. Annual Financial Statement, Schedule S – Part 3, Financial Profile, Reinsurance Dashboard]
  - Has the insurer entered into new offshore unaffiliated Modco or FWH agreements for which the agreement was not required to be reviewed by the Department?
  - If offshore reinsurance, gain an understanding of the types of business ceded and the insurer's business purpose for ceding the business offshore.
  - Gain an understanding of the collateral requirements for the type of reinsurance and jurisdiction.
  - Request a copy of the applicable Modco/FWH reinsurance agreements and assess if the investment requirements are in compliance with the terms of the agreement and the state's reinsurance statutes.
  - Gain an understanding of the insurer's investment practices, who is managing the investments supporting the reserves, governance policies and use of asset managers for reinsurance assets.
  - If the management of the assets withheld or placed in trust in support of the reinsurance agreement is transferred to the reinsurer or an asset manager:
    - Assess whether the ceding company has provided sufficient direction and oversight to the reinsurer in terms of investment guidelines and limitations.
    - Closely monitor the assets in the funds withheld or trust account to verify they are in compliance with state laws and ceding company guidelines, and are not overly concentrated in complex or risky investments.
- If a material amount of assets held under Modco or FWH agreements are also pledged under other arrangements, inquire of the insurer to gain a better understanding of their use of collateral assets within their reinsurance program and to ensure the insurer is in compliance with collateral requirements.
- Refer significant concerns identified to the examiner for further review, if warranted.

Reinsurance Ceded to Reinsurers in Unauthorized Offshore Jurisdictions

Additional concerns may exist when asset intensive reinsurance is placed in unauthorized offshore jurisdictions with varying regulatory requirements and oversight. In recent years, regulators have observed a rise in the use of offshore reinsurance transactions (both affiliated and unaffiliated) to reinsurers in unauthorized jurisdictions. An underlying concern is that this activity could result in reduced policyholder protection or regulatory arbitrage, and rising reinsurance credit risk, if reinsurance reserves or the underlying collateral supporting those ceded reserves is not sufficient, all of which should be carefully assessed and monitored. Some additional considerations are provided below including an optional "reinsurance comparison worksheet" that can be used to compare different accounting, reserving and capital standards across jurisdictions. In certain international jurisdictions regulators have had difficulties determining if offshore reinsurance arrangements are affiliated or unaffiliated as information about the ownership of the reinsurer may not always be readily available or easily obtained, therefore it is important to have good communication with cedents and relevant foreign jurisdiction regulatory authorities.

A potential concern with utilizing unaffiliated third-party offshore unauthorized reinsurance is when management of the assets withheld or placed in trust in support of the agreement is transferred to the reinsurer or an asset management affiliate, which may be the case in some asset intensive reinsurance arrangements. In these situations, the reinsurer may have incentive to reallocate the portfolio into more complex assets to achieve a higher rate of return, including assets originated by or placed within its affiliated entities.

Finally, while historically more common in property/casualty insurance, there have been recent indications that more reinsurance sidecars are being formed in the life/annuity reinsurance industry. Sidecars are limited purpose reinsurance transactions where third-party investors infuse capital in exchange for dividends, and may also provide other services, such as asset management services in exchange for fees. The purpose is to offer alternative capital to reduce volatility in earnings and capital of the ceding insurers. Since sidecars arrangements may be formed with different strategies and interests in mind (infuse capital support, specialized asset management expertise, favorable offshore capital/tax treatment, reduce volatility, etc.), it is important to understand the structure of the sidecar deal, and whether the ceding insurance company has sufficient governance and controls over services provided by the sidecar.

Procedures / Data

- Identify the type(s) of reinsurance agreements, type(s) of business ceded, and jurisdiction(s) of the unauthorized offshore reinsurer(s). Determine if amounts ceded to unauthorized offshore reinsurers are material. [Annual Financial Statement, Schedule S – Part 3; Financial Profile; Reinsurance Dashboard]

Additional Review Considerations

- For material new reinsurance transactions placed with unauthorized offshore reinsurers, regulators should gain an understanding of and assess the appropriateness of the business purpose for the transaction.
- Monitor the reinsurer's credit and financial strength ratings.
- Consider utilizing the Reinsurance Comparison Worksheet developed by the Macroprudential (E) Working Group to assist in understanding and evaluating cross-border reinsurance treaties where different regulatory systems are involved.
- Gain an understanding of the regulatory requirements for assets held to support the reinsurance agreement.
- Verify the credit quality and liquidity of the funds-withheld assets supporting the agreement, including assessing risks associated with complex assets backing the reinsurance agreements. [e.g. for Life/A&H: Review of Actuarial Guideline 55 filing, if required; Annual Statement Note 5; Schedule S, Part 8 for Life/A&H]. Refer to additional Modco/FWH procedures above.

- For assets managed by third-party reinsurers or asset managers (i.e., funds withheld or held in trust), closely review the assets to identify relationships with the reinsurer and ensure compliance with ceding company guidelines and state investment laws (i.e., single issuer limitations).
- Consider engaging with foreign jurisdiction regulatory authorities to understand their applicable capital, investment, and reserving requirements as well as their understanding of the ownership structure of the reinsurer and the regulatory agency's supervisory plan for the reinsurer.
- Review information provided in the insurer's Actuarial Guideline 55 filing, if required, relating to asset adequacy analysis, reserves and assets supporting asset intensive reinsurance transactions, if applicable. (See additional guidance in the Life Reserve Risk chapter, III.B.8.b.ii)
    - Coordinate with the Valuation Analysis (E) Working Group, as appropriate, to access information from their targeted review of AG-55 filings and/or request additional support.
- Consider requesting information from the cedent, the reinsurer, or the reinsurer's domiciliary regulatory authority, for the Department's ongoing risk assessment. The level of detailed information requested may be dependent on the materiality and complexity of the transaction. For example:
    - Require reporting on the reinsurer:
        - Financial condition of the reinsurer quarterly, which includes RBC calculations for the entity under the fully compliant U.S. statutory basis and foreign jurisdiction's approach
        - Audited financial statements of the reinsurer.
        - Mid-year unaudited statements of the reinsurer. The financial statements audited are prepared under US GAAP and GAAS, and supplemental notes that provide detail on reserves/ capital, investments, and reinsurance activities.
        - Reinsurer's annual standalone cash flow testing results/memorandum, actuarial valuation report.
        - Assets supporting that business and asset adequacy testing that the reinsurer provides to their foreign regulatory authority.
        - For foreign regulatory authority's examination or inspection report of the reinsurer.
    - Require reporting on the cedent in addition to statutory filing requirements:
        - Actuarial Opinion and the supporting Memorandum annually, as well as reporting of mortality and policyholder behavior experience development vs. pricing expectations
    - Require reporting on the transaction, specifically,
        - Quarterly summary reporting of all transactions, or other material blocks of business ceded.
        - Operating results of the entire reinsurance structure (cedent, reinsurer/retrocessaire, unauthorized offshore reinsurer)
        - Updated business plan, investment policy, and quarterly projections for operations of the entire reinsurance structure, including projection of all pertinent aspects of the business ceded from the perspectives of all entities in the reinsurance structure.
            - Three projections, each for twenty years, as the risk flows from entity to entity.
                - One is a level equity and interest projection to represent a baseline expectation.
                - Two projections from the 1000 stochastic projections developed as part of the quarterly reserve and capital calculation. The two projections represent the 15th and 5th worst ending surplus positions and are intended to approximate moderately adverse and minimum capital level projections.
            - The projections provide,

