

FINANCIAL CONDITION (E) COMMITTEE

Financial Condition (E) Committee March 26, 2025, Minutes

Risk-Focused Surveillance (E) Working Group Feb. 26, 2025, Virtual Meeting Minutes (Attachment One)

Draft Pending Adoption

Draft: 03/31/25

Financial Condition (E) Committee
Indianapolis, Indiana
March 26, 2025

The Financial Condition (E) Committee met in Indianapolis, IN, March 26, 2025. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Justin Zimmerman, Co-Vice Chair (NJ); Mark Fowler (AL); Michael Conway (CO); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen and Carrie Mears (IA); Holly W. Lambert (IN); Vicki Schmidt (KS); Michael T. Caljouw (MA); Mike Chaney represented by Chad Bridges (MS); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Cassie Brown represented by Jamie Walker (TX); and Scott A. White (VA). Also participating were: Philip Barlow (DC); and Fred Andersen (MN).

1. Adopted its 2024 Fall National Meeting Minutes

Commissioner Ommen made a motion, seconded by Commissioner Fowler, to adopt its Nov. 19, 2024, minutes (see *NAIC Proceedings – Fall 2024, Financial Condition (E) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded Committee members that after the adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2025 Spring National Meetings as part of the Financial Condition (E) Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately.

With respect to the task force and working group reports, Commissioner Houdek asked the Committee: 1) whether there are any items that should be discussed further; and 2) whether there are other issues not up for adoption that are currently being considered by task forces or working groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met March 23, Feb. 19, and Jan. 21 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 23 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

Director French made a motion, seconded by Kasinow, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force, Capital Adequacy (E) Task Force, Financial Stability (E) Task Force, Receivership and Insolvency (E) Task Force, Reinsurance (E) Task Force, Valuation of Securities (E) Task Force, and Risk-Focused Surveillance (E) Working Group (Attachment One).

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3. Received a Report on Privately Rated Securities Missing Rational Reports

Mears noted that the Securities Valuation Office (SVO) reported to the Valuation of Securities (E) Task Force the status of the private letter rating (PLR) report filings for 2024. Since Jan. 1, 2024, all PLR securities, other than waved submissions, have required a private rating rationale report to be filed with the SVO to be eligible for the filing exemption process. This was the first year that the SVO systems were sufficiently enhanced to make the filing exemption classification changes. The SVO reported at the 2024 NAIC Fall National Meeting that it had identified 1,636 privately rated securities missing a required rationale report. At that time, the Task Force decided to defer any action and, instead, look at the reasoning behind the missing reports to ensure that the data was complete, and regulators met with members of the industry to work through the process. By March 5, 2025, when the policy to remove securities with missing rating rationale reports was applied, the number had decreased to 346 securities. These securities can be reinstated if the insurer submits the missing rationale report for 2024 or provides one for 2025, as they are needed each year. The SVO also reported that private rating volume has continued to increase, with 112% more filings in 2024 (8,229) than in 2023 (3,879). Mears noted that the SVO director reported that this increase is straining NAIC resources with a carryover ratio of 13% and explained that a carryover ratio above 10% indicates that there is an analytical resource constraint. The Task Force will continue to look into this.

4. Received an Update on the Draft Reinsurance Asset Adequacy Actuarial Guideline

Andersen provided an update on the development of an actuarial guideline by the Life Actuarial (A) Task Force. The guideline is intended to address reinsurance activity that may lead to a decline in transparency regarding the amount and types of assets supporting the reserves of ceded business. There have been cases where, due to reinsurance, the total reserves supporting business—comprising those held by both the ceding company and the assuming company—are less than the original reserves held by the direct writing company. It is highly likely that, in the vast majority of cases, the reserve decrease would be explainable with reasonable assumptions on factors such as asset returns, mortality, and policyholder behavior. But it is also possible that in some cases, the reserve decrease may be based upon questionable assumptions in these areas. The guideline would provide this information to state regulators regarding life and annuity business for U.S. policyholders.

The Life Actuarial (A) Task Force has been working to develop this proposed guideline for over a year following a referral from members of the Reinsurance (E) Task Force. Goals were developed that seemed to have widespread consensus, and so the guideline would provide U.S. state regulators with what is needed to review the reserves and solvency of U.S. life and annuity companies. It would avoid covered agreement issues, and it would prevent work by ceding companies where there was immaterial risk. A key decision to make the 2025 guideline disclosure only was made by the Life Actuarial (A) Task Force at the 2024 Fall National Meeting. This means that regardless of the results of assets adequacy testing, there are no specifics that additional reserves must be posted. However, a company may view its results and decide to post additional reserves, and domestic regulators may come to the same conclusion. Additionally, depending upon the results of the first year, public discussions could be reopened to determine appropriate next steps. It is expected that even with disclosure only, it will assist with transparency and consistency regarding the ceding amount and assumptions supporting reserve adequacy.

