Draft date: 3/13/25

2025 Spring National Meeting
Indianapolis, Indiana

FINANCIAL CONDITION (E) COMMITTEE
Wednesday, March 26, 2025
8:00 – 8:45 a.m.
JW Marriott Indianapolis—JW Grand 5–10—Level 3

ROLL CALL

Nathan Houdek, Chair	Wisconsin	Vicki Schmidt	Kansas
Justin Zimmerman, Co-Vice Chair	New Jersey	Michael T. Caljouw	Massachusetts
Michael Wise, Co-Vice Chair	South Carolina	Mike Chaney	Mississippi
Mark Fowler	Alabama	Adrienne A. Harris	New York
Michael Conway	Colorado	Judith L. French	Ohio
Michael Yaworsky	Florida	Cassie Brown	Texas
Holly W. Lambert	Indiana	Scott A. White	Virginia
Doug Ommen	Iowa		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

AGENDA

1. Consider Adoption of its 2024 Fall National Meeting Minutes —*Commissioner Nathan Houdek (WI)* — Attachment One

2. Consider Adoption of the Reports of its Task Forces and Working Group —*Commissioner Nathan Houdek (WI)*
   A. Accounting Practices and Procedures (E) Task Force — Pending
   B. Capital Adequacy (E) Task Force — Pending
   C. Financial Stability (E) Task Force — Pending
   D. Receivership and Insolvency (E) Task Force — Pending
   E. Reinsurance (E) Task Force — Pending
   F. Valuation of Securities (E) Task Force — Pending
   G. Risk-Focused Surveillance (E) Working Group — Pending

3. Receive a Status Report on the Draft Reinsurance Asset Adequacy Actuarial Guideline—*Fred Andersen (MN)*

4. Receive a Status Report from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*

5. Discuss Any Other Matters Brought Before the Committee
   —Commissioner Nathan Houdek (WI)

6. Adjournment

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Draft: 11/25/24

Financial Condition (E) Committee
Denver, Colorado
November 19, 2024

The Financial Condition (E) Committee met in Denver, CO, Nov. 19, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, and Jamie Walker (TX); Michael Conway (CO); Doug Ommen (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt (KS); Micheal T. Caljouw by Christopher Joyce (MA); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman and David Wolf (NJ); Adrienne A. Harris represented by Bhavna Agnihotri and Bob Kasinow (NY); Judith L. French and Dwight Radel (OH); Elizabeth Kelleher Dwyer represented by John Tudino and Ted Hurley (RI); and Scott A. White (VA). Also participating were: Kenneth Cotrone (CT), Philip Barlow (DC), Robert Wake (ME), and Fred Andersen (MN).

1. <u>Adopted its Oct. 24, Aug. 24, and Summer National Meeting Minutes</u>

The committee met Oct. 24, Aug. 24, and Aug. 15. During its Oct. 24 meeting, the committee adopted its proposed 2025 charges and made changes to address comments on the draft request for proposal (RFP) to engage a consultant to design and help implement a new due diligence program for the ongoing use of credit rating providers (CRPs). During its Aug. 24 meeting, the committee adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) that provide state insurance regulators with discretion over securities that are otherwise exempt from filing with the Securities Valuation Office (SVO).

Commissioner Conway made a motion, seconded by Commissioner Ommen, to adopt its Oct. 24 (Attachment One), Aug. 24 (Attachment Two), and Aug. 15 (*see NAIC Proceedings – Summer 2024, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

2. <u>Adopted the Reports of its Task Forces and Working Groups</u>

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 committee's 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 2024 Fall National Meeting 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 Nov. 16, Oct. 23, and Oct. 2 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 Nov. 16, Nov. 4, and Sept. 6 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.

Commissioner White made a motion, seconded by Eft, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Three); National Treatment and Coordination (E) Working Group (Attachment Four); Restructuring Mechanisms (E) Working Group (Attachment Five); and Risk-Focused Surveillance (E) Working Group (Attachment Six).

3. Adopted the Listing of Qualified Jurisdictions and Reciprocal Jurisdictions

Wake reported that the Mutual Recognition of Jurisdictions (E) Working Group met in regulator-only session on Oct. 24 to discuss the annual review of the qualified and reciprocal jurisdictions. During the meeting, the Working Group reapproved the status of the seven existing qualified and reciprocal jurisdictions, including Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK), and the three reciprocal jurisdictions that are not subject to an in-force "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement)—Bermuda, Japan, and Switzerland. By law, the other four reciprocal jurisdictions of France, Germany, Ireland, and the UK automatically remain reciprocal jurisdictions so long as they are parties to covered agreements. These decisions came after NAIC staff reviewed the due diligence they had performed. Additionally at the meeting, the Working Group approved the Canadian Office of Superintendent of Financial Institutions (OFSI) as a jurisdiction that recognizes and accepts the U.S. approach to group capital. However, this action is not final, as the report is still in its 30-day comment period. The comment deadline is Nov. 25, and if there are no negative comments, it will be considered formally adopted by the Working Group at that time and will be passed onto the E committee for adoption.

Commissioner Schmidt made a motion, seconded by Doggett, to adopt the listing of qualified jurisdictions and reciprocal jurisdictions (Attachment Seven). The motion passed unanimously.

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

Commissioner Houdek said the Life Actuarial (E) Task Force has been discussing issues related to reinsurance over the past few months. He noted that the American Council of Life Insurers (ACLI) told the committee it appreciates the increased coordination on reinsurance issues and wants to continue coordination on these activities.