- Broadly, product/treaty level detail as well as the aggregated cash flows. Annual projected amounts for reserves, capital, net after tax income, capital transfers among the entities within the system, and cedent RBC, among many other variables are provided for the system.
- Present value of projected capital contributions from cedent to the reinsurers for each scenario.
- Cedent's starting statutory reserve and details the ceded and assumed amounts throughout the system, giving insight into the amount of reserve and capital relief provided by the structure.

- If the agreement was approved by the Department, assess the compliance with the terms and conditions of any MOU, contractual agreement or conditions placed on the approval of the transaction.
- Conduct periodic in-depth meetings with the cedent's senior management where agenda items may include:
  - Financial/operating results for all entities in the reinsurance structure on a U.S. statutory basis and pro-forma RBC
  - Company initiatives and filings
  - Investment reporting on the assets supporting the agreement including investment income results, rebalancing, and monitoring
  - New sales reporting, and other supplemental information depending on the block of business ceded
  - Compliance with pre-approval conditions
- For the next scheduled examination, recommend the examiner verify the funds-held assets associated with foreign reinsurers to ensure existence, accuracy, and admissibility; and review of the reinsurance agreements for proper risk transfer.

Special Notes:

The following procedures do not supersede state regulation but are merely additional guidance analysts may consider useful only if the state has adopted the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions*, (#450).

Form D – Prior Notice of a Transaction

Form D is transaction specific and is not part of the regular annual/quarterly analysis process. The review of these transactions may vary as some states may have regulations that differ for Form D.

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Assessment of Form D – Unauthorized/Offshore Asset Intensive Reinsurance Transactions

Best Practices for Review of the Agreement:

Reinsurance transactions with reinsurers in foreign jurisdictions that are unauthorized and not reciprocal or certified, may be based on capital and reserving standards that vary materially from U.S. standards. Therefore, it is important when reviewing these unauthorized transactions to understand the foreign jurisdiction's regulatory framework and the financial impacts of the transaction.

In addition to the procedures described above for Form D review, consider the following best practices for review, and pre-/post-approval considerations, of ceded reinsurance transactions with unauthorized reinsurers in offshore jurisdictions.

Note: While some of the following best practices may be relevant and useful for any unauthorized offshore reinsurance agreement, the following are intended primarily for life asset intensive life reinsurance agreements.

Analytical Tools and Practices

1. Request information to complete the review, such as:
    a. A business plan and projections including a three-year proforma financial statements and RBC for the insurer and the reinsurer.
        i. For the reinsurer, recommend amounts be reported not only the framework that will be reported to the reinsurer's foreign regulatory authority but also request at a minimum, a balance sheet and income statement for the reinsurer using U.S. GAAP presentation and U.S. Statutory presentation.
    b. All licensing documents (e.g. master transaction agreement, reinsurance agreement, supplemental trust agreement, related investment management agreement, etc.)
    c. Accounting narratives that fully explain the accounting of the transaction.
    d. Company's risk transfer analysis
2. Utilize the Macroeconomic Working Group Reinsurance Worksheet, where appropriate. Note that Worksheet's may need to be modified and customized accordingly, for example, to work with funds withheld agreements, or where the U.S. state insurance regulator is imposing specific requirements such as those based on fully compliant U.S. RBC.
3. Transactions should undergo review by both the analyst and supervisor and based on complexity, may also undergo an additional supervisory review.
4. Communication and Coordination with the entities during the review process, for example:
    a. Require in-person meetings with the Company for transaction walkthroughs and initial discussions

b. Weekly standing meetings with both the Company and the actuarial or other specialists assisting on the review.

5. Communicate with the unauthorized reinsurer's regulatory authority to discuss the transaction, gain an understanding of the foreign jurisdiction regulator's oversight and any concerns with the reinsurer.
6. Retain an actuarial specialist and/or an investment specialist to assist in the review of the transaction.
7. Perform an independent review conducted by a senior analyst in conjunction with a separate review performed by the specialists.

Analysis Procedures, in addition to general Form D procedures outlined above:

