Draft Pending Adoption

Draft: 4/3/25

Financial Stability (E) Task Force
Virtual Meeting
March 17, 2025

The Financial Stability (E) Task Force met March 17, 2025. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw (MA); Marie Grant represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Michael Wise (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); and Nathan Houdek (WI).

1. Heard Opening Remarks

Commissioner Zimmerman said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. Materials are also available on the member SharePoint site (formerly Member Connect).

2. Adopted its 2024 Fall National Meeting Minutes

Director Dwyer made a motion, seconded by Andersen, to adopt the Task Force’s Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Financial Stability (E) Task Force*). The motion passed unanimously.

3. Heard an Update on the FSOC

Director Dwyer stated that the Financial Stability Oversight Council (FSOC) principals have met twice. In December 2024, the FSOC approved its annual report, which included an overview of regulatory enhancement state regulators made through the NAIC since the prior FSOC annual report in 2023.

Director Dwyer said the recommendations the FSOC made were relevant to insurance. The FSOC recommends that the Federal Insurance Office (FIO), the NAIC, and state insurance authorities collaborate with member agencies to assess the impact of structural changes in the insurance industry on systemic risk and financial stability. It encourages ongoing enhancements to supervisory frameworks addressing liquidity stress, counterparty risk, credit risk, and ratings migration, particularly amid economic stress or market disruptions. The FSOC stresses the importance of evaluating concentrations of risk associated with offshore entities and supports further examination of offshore reinsurance practices to mitigate regulatory arbitrage. It also advocates for improved disclosure of private market investments and offshore reinsurance in financial reporting and suggests possible enhancements to supervisory tools related to risk assessment. Lastly, the FSOC calls for continued monitoring of private credit growth in the life insurance sector.

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Director Dwyer then noted that the FSOC's recommendations are not binding on the states or the NAIC but do align with much of the work underway through the committee process.

4. Adopted the Report of the Macroprudential (E) Working Group

Kasinow said the Macroprudential (E) Working Group met Feb. 25 and Feb. 6 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings. During its Feb. 25 meeting, the Working Group approved a work plan for the year, which includes an educational program for state regulators on various aspects of cross-border reinsurance, such as Schedule S reporting and accounting treatments, expected to launch by the end of April. During the Feb. 6 meeting, the Working Group discussed updates on the International Association of Insurance Supervisors (IAIS) Macroprudential Supervision Working Group (MSWG) Issues Paper on cross-border reinsurance and alternative assets, with Iowa leading the drafting efforts with the MSWG drafting team.

Kasinow mentioned that the Working Group's work plan will include reviewing the use of sidecars in the life insurance sector, creating a reinsurance dashboard, and examining retrocessions and reinsurance recapture provisions. Additionally, insights from international initiatives, such as the United Kingdom's (UK's) Prudential Regulation Authority (PRA) requirements on recapture, will inform the group's discussions, although there are no immediate plans to implement similar measures in the U.S.

The Working Group will also analyze how reinsurance capital charges are calculated, potentially leading to further discussions with the Risk-Based Capital Model Governance (EX) Task Force if needed. An overview of the 2024 *Global Insurance Market Report* (GIMAR), which compiles findings from the Global Monitoring Exercise (GME), was provided, highlighting collaborative efforts with members like Tony Quandt (NE).

Lastly, Kasinow reported on the NAIC consolidating the Excel reporting templates for liquidity stress testing to streamline data reporting and aggregation. The final templates will be posted on the NAIC website.

Rehagen made a motion, seconded by Radel, to adopt the report of the Macroprudential (E) Working Group (Attachment A). The motion passed unanimously.

5. Received an Update from the Valuation Analysis (E) Working Group

Andersen spoke on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), adopted in 2022, which aims to ensure claims-paying ability by requiring disclosures on complex assets and their risks for life insurers. It promotes coordination between actuaries and investment teams to better address various risks. The third round of filings, due on April 1, will provide information on how life insurers model assets to support reserves.

