JT. FINANCIAL STABILITY (E) TASK FORCE
AND MACROPRUDENTIAL (E) WORKING GROUP

Draft Pending Adoption

Draft: 8/16/23

Financial Stability (E) Task Force
and the Macroprudential (E) Working Group
Seattle, Washington
August 13, 2023

The Financial Stability (E) Task Force met Aug. 13, 2023, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Nathan Houdek, Chair (WI); Judith L. French, Vice Chair (OH); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by John Turchi (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by John Finston (NY); Andrew R. Stolfi represented by Kristen Anderson (OR); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Jamie Walker (TX); and Scott A. White (VA). The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis (CT); Philip Barlow (DC); Charles Santana (DE); Virginia Christy (FL); Roy Eft (IN); John Turchi (MA); Lynn Beckner (MD); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Lindsay Crawford (NE); Jennifer Li (NH); David Wolf (NJ); Kristen Anderson (OR); Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Jamie Walker (TX); Dan Bumpus (VA); and Amy Malm (WI).

1. <u>Heard Opening Remarks</u>

Commissioner Houdek said materials for consideration and discussion for this meeting were sent via email Aug. 7, and they are available on the NAIC website in the "Committees" section under the Financial Condition (E) Committee.

2. <u>Adopted the Task Force's June 20 and Spring National Meeting Minutes</u>

Mears made a motion, seconded by Superintendent Dwyer, to adopt the Task Force's June 20 (Attachment One) and March 22, 2023 minutes (*see NAIC Proceedings– Spring 2023, Financial Stability (E) Task Force*). The motion passed unanimously.

3. <u>Heard an Update on FSOC Developments</u>

Superintendent Dwyer reported on a few Financial Stability Oversight Council (FSOC) discussions identified publicly that are most directly related to the NAIC's work:

- On April 21, the FSOC released its new proposed guidance and analytic framework for designating nonbanks that potentially pose financial stability risks, which are the policies and documents that would guide the FSOC should it decide to "designate" a non-bank entity. This could potentially include insurers. After a brief extension, the comment period closed July 27.
- A designation means the FSOC has determined that the particular entity poses a systemic risk to the entire financial system and, therefore, should be subject to enhanced supervision by the Federal Reserve, in addition to any existing functional oversight by another state insurance regulator, which is the authority

that led to the designations of American International Group Inc. (AIG), MetLife, and Prudential Financial after the 2008 financial crisis.

- The designations were eventually removed from all three companies, with MetLife winning a lawsuit that challenged the FSOC's ability to designate a company without specific findings.
- In the intervening years, the FSOC was encouraged to focus more on an "activities-based" approach to dealing with systemic risk; i.e., focusing on the type of activities that lead to contagion and catastrophe regardless of which entities may be engaged in them.
- While the NAIC prefers the "activities-based" approach to designating individual firms, the designations authority is a function of law, and it remains a potent tool in the FSOC's toolbox.
- The FSOC has not indicated whether there are particular firms or insurers on its radar. However, recent public work of the FSOC has focused on broad areas of the financial sector, including non-bank lenders, hedge funds, crypto firms, and asset managers.
- In keeping with past precedent, the NAIC did not comment publicly on the FSOC's internal guidance, given its role as a sitting member of the FSOC. However, the NAIC has long argued that the business of insurance is not inherently systemic, and while insurers can be affiliated with other parts of the financial system that could create risk, state insurance regulation has evolved significantly since the 2008 financial crisis, and the NAIC has spent the last decade further refining and improving what was already an effective system. The NAIC now has far deeper and broader insights into non-insurance entities within a group, better risk management, reporting and liquidity tools, and enhanced disclosure to further limit the potential for systemic risk in the insurance sector.
- While the non-bank designation guidance has gotten most of the attention, the FSOC has continued to make progress on other important projects, like enhancing data sharing among FSOC agencies related to climate risk, banking sector supervision due to recent regional bank failures, hedge fund vulnerabilities, and non-bank mortgage servicing concerns.

4. <u>Received a Working Group Update</u>

Kasinow provided a brief update on the liquidity stress test (LST) project:

- The 2022 LST filings were due June 30, and NAIC staff are continuing to review the filings and will provide summarized results and insights soon.
- Work on the 2023 Liquidity Stress Testing Framework (LST Framework) will begin soon. State insurance regulators will once again consider whether to modify the scope criteria used to identify life insurers and their groups for potential participation in the LST project, as well as consider any modifications to the stress scenarios and other requirements to be included in the 2023 LST Framework.
- Separate account liquidity concerns, other than the guaranteed portion included in the general account, are excluded from the current LST Framework. The LST Study Group is in the process of considering how to address potential separate account asset sales in a stress scenario. The Study Group is working on a data call for lead states to require their participant life insurance groups to provide some context around the dollar amount of specific asset types included in separate accounts, which are not already subject to U.S. Securities and Exchange Commission (SEC) liquidity stress requirements.
- Once the Study Group has access to the results of this data call, state insurance regulators will be in a better position to consider the potential impact of this universe of assets. If deemed significant, state insurance regulators will move on to constructing a methodology for assessing the potential asset sales, which could occur in likely stress scenarios.