Andersen noted that this work began in February when members of the Reinsurance (E) Task Force made a recommendation to the Life Actuarial (A) Task Force to consider cash flow testing requirements for ceded reinsurance business. Since February, the Life Actuarial (A) Task Force has had several public calls and meetings on the topic with some updates to the Financial Stability (E) Task Force and the Life Insurance and Annuities (A) Committee. There have been multiple comment periods on the issue, which have been helpful for a wide range of parties, including consumers, the American Academy of Actuaries (Academy), interested experts, ACLI, and representatives of reinsurance companies and reinsurance jurisdictions. The Life Actuarial (A) Task Force has made material changes to the original draft to incorporate many of the comments.

To understand the issue, it is helpful for non-actuaries to know that without reinsurance, U.S. regulators can review asset adequacy analysis assumptions and testing to evaluate the reasonableness of such amounts. However, when business is ceded, especially to companies that do not file an asset adequacy testing (AAT)

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memorandum required by the U.S. standard valuation law, regulators can lose insight. The increased use of reinsurance in recent years has led to this identified concern by the Reinsurance (E) Task Force and the Life Actuarial (A) Task Force. However, the Life Actuarial (A) Task Force will need to stay clear of any conflict with reciprocal jurisdictions and covered agreement issues as well as avoid excessive requirements where there is immaterial risk. The scope will be narrow and limited to the largest, most impactful treaties.

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. Also decided was 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 year-end 2025, only disclosures will be added as a new requirement. The alternative would be having the guideline specify that unfavorable cash flow testing would require the insurer to hold additional reserves. The guideline adopted for year-end 2025 will not include this requirement. However, the disclosure-only requirement does not impact a state's authority to work 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 Valuation of Securities (E) Task Force

Cotrone reported that the Task Force adopted an amendment to the P&P Manual to require an annual review of regulatory transactions. Regulatory transactions are unique investments engineered to address a regulatory concern that must be submitted for review and approval by the state insurance departments. They may contain an investment security component that the SVO is authorized to review with the state insurance department's approval. The P&P Manual did not previously require that these transactions needed to be periodically reviewed by the SVO. The amendment updates the instructions for the production of an SVO analytical value assigned to regulatory transactions to require an annual review (which is required for all other securities filed with the SVO), require the relevant insurance company to notify the SVO or structured securities group of any material changes, and to clarify the insurance company's limited ability to self-assign an SVO value with a "Z."

Cotrone also noted the Task Force's adoption of another amendment to the P&P Manual that updates the list of NAIC CRPs and clarifies the NAIC's use of CRP credit ratings. Only credit rating classes for which a CRP is registered with the U.S. Securities and Exchange Commission (SEC) as a nationally recognized statistical ratings organization (NRSRO) are eligible for NAIC CRP purposes. The amendment also clarifies that the SEC's definition used to regulate NRSROs is distinct from the definition used for statutory accounting asset classification purposes in the Statements of Statutory Accounting Principles (SSAPs).

Cotrone also reported that the Task Force adopted another P&P Manual amendment to remove references to subscript-s and update references to investment risk following the adoption of the updated definition of an NAIC designation at the Summer National Meeting. The technical amendment removed the outdated references and, where appropriate, changed "credit risk" or "credit quality" to "investment risk" or the corresponding meaning. The amendment also removed reference to "other non-payment risk" and references to the SVO administrative symbol to identify this risk, a subscript-s. Interested parties requested that examples of other non-payment risk also be removed from the P&P Manual. The Task Force agreed to the removal of those paragraphs since the concept of other non-payment risk is being removed throughout the P&P Manual. The amendment did not introduce any new policies or procedures.

Cotrone noted they also received a report on Statutory Accounting Principles (E) Working Group projects, a report on the identification of 1,700 privately rated securities that are missing the required ratings rational report, the status of financial modeling of collateralized loan obligations (CLOs), and a report on readiness to begin modeling single asset, single borrower (SASB) and commercial mortgage-backed securities (CMBS).

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

Barlow noted the focus of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group continues to be asset-backed securities (ABS) with an initial focus on CLOs. As a reminder, the life formula has an interim 45% risk-based capital (RBC) factor for residual tranches for year-end 2024, while the property and casualty (P/C) and health formulas have not adopted this change yet. He reported that the work being performed by the Academy on ABS and CLOs is slightly delayed due to receiving CLO data from one of the rating agencies. They now have the data and are trying to determine comparable attributes that can be used to assign factors based on these attributes. If that does not work, they will need to use a modeling methodology for individual CLOs. They have been working very closely with Eric Kolchinsky (NAIC) and his team and are also working on correlations between ABS and the portfolio like what is done from bonds in the RBC calculation. They have also started work on other projects, including reviewing three types of funds that currently receive different treatments and will see if their risk profiles are similar or different to warrant a different treatment.

7. Discussed Other Matters

Jeff Czajkowski (NAIC) stated that following the NAIC membership adoption of the new climate scenario interrogatories in the year-end P/C RBC filing, the NAIC has established a Climate Scenario Resource Center to assist filers and their advisors with the disclosure requirements. The NAIC Climate Scenario Resource Center is located on the webpage of the NAIC Center of Catastrophe Modeling Center of Excellence. The resources include the RBC blanks relating to catastrophe risk, a presentation by the NAIC, and an FAQ document, as well as a dedicated email address for insurers and their advisors to submit questions to the NAIC about the new climate scenario interrogatories. The link has been shared with the Reinsurance Association of America (RAA), the National Association of Mutual Insurance Companies (NAMIC), the American Property and Casualty Insurance Association (APCIA), several professional catastrophe modelers, and major reinsurance brokers to ensure RBC filers and their advisors are informed of the requirements and the tight deadline. Details have also been circulated to chief financial regulators and several commissioners for awareness and as a resource to engage with their domestic companies.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_3Fall/111924 E Minutes.docx