The focus in reviewing these filings is on net yield assumptions and reinsurance collectability, particularly when insurers rely on overly optimistic returns for risky assets to demonstrate reserve adequacy. Efforts are being made to adjust these assumptions and assess reinsurance collectability using credit ratings, treaty safeguards, and stress testing.

Andersen then went over the recent reviews that led to the development of a guidance document, allowing more tailored reviews based on tranche-level allocations for structured assets. One key area of focus is the fair value of internally valued assets, which can impact asset adequacy analyses, especially when assets are expected to be sold to cover cash demands. The review also includes company-originated assets and payment-in-kind features, where cash flow generation may be inadequate.

Andersen then spoke on a new actuarial guideline that is being developed to address reinsurance activity that could reduce transparency regarding asset types and amounts supporting reserves. In cases where reinsurance reduces reserves, regulators are seeking better transparency and consistency in assumptions about net returns, mortality, longevity, and policyholder behavior.

The goal of the guideline is to provide U.S. regulators with the necessary tools to review reserves and solvency while avoiding conflicts with international agreements. It will be disclosure-only initially, but if significant concerns arise from the disclosures, further public discussions will be held to determine the appropriate next steps. The guideline is expected to be finalized by late May 2025, with filings for year-end 2025 due by April 1, 2026.

6. Heard an International Update

Tim Nauheimer (NAIC) reported on the IAIS publishing the GIMAR for December 2024, which is a key deliverable of the Global Monitoring Exercise (GME). The report covers two main components: individual insurer monitoring (IIM) and sector-wide monitoring (SWM), with an analysis of reinsurance and climate risk. Key findings from the 2024 report highlight two macroprudential themes: key risks in the macroeconomic environment and structural shifts in the life insurance sector. Specific areas under these themes include geopolitical risks, alternative asset allocation, and cross-border asset-intensive reinsurance.

Nauheimer discussed the plans for 2025. The IAIS launched the annual GME in March and held a workshop for supervisors and insurers. They are also conducting a triennial review of GME methodology, with public consultation expected in the second quarter. The IAIS plans to release a mid-year GIMAR update in the third quarter and a detailed GIMAR report, including a special edition on natural catastrophe protection gaps, in the fourth quarter.

Nauheimer then spoke on the IAIS MSWG, which finalized a draft issues paper on structural shifts in the life insurance sector. It has received parent committee approval for public consultation. Next, the IAIS Executive Committee will provide any input and consider approval for public consultation, which is expected before the end of this quarter.

Lastly, Nauheimer reported on the IAIS Climate Risk Steering Group's plans to publish an updated climate risk application paper in the coming month, with supplementary materials for members. The group will also continue collaborating with global partners, such as the Network for Greening the Financial System (NGFS) and Sustainable Insurance Forum (SIF), to address climate-related risks in the insurance sector.

Having no further business, the Financial Stability (E) Task Force adjourned.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability (E) Task Force

FROM: Robert Kasinow, Chair, Macroprudential (E) Working Group

DATE: August 12, 2025

RE: MWG Update

Funding Agreement Backed Notes

The **Macroprudential (E) Working Group (MWG)** met on an open call July 21. The purpose of the call was to begin discussions to level set the understanding of Funding Agreement Backed Note (FABN) activity. This initial call on the topic discussed the process flow, the types of FABNs issued-including Foreign Currency denominated FABNs, risks and reporting of the activity. The NAIC presented its understanding of the activity and then opened the floor for interested parties to provide input. ACLI then provided a presentation of the activity confirming MWG's understanding and adding a little more color on the genesis and purpose of the activity.

Additional MWG calls will be scheduled to continue the dialogue with interested parties.

LST

The NAIC received the Liquidity Stress Testing filings due June 30. We had a few late filers, so the NAIC is still in the process of analyzing and aggregating the filings and will provide a report to the MWG in late September and to the FSTF at the Fall national meeting. The MWG will also meet in the Fall to review the Liquidity Stress Testing guidance manual and review the required stress scenarios and assumptions.