It is important to note that the guidelines being developed are similar in substance and structure to the recently developed *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) and *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). While those resulted in quite a bit of work, there is widespread satisfaction that those have assisted regulators in understanding reserve adequacy following the transaction and helpful dialogue between insurers and regulators.

In terms of a timeline, the last version was recently exposed for a public comment period ending April 4. After this exposure period, there will be two more meetings, with potential adoption in late May or early June by the Task

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Force and possible adoption by the Life Insurance and Annuities (A) Committee in early summer and the Executive (EX) Committee and Plenary at the 2025 Summer National Meeting with first reports provided in April 2026.

Andersen noted that an estimate of how many treaties will eventually fall within the scope of this cash flow analysis requirement will be around 100. Another issue is aggregation, which would allow a combined analysis when a ceding company has multiple treaties with one assessment. It is also decided that the higher the risk, the more analysis will be expected, while the lower the risks, the less analysis will be appropriate. Another decision was that for the year-end 2025, only disclosures will be added as a new requirement. The alternative would be to have the guideline specify that unfavorable cash flow testing would require the insurer to hold additional reserves. The guideline adopted for the year-end 2025 will not include this requirement. However, the disclosure-only requirement does not impact on a state's authority to collaborate with its company to require additional reserves. Updated documents were exposed at the Fall National Meeting until the middle of January, and discussion is expected around the end of January.

5. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Commissioner Houdek noted that the last agenda item is directly related to work on the Investment Framework and, therefore, provided a general update on that work. In line with one of the key action items of the framework, the Committee adopted a request for proposal (RFP) last year to hire a consultant to develop a due diligence framework for oversight of ratings provided by credit rating providers (CRPs). It is the NAIC's intention to announce the hiring of that consultant, and for the work to begin on developing the CRP due diligence framework under the direction of the Valuation of Securities (E) Task Force. Additionally, the NAIC intends to announce proposed changes to certain aspects of the subcommittee structure and a change in some of the roles of NAIC staff in assisting regulators. The goal is to have an update on those proposed changes by the Summer National Meeting. For insight into these planned changes, individuals should look at the Investment Framework Workplan that was exposed last year, specifically action item no. 5. Finally, the NAIC formed the Risk-Based Capital Model Governance (EX) Task Force. Although this is a separate Executive Committee task force, the work will align with the initiatives of the Investment Framework, as stated in the memo to interested parties from February, as well as the Investment Framework Workplan.

Barlow noted that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group had recently met and heard an update from the American Academy of Actuaries (Academy) on its work on collateralized loan obligations (CLOs) and, more generally, asset-backed securities (ABS). The Academy is currently trying to use the C1 bond factor model, which was developed by Moody's for the American Council of Life Insurers (ACLI), and it is currently collaborating with both parties to obtain access to the model. The Academy wants to use the model for collateral modeling and scenario compression. It is also working on CLO cash flow modeling, and it still needs to turn those into risk-based capital (RBC) factors. The Academy is also looking at diversification and concentration.

Barlow said that he stressed to the Academy that the Working Group wants the work done as quickly as possible but also done correctly. He added that if there is anything holding the work up, to let the Working Group know, and it would assist the Academy. Barlow also noted that NAIC staff had put together an analysis of the reporting and RBC of residual tranches, and they plan to have a regulator-only meeting to discuss the result of the analysis, which includes specific company results. Finally, work has begun on the next project, which deals with bond fund treatment and where there are differences. As all the work develops, they are also thinking about applying the methodology of similar types of assets.

Commissioner Houdek asked about the interaction between the NAIC Structured Securities Group (SSG) and the coordination with the Academy. Barlow noted that the Academy and Eric Kolchinsky (NAIC) are working together to ensure that the NAIC's work can be used by the Academy. The Academy is focused on using attributes that can

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be used for an RBC charge, such as ratings along with other information. If that cannot be done, other information will be used.

Having no further business, the Financial Condition (E) Committee adjourned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025_1Spring/032625 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2025_1Spring/032625%20E%20Minutes.docx)

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Risk-Focused Surveillance (E) Working Group
Virtual Meeting
February 26, 2025

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met Feb. 26, 2025. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Laura Clements and Michelle Lo (CA); William Arfanis and Jack Broccoli (CT); Carly Wagoner (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Kristin Hynes (MI); John Rehagen and Shannon Schmoeger (MO); Monique D. Smith (NC); Tadd Wegner (NE); Paul Lupo (NJ); Mark McLeod (NY); Dwight Radel and Tracy Snow (OH); Jammie Jaffurs (OK); Diana Sherman (PA); Ted Hurley and John Tudino (RI); Amy Garcia (TX); Cambria Shore (UT); Jennifer Blizzard and Greg Chew (VA); Karen Ducharme (VT); and Tarik Subbagh (WA).