8. Perform a detailed review of all legal agreements.
    a. Assess if the transaction contains all required arms-length terms and provisions.
    b. Does the transaction contain all contractual protections as in 3rd party transactions in order to support the arms-length standard under the state's Insurance Holding Company Systems statute, including terms around overcollateralization, recapture and dividend restrictions?
9. Review the investment guidelines.
    a. Do they define the asset classes eligible for the FWA/ the credit quality, duration, and concentration limits, with sub-limits by instrument and class?
    b. Confirmed that the assets supporting the transaction would be managed using the same investment policies and guidelines required for the cedent.
    c. Review the investment and custody rules. Does the investment management agreement subject the manager to the policies established without authority to withdraw or transfer the assets? Do the custody and title remain exclusively with the cedent?
10. Perform a detailed actuarial review of:
    a. Any alternative reserve methodology and plan of operations of the reinsurer
    b. Pre-reinsurance vs post-reinsurance balance sheets, ceding commissions
    c. A comparison of the reserve and capital requirements for onshore vs offshore
    d. Recapture provisions
    e. Investment guidelines
    f. Reinsurance collectability concerns
    g. Company's standalone cash flow testing
11. Perform a detailed review of the Company's risk transfer analysis to identify any terms that highlight concern or that could limit risk transfer. Determine if the agreement transfers risk.
12. Perform a limited-scope examination, if determined necessary, over standalone asset adequacy testing for high-risk transactions
13. Assess the effectiveness of the cedent's counterparty risk mitigation, such as:
    a. Gain an understanding of the basis for managing the solvency of the reinsurer
    b. Examples of terms of the agreement that may mitigate financial risk of failure are:
        i. 100% Quota Share Coinsurance w/ Funds Withheld
        ii. Assets with Book Value equal to 100% of U.S. Statutory Reserves retained on cedent's balance sheet.
        iii. Supplemental Trust with additional assets equal to 4.5% of U.S. Statutory Reserves are required to be held in a supplemental trust as overcollateralization with a US bank as Trustee.
        iv. Granular negotiated investment guidelines subject to state insurance department approval– i.e., failure to retain RBC ratio triggers more conservative investment guidelines.
        v. Market-to-Book Limit: the Market Value of collateral assets may not be less than 85% of book value of the collateral assets.

vi. Excess collateral may not be withdrawn by reinsurer if RBC ratio is less than 250% CAL (500% ACL), calculated on a fully compliant U.S. statutory basis, or if the Market Value of collateral assets is less than 90% of book value.
vii. Reinsurer cannot pay dividends if RBC ratio is less than 250% CAL (500% ACL). calculated on a fully compliant U.S. statutory basis.
viii. Parental Guarantee
ix. Cedent can elect to recapture if the reinsurer's RBC ratio falls below 200% CAL (400% ACL) or if the reinsurer fails to pay any amount due, including topping up the collateral accounts. If collateral fell to a specified percentage, such as 105%, and the reinsurer fails to top off, the cedent can recapture with full access to all 105% of statutory reserves in collateral.
x. Two-layers of collateral: The funds withheld trust account must be equivalent to 100% of the required statutory ceded reserves, calculated monthly and the trust adds an additional 5% over the required reserves.

14. Assess the monthly settlement. Is the settlement a cash settlement? Does it include a reconciliation of required reserves vs. the funds withheld asset balance with monthly top-off by cedent, and top off of the Trust Account to a specified level?
15. Assess the termination and recapture triggers. Does the agreement provides for the cedent's right of recapture upon a reinsurer's insolvency event, RBC Level, and provides for a notification trigger upon the ACL RBC ratio falling below a specified level, e.g. 300%.

Best Practices for Pre-Approval of the Transaction

Consider entering into a Memorandum of Understanding (MOU) or similar contractual agreement, or require conditions as part of the final approval of the transaction MOU s. The terms of the MOU between the cedent and the insurance department or conditions for approval could include reporting, notification and capital requirements. For example:

1. The cedent retains at all times the legal title and custody of the assets of the Funds Withheld Account (or Trust account)
    a. Funds withheld assets are held in a Trust where cedent is grantor and reinsurer is beneficiary. All assets are held on cedent's balance sheet in a segregated custody account in US banks.
    b. Investments held in the Funds Withheld Account account shall be in the name of the cedent.
    c. Custody is operated through a qualified custodian.
2. Funds Withheld Account or Trust account is established at, for example, 5% over the required statutory resources, where the Trust is voluntary contractual collateral, i.e. security, not for reinsurance credit.
3. Require the terms of the agreement to be based on fully compliant U.S. Statutory Reserves and RBC, irrespective of how the foreign regulatory authority monitors solvency.
4. Require restrictions on dividend and capital distributions without first obtaining Department approval.
    a. For example, the reinsurer cannot pay dividends within its first year. Subsequently it cannot pay dividends that will cause its RBC ratio to fall below, for example, 350% CAL RBC.
    b. For example, the cedant cannot pay dividends should its CAL RBC ratio fall below a sliding scale, for example, that starts at 400% and ends at 350% over 8 years. Any ordinary or extraordinary dividends require Department approval for the first three years after the transaction closes.
5. Require notification to the Department, such as for future or contemplated affiliated and non-affiliated reinsurance transactions, qualified financial contracts
6. Require parental guarantees or keep-well agreements assuring the parent will provide capital support to maintain a certain RBC level or to ensure claims payments.
7. To monitor mortality and policyholder behavior experience, actual vs. expected, require on an annual basis, the cedent perform Asset Adequacy Testing for the ceded policies, under the same requirements

and moderately adverse scenarios and using the same assumptions it uses for Asset Adequacy Testing generally, but on a stand-alone basis for the business subject to reinsurance. To the extent that the funds withheld assets, exclusive of any Letters of Credit, are insufficient to satisfy all cash flows under such analysis, additional reserves will be established at the cedent accordingly. Concurrently with the filing of the annual Actuarial Opinion, the cedent will submit to the department a separate opinion of the Appointed Actuary, summarizing the analysis, assumptions, and results of the stand-alone Asset Adequacy Testing.

a. On an annual basis the cedent will report on mortality experience, including expected to actual, along with any changes in mortality assumptions used in establishing reserves.
b. The Cedent will make submissions to the Department for prior approval for additional cessions on an ongoing basis.
c. The Cedent will report a quarterly summary of transactions to date on a level of detail as requested by the Department.
d. The reinsurer is restricted from retroceding any of its assumed business without the prior approval of the Department. Any violation of this restriction will result in the automatic retraction of the Department's approval.
e. Failure to comply with these conditions will result in retraction of the Department's approval.