Reinsurance

MWG members attended the two-part Reinsurance Education series focused on Cross border reinsurance. The MWG has been reviewing Cross border Reinsurance activity and the Education program took a deeper dive into this analysis and covered additional topics. Topics included Schedule S reporting, Traditional, Modified Coinsurance and Funds Withheld reinsurance transaction structures, Accounting treatment, sidecars and RBC.

International

The Mid-year GIMAR report was published and shared with members on June 26. The report highlights the following risk themes:

(1) geoeconomic fragmentation impacting insurers' asset-liability management (ALM);
(2) insurers' increased investment in private credit; and
(3) insurers' adoption and governance of AI.

There is also a jurisdictional survey referred to as a feedback loop whereby jurisdictions are asked to respond to a questionnaire asking how they assess and monitor these three risk themes. The NAIC has completed the survey and has shared it with MWG members.

IIM results were reviewed and a determination of insurers that will be subject to the collective discussion has been made. The identification of those insurers is confidential, and their supervisors will provide an overview of their supervisory efforts for the insurers at the September IAIS MPC meeting.

The IAIS is also in the process of conducting its triennial review of the IIM GME methodology. A public consultation of the process was conducted and shared with FSTF and MWG members on July 11.

The SWM data collection process has been completed. The NAIC conducts the process, which includes a qualitative risk assessment-including a climate component, a detailed data collection of the entire U.S. insurance sector and two separate reinsurance data collections. The qualitative component was shared with FSTF and MWG members on June 26.

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Draft: 7/31/25

Macroprudential (E) Working Group
Virtual Meeting
July 21, 2025

The Macroprudential (E) Working Group of the Financial Stability (E) Task Force met July 21, 2025. The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis and Ken Cotrone (CT); Philip Barlow (DC); Rylynn Brown (DE); Carolyn Morgan (FL); Lynn Beckner (MD); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Anthony Quandt (NE); Jennifer Li (NH); Paul Lupo (NJ); Ted Hurley (RI); Rachel Hemphill and Jamie Walker (TX); Greg Chew and Dan Bumpus (VA); and Aaron Kenseth (WI).

1. Heard Opening Remarks

Kasinow introduced the topic of funding agreement-backed notes (FABNs), noting the significant growth in FABN activity and the Working Group's focus on assessing potential macroprudential implications. He emphasized the importance of improving transparency and data collection, as current information is incomplete.

2. Heard a Presentation on FABNs

Tim Nauheimer (NAIC) provided an update on the volume of FABN activity, market status, regulatory concerns, and associated risks. He reported that FABN outstanding volume increased from $217 billion at year-end 2024 to $239 billion in the first quarter of 2025, reflecting an 18% growth rate from 2023 to 2024 and a further 10% increase in the first quarter of 2025. Nauheimer noted discrepancies between data sources, as the Federal Reserve reported $217 billion outstanding at year-end 2024, while Bloomberg reported $135 billion for the same period. He further observed that foreign-currency-denominated FABNs were significantly underreported by the Federal Reserve, which showed $357 million compared to Bloomberg's $48 billion.

Nauheimer then explained the structure of FABNs. He said life insurers issue funding agreements to special purpose vehicles (SPVs), which in turn issue FABNs to institutional investors. Proceeds are returned to the insurer for investment, creating spread-based business, with FABNs typically purchased by money market funds, asset managers, and other institutional investors. He highlighted potential risks associated with these arrangements, including liquidity risk if FABNs contained embedded options that allowed investors to demand repayment unexpectedly, asset-liability matching risk if FABN maturities did not align with funding agreements and related investments, and credit risk from the use of derivatives to hedge foreign currency exposure.

Nauheimer emphasized that although no outsized risk has been identified to date, the lack of granular statutory reporting limits regulatory visibility. He also noted that FABNs combined with Federal Home Loan Bank (FHLB) advances represent approximately $400 billion in obligations, equivalent to about 10% of invested assets and 106% of capital and surplus for companies engaged in these activities. He contrasted the limited disclosure of FABNs with the detailed statutory reporting available for FHLB advances. Nauheimer concluded by stating that the NAIC is considering options to improve transparency through enhanced reporting and disclosure and that the Working Group will continue discussions with industry on this issue.