Kasinow reported that NAIC staff recently posted a new status update document on the referrals of the Working Group's list of 13 private equity (PE) and related considerations (Attachment Two), which includes a brief title for each of the 13 considerations, the initial status when referrals were sent to other groups, the March 22 status update, and the recently added Aug. 13 status update.

Kasinow summarized some key developments of the 13 PE and related considerations:

- For items 1 and 2, addressing concerns around holding company structures, ownership, and control, the Group Solvency Issues (E) Working Group formed a drafting group to develop best practices for regulatory review in this area.
- For items 4 and 10, Andersen's update on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) (Attachment Two-A) will provide insights into efforts, which involve ensuring that long-term liabilities are appropriately supported and the complex and/or privately structured securities' risks are appropriately modeled.
- For item 5, which raises questions about operational, governance, and market conduct practices, the Working Group will soon begin considering this item now that the Task Force has completed the Reinsurance Worksheet to address the offshore/complex reinsurance topic in item 13.
- Item 7, which concerns identifying related party-originated investments, has been addressed by the 2022 adoption of additional related party codes for investment reporting and the more recent adoption of revisions in the Statutory Accounting Principles (E) Working Group's Ref #2022-15. These revisions clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment.
- The revisions for item 7 also address many of the considerations for item 8, which concerns identifying underlying affiliated/related party investments and/or collateral in structured securities, and item 9, which concerns asset manager affiliates and disclaimers of affiliation. There may be additional work as state insurance regulators gain more insights from reviewing statutory financial statements, including these new disclosures and accounting clarifications.
- For item 11, reliance on rating agencies, the Valuation of Securities (E) Task Force has had a lot of discussion and activity around this consideration, which is expected to continue and possibly expand in scope.
- For item 12 and its considerations around pension risk transfers (PRTs), it is the NAIC's understanding that the U.S. Department of Labor (DOL) has had many meetings with trade associations and insurers, along with many other groups to work to update the fiduciary requirements under 95-1.

Kasinow also reported that the Working Group will be working on the following items before the Fall National Meeting:

- Updating the Macroprudential Risk Assessment (MRA) dashboard, including incorporating additional climate risk metrics.
- The MRA work will also include comparing the NAIC's framework to the FSOC's framework to identify any gaps and propose a way forward.
- Continue counterparty identification and an enhancement project.

Andersen reported that in 2022, the NAIC adopted AG 53, with its main purpose being to help ensure claims-paying ability even if complex assets do not perform as expected. He added that it requires disclosure for most life insurers over a size threshold of asset-related information with first submissions due April 2023. He added that the disclosures provide an opportunity for companies to tell their stories regarding their complex assets and associated risks, as well as how their cash-flow testing models address those risks. He said the NAIC has received AG 53 filings from 246 life insurers. He added that the Valuation Analysis (E) Working Group formed an AG 53 Review Group consisting of a team of actuaries, investment experts, and other financial staff to perform reviews. He said the review process has started with company prioritization based on prior knowledge and template information. He explained that the Review Group meets frequently to identify companies with outlier net yield assumptions and engage with state insurance regulators for companies with outlier assumptions.

Andersen explained that the Valuation Analysis (E) Working Group considered a review of net yield assumptions to be its top priority due to the implications if a company is assuming high investment returns:

- More favorable asset adequacy analysis results.
- With more favorable asset adequacy results, a lower amount of assets could be held for reserves to be considered adequate.
- The concern is if risk is understated and assets underperform, reserves will turn out to be inadequate, and previously released money may have been needed.

Andersen explained the table in his presentation:

- Listed are examples of cash-flow testing results showing adequate reserving amounts, with the only difference being a change in the net yield assumptions. As the net yield assumption increases, the cash-flow testing indicates that a lower reserve amount is adequate.
- From a state insurance regulator's perspective, companies with high net yield assumptions would be vulnerable to not having sufficient reserves if their assets do not perform as expected. Companies assuming aggressively high net yields may be perceived as being dependent on that level of return to be able to pay all future claims.
- This illustrates why the Review Group first focused on net yield assumptions.