8. Require ongoing reporting whereby the foreign reinsurer provides annual financial statements and CAL RBC ratio with reserves and capital including asset adequacy testing and RBC, in accordance with U.S. Statutory accounting, and U.S. RBC standards.
9. Require AG-55 Reporting.
10. Quarterly reporting requirements for all entities in the reinsurance structure.
    a. "Reinsurance structure" in this best practice refers to the cedent, any reinsurer/retrocessionaire(s) in the middle, and the offshore unauthorized reinsurer, for a specific block of business.
    b. This quarterly reporting is intended to allow the Department to proactively identify capital adequacy trends or declines in RBC, and take appropriate regulatory action, well before reaching the 300% minimum.
    c. Minimum RBC requirement for all entities in the reinsurance system, for example, CAL RBC 300%. The RBC requirement is a minimum threshold set by the Department to act as a regulatory backstop to apply a consistent RBC lens across the various regulatory regimes.
11. In addition to quarterly financial statements and RBC of the reinsurer, request the cedent provide quarterly and annual information detailing various aspects of the treaties, including:
    a. Asset-liability management data
    b. Investment guidelines compliance report
    c. Reinsurer's actuarial report
    d. Reinsurer's audited financial statements
    e. Peer review report on the work of the appointed actuary
    f. Summary of settlement activity
    g. Internal capital calculations

Post-Transaction Ongoing Monitoring – Analysis or Examination

After closing the transaction and during future ongoing monitoring, the analysis should focus on assessing the financial solvency of the reinsurer as well as the cedent, compliance with any terms or conditions of the approval and assessing the ongoing reserve adequacy, credit quality of supporting assets, counterparty risk, and risk mitigating strategies. See guidance and procedures in the Credit Risk and Life Reserve Risk chapters III.B.1 and III.B.8.ii. for Credit Quality, Adequacy and Appropriateness of Assets Held for Modco or FWH Agreements and Actuarial Guideline-55 review.

J. Insurers in Run-Off

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Insurance Business Transfers (IBT's) and Corporate Divisions (CD's)

Background:

Over the past few years, states have begun enacting statutes which provide opportunities for solvent insurers considering run-off of certain lines or their entire book of business to restructure their run-off with finality. These processes can be broken down into two categories generally referred to as insurance business transfer ("IBT") and corporate division ("CD").

An insurance business transfer (IBT) represents a transaction designed to transfer existing insurance obligations of one insurer (transferring insurer) to a second insurer (assuming insurer) without policyholder consent, subject to approval regulatory approval and court approval. While policyholder consent is not required, notice to policyholders, key stakeholders and the general public is required, and concerns regarding the transaction will be considered in the regulatory and/or court approval process. Following an IBT, the assuming insurer becomes directly liable to policyholders and the transferring insurer's obligations under the insurance policies and contracts are extinguished thereby achieving legal finality for the transferring insurer.

A corporate division (CD) is a division of one dividing insurer into two or more resulting insurers. The dividing insurer's assets and liabilities are allocated between or among the resulting insurers without requiring affirmative policyholder consent. Following a CD, the resulting insurer(s) becomes directly liable to policyholders and the dividing insurer's obligations under the insurance policies and contracts are extinguished thereby achieving legal finality for the dividing insurer.

Transaction Review Framework

Analysts should utilize the Best Practices Procedures for IBT/Corporate Divisions in Chapter IV.(tbd) when reviewing insurance business transfers (IBTs) and corporate divisions (CDs). Both transaction types can shift policy obligations without affirmative policyholder consent, so the guidance emphasizes robust regulatory review, transparency, and protections designed to ensure that policyholders, claimants, reinsurers, guaranty associations, and other stakeholders are not materially adversely affected. The review framework outlined in the Best Practices outlines key steps in the analyst's review process. It is organized around gaining a complete understanding of the transaction: who the involved insurers are, how the transaction is structured, what assets and liabilities will move, how capital and reserves will be affected, and whether the post-transaction entity will remain financially sound.A central theme is the need for independent, well-documented analysis. . In addition, it is recommended that the state(s) of domicile of the companies undergoing the IBT/CD should contact all states licensed to determine if there are any anti-novation statutes that would prohibit the IBT/CD or require additional regulatory approval from the licensed state before the IBT/CD is ultimately approved by the state of domicile.

Analysts should refer to the ~~work of the Restructuring Mechanisms (E) Working Group, including the "~~*Restructuring Mechanisms – An NAIC White Paper*~~" and the regulatory "Best Practices Procedures for IBT/Corporate Divisions"~~ for additional information specific to IBTs and CDs that may warrant consideration in the analysis and solvency oversight of these entities.

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Section II: Current Period Analysis

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7. Compliance Analysis: Review and assess state-specific compliance or other analysis required by the state insurance department. Document risks identified and assessed in the appropriate branded risk category of Section III: Risk Assessment~~.~~ (i.e., Compliance with state statutes and regulations, including those that are new or revised (e.g., hazardous financial condition analysis, investment limitation analysis, etc.) and compliance with the statutory minimum amount of surplus as required by state law (varies by state and business type).

~~a. Identify if the insurer is compliant with state statutes and regulations, including those that are new or revised (e.g., hazardous financial condition analysis, investment limitation analysis, etc.).~~

~~b. Assess if surplus meets the statutory minimum amount required by state law (varies by state and business type).~~

Section IV: Update Insurer Profile Summary (IPS)

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Summary and Conclusion: Develop an overall summary and conclusion based on the completion of the risk-focused analysis performed, and document it by updating the IPS, including the Supervisory Plan, if applicable~~, for the following:~~. No documentation of the summary and conclusion is required in Section IV of the RAW.

Examples of what ~~, but~~ the IPS should address, include: ~~the following topics:~~ ~~S~~Summary of the ~~above~~ risk-focused analysis results by risk classification; Prospective risks of the insurer in current analysis, as well as to identify future areas for analysis; ~~I~~impact of the holding company on the insurer; ~~C~~completed or in-progress communication or other follow-up with the insurer, other areas of the Department of Insurance (DOI), financial examiners and other state insurance regulators; ~~A~~additional analysis yet to be performed; ~~R~~regulatory actions; and, ~~A~~any other factors or information that, in the analyst's judgment, are relevant to evaluating the insurer's overall financial condition.

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Use of Artificial Intelligence Tools in Financial Analysis Work

If state insurance departments utilize artificial intelligence (AI) tools within financial analysis these tools should be used in a manner consistent with applicable confidentiality requirements. Given the nature of analysis information being confidential, non-public, personally identifiable, or proprietary, analysts should not input this information into external, public-facing AI platforms. Such information includes, but is not limited to:

- Insurer-specific financial or operational information
- Analysis workpapers
- Internal insurer communications or documents
- Any information protected under law, statute or regulation

To safeguard confidential information, analysts should limit their use of tools to those expressly approved by the state insurance department and hosted in secure, department-managed environments. If a secure AI tool is not available, analysts must ensure that any data is fully anonymized to remove any non-public or sensitive information. The expectations contained in this section apply equally to state insurance department analysts as well as any contract analysts or vendors a department may use in the course of analysis work.