1. Finalized Contractor Oversight Guidance

Malm stated that the Working Group received a referral in 2024 from the Financial Regulation Standards and Accreditation (F) Committee on state oversight of contracted resources. While state insurance departments have utilized contract resources to assist in solvency monitoring efforts for many years, the use of contractors in financial analysis work has become more common in recent years due to staffing challenges.

The referral states that the current accreditation guidelines and expectations for a state in utilizing contract resources in financial analysis are limited, which has raised some questions during reviews. Therefore, various questions and considerations were referred to the Working Group for consideration, including issues related to the oversight of contractors in both financial analysis and examination work.

After receiving the referral, the Working Group discussed the issues and asked NAIC staff to develop proposed revisions to existing handbook guidance and the accreditation review team guidelines to address the questions raised. The proposed revisions were then exposed for a 45-day public comment period that ended Nov. 25, 2024.

During the exposure period, comments were received from a joint group of interested parties and the Georgia Office of Commissioner of Insurance and Safety Fire (OCI). The Working Group met Feb. 12 in regulator-to-regulator session for technical discussions with NAIC staff on the comments received. As a result of those discussions, NAIC staff were asked to prepare an updated draft of guidance incorporating comments received during the exposure period.

Malm asked if the joint group of interested parties would like to speak to their comments or the updated draft of the guidance. Tom Finnell (America's Health Insurance Plans—AHIP) summarized the interested party comments, which focused on guardrails to address potential conflicts of interest, confidentiality concerns, and data protection issues when contractors are utilized in financial analysis and examination work. Finnell stated that the updated draft of the guidance effectively incorporated the interested party recommendations, with a couple of minor exceptions. Finnell then proposed language edits to indicate that contractors should not be able to use information obtained through financial analysis and examination engagements for any other purpose. State insurance regulators expressed their agreement with these proposed revisions.

Bruce Jenson (NAIC) provided an overview of other edits made to the updated guidance, which included the recommendation from Georgia, as well as many of the recommendations proposed by the joint group of interested parties on conflict of interest, confidentiality, and data security. Jenson stated that the proposed

guidance for the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook* were drafted together to ensure consistent expectations for both functions.

Malm asked for a motion to refer the updated guidance, including the changes proposed by Finnell during the meeting, to the relevant NAIC groups for consideration of adoption. Smith made a motion, seconded by Subbagh, to refer: 1) the proposed Accreditation Review Team Guideline revisions to the Financial Regulation Standards and Accreditation (F) Committee; 2) the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group; and 3) the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Discussed a Referral on Reciprocal Exchanges

Malm stated that the Working Group received a referral from the Chief Financial Regulator Forum regarding reciprocal exchanges. The Chief Financial Regulator Forum meets at each NAIC national meeting in regulator-to-regulator session in accordance with the NAIC Policy Statement on Open Meetings, which does not apply to roundtables and other similar sessions.

During the forum meeting at the 2024 Fall National Meeting, the chief financial regulators discussed the increase in the number of reciprocal exchanges being formed in recent years. During this discussion, some regulators highlighted challenges in assessing the fairness and reasonableness of attorney-in-fact fees being charged to the newly formed reciprocals, as well as other challenges in monitoring the solvency of reciprocal exchanges. The referral notes that it is common for attorney-in-fact fees to be based on a percentage of premium volume, which has the potential to create conflicts of interest if that same attorney-in-fact oversees underwriting decisions for the reciprocal.

Malm stated that while this particular concern is not necessarily unique to reciprocal exchanges, it does relate to recent Working Group efforts to update regulatory guidance related to affiliated services. As such, Malm proposed the formation of a drafting group to study these issues, including the applicability of the *Insurance Holding Company System Regulatory Act* (#440) to attorneys-in-fact for reciprocal exchanges and to develop additional guidance for the full Working Group to consider in this area.

Garcia expressed support for the formation of a drafting group, as did Lupo and Andersen. Jenson asked whether the drafting group should focus solely on reciprocal exchange issues or address the broader issues of all service agreements that include fees based on premium volume and include some level of management or oversight of underwriting decision-making. Malm encouraged the drafting group to address the referral from a broader perspective and encouraged interested members to contact NAIC staff regarding their interest in joining the drafting group.

3. Received an Update on the 2025 Peer Review Program Sessions

Nickelson stated that the Working Group held a financial analysis peer review session in January, which involved eight states reviewing completed financial analysis files. One of the eight states had to participate remotely due to weather-related travel challenges, but the peer reviewers worked around that challenge and still had a successful session. Based on the discussions held, several new sound practices were identified and added to the existing sound practices documents, which have been updated and distributed to states before the upcoming annual analysis review period.

Nickelson stated that the next peer review session planned for 2025 is a small company exam session to be held in May, followed by a special Own Risk and Solvency Assessment (ORSA) examination session to be scheduled in August. Finally, the Working Group plans to hold another financial analysis session in October to complete the peer review offerings for 2025.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025_1Spring/RFSWG/Surveillance WG 2-26-25 Minutes.docx