3. Heard Comments from the ACLI and Industry on the FABN Presentation

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Marc Altschull (American Council of Life Insurers—ACLI) provided an industry perspective on FABNs and addressed points raised in the NAIC presentation. He explained that FABNs allow insurers to meet institutional investor demand for high-quality, fixed-income securities while generating spread-based earnings. These instruments convert non-tradable funding agreements into marketable securities with secondary market liquidity and pricing transparency.

Altschull emphasized that funding agreements are insurance contracts approved by state regulators and recorded as general account liabilities, rather than corporate debt. He said FABNs are considered operational leverage rather than financial leverage because the proceeds are used to back insurance obligations rather than for general corporate purposes. State insurance laws treat funding agreements as obligations equal to other general account liabilities.

Altschull noted that FABNs and the underlying funding agreements are match-rated and match-funded, with terms aligned to minimize mismatch risk. Currently, FABNs in the market do not contain embedded put options, although such features have existed historically. If reintroduced, any optionality would be fully disclosed. Foreign currency exposure is managed through derivative hedging, primarily using foreign exchange swaps, and these arrangements are subject to robust risk management practices. Altschull underscored that insurers apply asset-liability management processes, cash flow testing, and statutory asset adequacy analysis to FABNs like other liabilities.

Altschull reiterated that insurers' contractual obligation is to the SPV that holds the funding agreement rather than directly to FABN holders. He stated that FABNs expand insurers' ability to diversify funding sources without introducing additional policyholder risk. He said the ACLI is committed to providing written responses to the NAIC's questions regarding FABN programs, risk controls, and disclosure practices. He also expressed the ACLI's willingness to work with regulators on potential transparency enhancements.

Having no further business, the Macroprudential (E) Working Group adjourned.

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Valuation Analysis (E) Working Group Update

Updates on Actuarial Guidelines on Asset Adequacy Analysis

Fred Andersen, FSA, MAAA
8/12/2025

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- Developed after recognition of need for additional information on long-term care reserves and supporting assets
- Adopted in 2017
- Success in increasing regulator and public understanding of long-term care reserves & solvency issues

- Developed after recognition of need for additional information on complex assets supporting life insurer reserves
- Adopted in 2022
- Success in increasing regulator and public understanding of complex assets & recognition of associated risk in asset adequacy analysis / cash-flow testing

- Drafted after recognition of need for additional information on adequacy of assets supporting reinsurance in various scenarios
- Being considered for adoption in 2025
- Goal is increasing regulator and public understanding of asset adequacy issues related to reinsurance

- Issues now well handled:
  - Persistency (those surviving and not lapsing) leading to higher than expected % of policyholders reaching peak claims ages (80+)
  - Much better understood, reserved for, and managed today
  - Fall of interest rates leading to lower-than-expected investment returns for many years
  - Also much better understood, reserved for, and managed today

- Morbidity: at older ages, COVID impact, inflation impact, any improvement?
  - Still dealing with uncertainty
- Rate increase approvals in future – also uncertain

- An opportunity for companies to tell their stories regarding:
- Their complex assets & associated risks
- How their cash-flow testing models address those risks

- Goal has been to lessen reliance on high net yields to pay claims
  - Above certain yields there should be assumed an offsetting risk
- Reached out to several companies with outlying assumed net yields in coordination with domestic regulators
- For higher net yield assumptions that are not necessarily outliers:
  - Help ensure company models are robust enough to capture risks

- Help ensure the ceding company is evaluating whether there are enough quality assets at the reinsurer to pay reinsurance claims in moderately adverse conditions in an appropriate manner
- Usually analyzed “given” reserves are reasonable and adequate

- More tailored focus on risky structured asset classes

- Reviewing practices and impacts

- Helps identify where an asset may not produce cash flows and put the insurance company at risk if it needs cash
- Reviewing consistency of reporting and ensuring actuaries interacting with investment staff

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- Perhaps no significant findings
- Perhaps a few outlying situations
- If more widespread findings of issues to be addressed, will reopen public discussion at NAIC sessions to discuss next steps