A detailed review of the workpapers is especially critical if the analysis is utilizing AI during the analysis. The guidance applies when the use of AI contributes to the development of analysis evidence and does not apply to basic rewording, proofreading, and editing. Analysts should review and validate the accuracy, appropriateness, and relevance of any AI output used in the analysis process.

If AI-generated outputs are incorporated into analysis work, the analyst should also document the nature of the AI usage. Documentation should indicate which tool was used and that the analyst reviewed and validated the content prior to its inclusion.

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INTRODUCTION

The process for assessing enterprise risk management (ERM) within the group will vary depending upon its structure and scale. Approximately 90 percent of the U.S. premium is subject to reporting an annual Own Risk Solvency Assessment (ORSA) Summary Report. However, all insurers are subject to an assessment of risk management during the risk-focused analysis and examination, and this review is a responsibility of the lead state. In addition, all groups are required to submit the Form F - Enterprise Risk Report under the requirements of the NAIC *Insurance Holding Company System Regulatory* Act (#440) unless they have been granted an exemption by the state. In addition, both the ORSA Summary Report and the Form F are subject to the supervisory review process, which contemplates both off-site and on-site examination of such information proportionate to the nature, scale and complexity of the insurer/group's risks. Those procedures are discussed in the following two sections. In addition, any risks identified throughout the entire supervisory review process are subject to further review by the lead state in either the periodic meeting with the insurer/group and/or any targeted examination work. When reviewing the ORSA and Form F, the lead state analyst should consider consistency between the documents, as well as information provided in the Corporate Governance Annual Disclosure (CGAD).

ORSA SUMMARY REPORT

The NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) requires insurers above a specified premium threshold, and subject to further discretion, to submit a confidential annual ORSA Summary Report. Model #505 gives the individual insurer and the insurance group discretion as to whether the report is submitted by each individual insurer within the group or by the insurance group as a whole. Regardless of whether the ORSA is filed on an individual or group basis, any noninsurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report. (See the NAIC *Own Risk Solvency Assessment Guidance Manual* (ORSA Guidance Manual) for further discussion).

- **Lead State:** In the case where the insurance group chooses to submit one ORSA Summary Report for the group, it must be reviewed by the lead state. The lead state is to perform a detailed and thorough review of the information and initiate any communications about the ORSA with the group. The suggestions below set forth some possible considerations for such a review. At the completion of this review, the lead state should prepare a thorough summary of its review, which would include an initial assessment of each of the three sections. The lead state should also consider and include key information to share with other domestic states that are expected to place significant reliance on the lead state's review. The lead state should share the analysis of ORSA with other states that have domestic insurers in the group. The group ORSA review and sharing with other domestic states should occur within 120 days of receipt of the ORSA filing.

- **Non-Lead State:** Non-lead states are not expected to perform an in-depth review of the ORSA, but instead rely on the review completed by the lead state. The non-lead states' review of the lead state's ORSA review should be performed only for the purpose of having a general understanding of the work performed by the lead state, and to understand the risks identified and monitored at the group-level so the non-lead state may better monitor and communicate to the lead state when its legal entity could affect the group. Any concerns or questions related to information in the ORSA or group risks should be directed to the lead state.

- **Single Insurer ORSA:** In the case where there is only one insurer within the insurance group, or the group decides to submit separate ORSA Summary Reports for each legal entity, the domestic state is to perform a detailed and thorough review of the information, which would include an initial assessment of each of the three sections and initiate any communications about the ORSA directly with the legal entity. Such a review should also be shared with the lead state (if applicable) so it can develop an understanding of the risks within the entire insurance group. Single insurer ORSA reviews should be completed within 180 days of receipt of the ORSA filing.

Throughout a significant portion of the remainder of this document, the term "insurer" is used to refer to both a single insurer for those situations where the report is prepared by the legal entity, as well as to refer to an insurance group. However, in some cases, the term group is used to reinforce the importance of the group-wide view. Similarly, throughout the remainder of this document, the term "lead state" is used before the term "analyst" with the understanding that in most situations, the ORSA Summary Report will be prepared on a group basis and therefore reviewed by the lead state.

Background Information

To understand the appropriate steps for reviewing the ORSA Summary Report, regulators must first understand the purpose of the ORSA. As noted in the ORSA Guidance Manual, the ORSA has two primary goals:

1. To foster an effective level of ERM at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions.
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

In addition, separately, the ORSA Guidance Manual discusses the regulator obtaining a high-level understanding of the insurer's ORSA and discusses how the ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.

There is no expectation with respect to specific information or specific action that the lead state regulator is to take as a result of reviewing the ORSA Summary Report. Rather, each situation is expected to result in a unique ongoing dialogue between the insurer and the lead state regulator focused on the key risks of the group. For this reason, as well as others, the lead state analyst may want to consider additional support in the form of a broader review team as necessary in reviewing the ORSA Summary Report, subject to the confidentiality requirements outlined in statute. In reviewing the final ORSA filing prior to the next scheduled financial examination, the analyst should consider inviting the lead state examiner to participate on the review team. Regardless of which individuals are involved on a review team, the 120-day or 180-day timeliness standards are applicable to the review. Additionally, the lead state analyst and examiner may want to include the review team in ongoing dialogues with the insurer since the same team will be part of the ongoing monitoring of the insurer and an ORSA Summary Report is expected to be at the center of the regulatory processes.

These determinations can be documented as part of each insurer's ongoing supervisory plan. However, the ORSA Guidance Manual also states that each insurer's ORSA will be unique, reflecting the insurer's business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex insurers may not require intricate processes to possess a sound ERM program. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

General Summary of Guidance for Each Section

The guidance that follows is designed to assist the lead state analyst in the review of the ORSA and to allow for effective communication of analysis results with the non-lead states. It is worth noting that this guidance is expected to evolve over the years, with the first couple of years focused on developing a general understanding of ORSA and ERM. It should be noted that each of the sections can be informative to the other sections. As an example, Section II affords an insurer the opportunity to demonstrate the robustness of its process through its assessment of risk exposure. In some cases, it's possible the lead state analyst may conclude the insurer did not summarize and include information about its framework and risk management tools in Section I in a way that

allowed the lead state analyst to conclude its effectiveness, but in practice by review of Section II, such a conclusion was able to be reached. Likewise, the lead state analyst may assess Section II as effective but may be unable to see through Section III how the totality of the insurer's system is effective because of a lack of demonstrated rigor documented in Section III. Therefore, the assessment of each section requires the lead state analyst to consider other aspects of the ORSA Summary Report. This is particularly true of Section I, because as discussed in the following paragraphs, the other two sections have very distinct objectives, whereas the assessment of Section I is broader.

Overarching Comments on the ORSA Review Template provides a place for analysts to document broad issues affecting the overall ORSA.

Background information procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and assessing compliance with ORSA Guidance Manual reporting requirements (i.e., attestation, and entities in scope).

Section I procedures are focused on assessing the insurer's overall risk management framework. The procedures are presented as considerations to be taken into account when reviewing and assessing an insurer's implementation of each of the risk management principles highlighted in the NAIC's ORSA Guidance Manual. In assessing implementation, regulators should consider whether the design of ERM/ORSA practices appropriately reflects the nature, scale and complexity of the insurer.

Section II takes a much different approach. It provides guidance to allow the lead state analyst to better understand the range of practices they may see in ORSA Summary Reports. However, such practices are not intended to be requirements, as that would eliminate the "Own" aspect of the ORSA and defeat its purpose. As such, analysts should not expect or require insurers to organize or present their risks in a particular manner (i.e., by branded risk classification). Rather, the guidance can be used in a way to allow the lead state analyst to better understand the information in this section. Section II guidance has been developed around reviewing key risks assessed by the insurer, evaluating information provided on the assessment and mitigation of those risks and classifying them within the nine branded risk classifications outlined in the Handbook, which are used as a common language in the risk-focused surveillance process for ongoing tracking and communication. As such, the analyst should attempt to classify each key risk assessed by the insurer into a branded risk classification(s) for incorporation into general analysis documentation Insurer Profile Summary (IPS) or Group Profile (GPS) as appropriate. The branded risk classifications are intentionally broad in order to allow almost any risk of an insurer to be tracked within one or more categories, but the analyst may also use an "Other" classification as necessary to track exposures.

Section III is also unique in that it provides a specific means for assisting the lead state analyst in evaluating the insurer's determinations of the reasonableness of its group capital and its prospective solvency position on an ongoing basis. Section III of the ORSA Summary Report is intended to be more informative regarding capital than other traditional methods of capital assessment since it sets forth the amount of capital the group determines is reasonable to sustain its current business model rather than setting a minimum floor to meet regulatory or rating agency capital requirements.

Overarching Comments Concerning the ORSA on the Review Template

The ORSA and ORSA Review Template may include broad, overarching issues that, when clearly summarized, help convey the key themes to readers of the Lead State ORSA Review Template. Although this section may not be necessary for every ORSA filing, its inclusion—when appropriate—provides important context that supports a more effective understanding of the ORSA and the associated review. The following examples illustrate how such overarching issues may be presented:

- ABC International Group operates across the UK, and the United States. Because most of its premiums and enterprise risk management activities are based in Europe, the risk profile and risk appetite discussed in Section 1 are dictated by the Solvency II framework. Accordingly, the group capital methodology, stress testing, coverage ratio, and projected three-year coverage ratios presented in Section 3 are also aligned with Solvency II principles and capital structure. The Solvency Capital Requirement (SCR) presented in Section 3 is the regulatory capital.

- DEF Insurance group's structure and expectations to pay dividends. In this case, dividend-paying capacity could represent a key risk, with stress testing used to evaluate scenarios that could constrain or prohibit dividend payments and corresponding capital projections prepared under varying dividend assumptions.

- HIJ Health Insurer is currently operating under an RBC recovery plan with the Department of Insurance due to a prior year-end RBC ratio in company action level. The ORSA filing identifies only operational risks in Section 1, and these are assessed qualitatively in Sections 2 and 3. The filing does not address liquidity or financial risks (e.g., pricing/underwriting, reserving, market, etc.). The analyst considers liquidity to be the company's primary risk and will request that liquidity and financial risks be incorporated into the next ORSA. Because Sections 2 and 3 contain no quantitative assessments of risk exposure or capital, the analyst did not prepare detailed documentation for those sections. The company did, however, include its most recent monthly report to the Department—containing capital levels and projections—in Appendix. This monthly report, which appears at the end of Section 3 in the template, is the most quantitative component of the submission and therefore the most helpful to that analyst.

As demonstrated by these examples, a summary of overarching issues upfront helps direct the regulators's attention to the most relevant aspects of the ORSA and therefore the ORSA Review Template rather than following the documentation strictly in sequence. It also communicates the rationale behind the level of detail included in each section of the template.

Background Information

The ORSA Guidance Manual encourages discussion and disclosure of key pieces of information to assist regulators in reviewing and understanding the ORSA Summary Report. As such, the following considerations are provided to assist the regulator in reviewing and assessing the information provided in these areas.

- **Attestation** – The report includes an attestation signed by the chief risk officer (CRO) (or other executive responsible for ERM oversight) indicating that the information presented is accurate and consistent with ERM reporting shared with the board of directors (or committee thereof).
- **Entities in Scope** – The scope of the report is clearly explained and identifies all insurers covered. The scope of a group report also indicates whether material non-insurance operations have been covered. The lead state analyst could utilize Schedule Y, the Lead State report and other related tools/filings to review which entities are accounted for in the filing.
- **Accounting Basis** – The report clearly indicates the accounting basis used to present financial information in the report, as well as the primary valuation date(s).
- **Key Business Goals** – The report provides an overview of the insurer's/group's key business goals in order

to demonstrate alignment with the relevant and material risks presented within the report.

- **Changes From Prior Filing(s)** – The report clearly discusses significant changes from the prior year filing(s) to highlight areas of focus in the current year review including significant changes to the ERM framework, risks assessed, stress scenarios, overall capital position, modeling assumptions, etc.

---SUBSEQUENT DETAIL ELIMINATED TO CONSERVE SPACE---

ORSA Review Template

Group/Insurer: _____
Group Code/CoCode: _____
State _____
Valuation Date: _____
Submission Date: _____

General Instructions:

This template is intended to be used to document a review and assessment of the ORSA Summary Report by the lead/domestic state. Regulators should document the results of their annual review of the ORSA and utilize the appendixes to track and communicate feedback to the insurer and procedures for regulatory follow-up. See VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance for additional guidance in completing this template.

Prepared/Reviewed By:	Date:

Date of Last Exam:	
Date of Next Exam:	

Analyst Overarching Comments Concerning the ORSA/Review Template

Summarize any issues that dominate in the ORSA/ Review Template.

Background Information

Summarize and assess background information provided in the report, where available. Key documentation elements are presented below.

1. **Attestation**:

2. **Entities in Scope:**

3. **Accounting Basis:**

4. **Key Business Goals:**

5. **Changes from Prior Filing(s):**

SUBSEQUENT DETAIL ELIMINATED TO CONSERVE SPACE

FINANCIAL ANALYSIS HANDBOOK

2026 Annual /2027 Quarterly

(Note that detail before/after the following excerpts are eliminated to conserve space)

VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)

Understand the Insurance Holding Company System

1. Evaluate and document an understanding of the insurance holding company system. Consider using the following if available and/or applicable: statutory Schedule Y, Form B Registration Statement, Enterprise Risk Report (Form F), Corporate Governance Annual Disclosure (CGAD), ORSA Summary Report, and Group Capital Calculation (GCC), and financial filings of the insurance holding company system and/or person. Summarize the understanding of the holding company in the GPS. If necessary, analysts may also document further details below.

Conduct Detailed Analysis of the Insurance Holding Company System

Conduct detailed analysis by evaluating the overall financial condition of the holding company system through an assessment of the group's exposure to each of the nine branded risk classifications. Consider both the financial review of insurance and non-insurance entities within the insurance holding company system. In certain cases, the review of non-insurance entities may be mitigated by the lack of interdependence of the entities. Conduct the assessment by using quantitative and qualitative information. Consider utilizing the following, if available and/or applicable: legal entity IPSs; Form B and Form F; ORSA; Group Capital Calculation (GCC); shareholders' report; combined financial statements; quarterly and annual SEC filings; International Financial Reporting Standards (IFRS) filings; personal net worth statements; audited financial statements; management's assessment of internal controls; auditor's assessment of management's assessment of internal controls; press releases; confidential information from other regulatory/supervisory bodies; and any other available sources.

10. Group Capital Calculation (GCC):

    If the insurance group is subject to the requirements to perform and file a Group Capital Calculation (GCC), review and determine if any concerns or material risks exist regarding the overall group capital position, quantifiable risks, or capital interdependencies within the group as may be identified through analysis of the GCC. See chapters VI.H and VI.I for applicable optional GCC procedures and guidance.

PROCEDURE #10 instructs the analyst to evaluate the Group Capital Calculation (GCC) filing, if the insurance group is subject to GCC filing requirements. Analysts may consider optional procedures outlined in chapter VI.H when completing this assessment. Refer to additional guidance on the GCC in chapter VI.I.

VI.H. Group-Wide Supervision – Group Capital Calculation (Lead State) Procedures

GCC as Input into Group Profile Summary

The GCC is intended to be used as an input into the GPS. The expectation is that the GCC summary section will help to document a high-level summary of the analyst's take away of the GCC, as well as the Strategic branded risk. The manner in which the analyst determines what else should be documented beyond the GCC Summary and the Strategic branded risk should be based upon the following steps, since these steps contemplate the previously mentioned concept that the existing evaluation of the financial condition should be used in evaluating the depth of review of the GCC. Therefore, the following procedure steps are optional

and should be customized to the evaluation of the GCC and the group's financial condition. The depth of the review in the "five-step process" and specific inquiries will vary based on each group's unique situation.

VI.I. Group-Wide Supervision – Group Capital Calculation (Lead State) – Analyst Reference Guide

Purpose of the Group Capital Calculation (GCC) in Holding Company Analysis

Background Information

In 2008, the NAIC Solvency Modernization Initiative (SMI) ~~began to~~ considered whether there were any lessons learned from the financial crisis that would cause the solvency framework to be modified. The NAIC determined that changes should be made in the area of group supervision, starting with the ~~new~~ annual requirement for the lead state of each group operating in the U.S. to complete a written holding company analysis. Since that time, other changes to state laws have been made to further enhance group supervision (e.g., Form F, Own Risk and Solvency Assessment (ORSA), ~~and~~ Corporate Governance reporting, Group Capital Calculation reporting). All of these ~~new~~ tools are inputs into the previously mentioned holding company analysis, which is summarized into the Group Profile Summary (GPS), a consistent tool used by all states~~, that is known as the Group Profile Summary (GPS)~~.

VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)

Staff Note: The following edits are added to align with existing guidance in the GPS Example (VI.C.1), therefore these changes do not represent new Handbook guidance.

Contents of the Group Profile Summary (GPS)

The following analysis work should be documented in the GPS. See the GPS example in chapter VI.C.1 for additional guidance and sample text:

- **Financial Snapshot (Selected Summary Data)** - Present financial data as well as any notes and explanations of the data to outline the group's financial position, segment performance and other key information that is customized and relevant for an understanding of the specific group.
- **Group Capital Calculation Summary** - Present a summary of an assessment of the GCC both quantitatively and qualitatively, including any such items as may not be applicable to a branded risk category. The GCC summary is intended to be high-level. Therefore, other more detailed observations from reviewing the GCC should generally not be documented into the GPS unless they are specifically insightful, add to a high-level understanding of the Group's financial condition, or are specific to a branded risk category as stated.

MEMORANDUM

TO: Commissioner Sharon Clark (TN), Chair, Financial Regulation Standards and Accreditation (F) Committee

FROM: Danielle Smith (MO), Chair, Financial Analysis Solvency Tools (E) Working Group

DATE: July 29, 2026

RE: Accreditation Part B Expectations for Group Capital Calculation Filing Review

The Financial Analysis Solvency Tools (E) Working Group (FASTWG) is responsible for maintaining the NAIC's *Financial Analysis Handbook* (Handbook) for risk-focused analysis and monitoring of the financial condition of insurance companies and groups. As part of its ongoing maintenance responsibilities, FASTWG and its support staff routinely receive questions from states regarding analysis expectations and requirements.

As the Accreditation Part A requirements related to Group Capital Calculation filings became effective 1/1/2026, FASTWG staff have received questions regarding expectations for analyst review and utilization of GCC filings within the holding company analysis process. To clarify expectations in this area, FASTWG has proposed the new Lead State holding company analysis procedure and accompanying edits to be included in the 2026 Annual/2027 Quarterly Edition of the Handbook in the following Attachment A.

As noted in the procedure, Lead State analysts will not be required or expected to complete the optional GCC review procedures in the Handbook in conducting the annual holding company analysis. However, the Lead State analyst will be expected to perform a review of the filing each year (if received) and to incorporate any findings and takeaways into the Group Profile Summary in accordance with analysis timelines and expectations.

As such, we recommend that the Committee consider updates to the Accreditation Part B guidelines for financial analysis to include this expectation, as shown in tracked changes below.

Part B1: Financial Analysis

e. Documented Analysis Procedures

Process-Oriented Guidelines:

1) The analyst should review and consider information from each of the following sources in conducting a risk-focused analysis. The review should be evidenced by sign-off and dating of the information source, a procedure step or a simplified checklist:
   - Annual statement.
   - Actuarial opinion.
   - Actuarial Opinion Summary (property/casualty [P/C]) or Regulatory Asset Adequacy Issues Summary (life/health [L/H] and fraternal).
   - Management's discussion and analysis.
   - Annual audited financial statements.

- Holding company filings (i.e., Form A, Form B, Form C, Form D, Form E, Form F (Lead State), Group Capital Calculation (Lead State) and external filings: U.S. Securities and Exchange Commission [SEC] and International Financial Reporting Standards [IFRS]) as applicable to either the domestic regulator or lead state depending on the filing.

----------Detail Eliminated to Conserve Space----------

Thank you for your consideration of this referral. If there are any questions regarding the issues discussed, please contact me or NAIC support staff for clarification.

Attachment A

FINANCIAL ANALYSIS HANDBOOK

2026 Annual /2027 Quarterly

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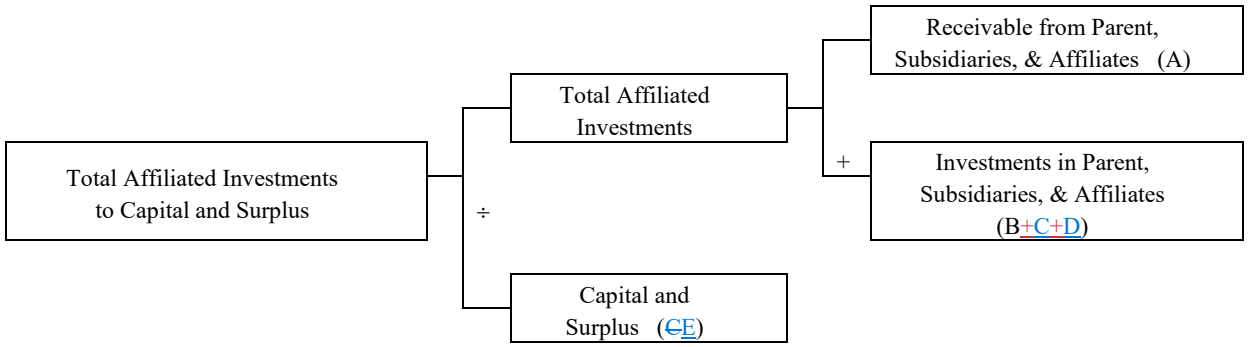
LIFE/A&H INVESTMENT RATIO 7 – TOTAL AFFILIATED INVESTMENTS TO CAPITAL AND SURPLUS



A. Receivable from Parent, Subs., & Affiliates	Page 2, Line 23, Column 3	
B. Investments in Parent, Subs., & Affiliates: Bonds, Mortgage Loans, Other Assets, Short-Term	Page 22, Line 4944+47+48+49, Column 1	
C. Investments in Parent, Subs., & Affiliates: Preferred Stock	Page E18, Line 0899999, Column 6 - 8	
D. Investments in Parent, Subs., & Affiliates: Common Stock	Page E18, Line 1699999, Column 6 - 8	
C-E. Capital and Surplus	Page 3, Line 38, Column 1	

Result = (A+B+C+D) / C-E *100 %

- If C-E is zero or negative and (A+B+C+D) is positive, result is 999.
- If (A+B+C+D) and C-E are zero or negative, result is zero.

This ratio is a measure of the amount of capital and surplus invested in affiliated investments and receivables that may not be liquid or available to meet policyholder obligations. Investments in parent, subs., & affiliates is adjusted to exclude non-admitted amounts for affiliated preferred and common stock.

A relatively large value for this ratio should be questioned. The usual range includes all results less than 100 percent. See the general comments on investments titled "Life/A&H Investment Ratios," preceding Ratio 4.

Branded Risk(s): CR, LQ, MK

Impact of the Proposed Changes on 2025 IRIS Results

The Insurance Regulatory Information System (IRIS) Ratio 7–Total Affiliated Investments to Capital and Surplus currently pulls the investments in parents, subs and affiliates value from the five-year historical data table, which includes both admitted and non-admitted amounts for affiliated preferred and common stock. This creates a double penalty for insurers with non-admitted affiliated amounts as capital and surplus already excludes non-admitted. In 2025, forty-four insurers had an unusual result for IRIS 7. With the suggested change to minimize the potential for over penalizing an insurer, the impact of the change didn't result any additional insurers being

triggered with an unusual result if the calculation excluded the non-admitted values. Two life companies would not trigger Ratio #7. Therefore, committee support recommended changing the source for affiliated preferred and common stocks from the five-year historical data table to Schedule D, Part 6, where the net admitted value can be obtained. This is consistent with the change that was adopted for P&C IRIS ratio in 2025.