Andersen reported some findings related to AG 53 net yield assumptions:

- AG 53 filings for companies that are active and have outlier net yield assumptions have been reviewed, and the Review Group has the following concerns:
    - Reserve adequacy using moderately adverse conditions criteria is not met for companies that rely on high investment returns over a long period of time to be able to pay future claims.
    - Other companies may feel a need to assume unreasonably high yields to compete.
- Separated companies with above 7% and below 7% net returns for a variety of asset classes, but 7% is not meant as a safe harbor, rather just a demonstration of companies with outlying assumptions.
- A vast majority of life insurers assume reasonable returns on their assumptions; i.e., 85% to 95% of companies are in the below 7% category.
- There is a sizable number of companies that assumed net yields above 7% with more widespread assumptions of yields for Schedule BA assets and equities.

Andersen reported some of the upcoming activities of the Review Group:

- Reviewing reinsurance counterparty risk by sending requests for additional information from a targeted set of ceding companies, as relevant:
    - Description and reason for significant reinsurance-related ceded transactions.
    - Process and metrics used to evaluate the counterparty's asset risk and financial health.
- Continuing efforts to help ensure claims-paying ability even if complex assets do not perform as expected.

5. <u>Heard an International Update</u>

Tim Nauheimer (NAIC) reported that the International Association of Insurance Supervisors (IAIS) has completed numerous data calls and analyses as part of the Global Monitoring Exercise (GME), which includes individual insurer monitoring (IIM) and sector-wide monitoring (SWM). He added that the GME is part of the IAIS's holistic framework for systemic risk identification, which takes a broader approach to financial stability and macroprudential surveillance.

Nauheimer summarized with respect to the GME that the IAIS has done the following:

- Completed the IIM quantitative data analysis of about 60 insurers.
- Completed the quantitative and qualitative SWM data collection, which includes additional data on reinsurance and climate risk.
- Continues to analyze SWM reinsurance data.
- Continues to analyze SWM data to compare to IIM data.
- Published the Global Insurance Market Report (GIMAR) mid-year update in July that provides a summary of the initial outcomes of this year's data collections and highlights key themes identified for the 2023 GME as being:
  - Risks faced by insurers in light of the challenging macroeconomic backdrop, notably interest rate, liquidity, and credit risk.
  - Structural shifts in the life insurance sector, specifically the use of cross-border asset-intensive reinsurance.
  - The increased allocation of capital to alternative assets.
- Will complete the annual GIMAR publication in November, for which the NAIC will continue to monitor and contribute to the development of the report.

Nauheimer stressed that the IIM and SWM data collections help determine the scope for an annual collective discussion by the IAIS on potential systemic risk issues. He added that the IAIS held a global seminar in Seattle in June, where this year's collective discussion of insurers and SWM themes was approved. He said for the IIM collective discussion, the focus will be on firms identified by quantitative scoring, as well as some overarching themes related to financial stability that were identified through expert judgment. He added that the process resulted in the identification of six insurers for this year's collective discussion: two firms were included due to quantitative scoring; three firms were included due to expert judgment; and one firm as a top-up for regional balance. He said identification of the insurers is confidential, and the group-wide supervisors were sent questionnaires, which were due Aug. 11. He said the collective discussion will take place at the Macroprudential (E) Working Group and Executive (EX) Committee meetings at the end of September, in which the group-wide supervisors will provide an overview of the supervision of their insurers.

Nauheimer reported that the IAIS has approved the updated IIM Assessment Methodology after the resolution of comments, but work on the following ancillary indicators to refine systemic monitoring will continue this year: 1) level 3 assets; 2) credit risk; 3) derivatives; and 4) reinsurance. He added that the IAIS Liquidity Workstream will meet at the end of August to analyze data received as part of the GME to continue to develop liquidity metrics, especially regarding an LST.

Nauheimer said the SWM overarching themes this year are:

- Managing increased interest rate, credit, and liquidity risks against a challenging macroeconomic backdrop.
- Cross-border reinsurance.
- Alternative assets.

Nauheimer reported that NAIC staff completed extensive questionnaires on each of the above risk themes that were due Aug. 11 and describe how the NAIC takes these risk themes into account in the U.S. regulatory system, including identification and monitoring tools in place. He added that NAIC staff shared the questionnaires with the Working Group for its input as well.

Nauheimer also reported that some of the additional climate data was proposed by the IAIS Climate Risk Steering Group (CRSG). He added that the IAIS released its first public consultation that covers the addition of new material into the IAIS Insurance Core Principles (ICPs) Introduction, work related to climate risk and governance, and the IAIS's plans to address climate more broadly. He said the CRSG met June 28 to discuss initial observations on the feedback received from the public consultation and initial feedback on the latest draft Application Paper materials on both climate-related market conduct considerations and climate scenario analysis. He added that the Application Paper, which is scheduled to be published for consultation by the end of 2023, contains guidance on scenario analysis in ICP 16 on enterprise risk management and ICP 24 on macroprudential supervision.

Nauheimer said the IAIS Macroprudential Supervision Working Group (MSWG) is conducting a holistic framework review of supervisory standards with a number of subcommittees of the MSWG reviewing SWM themes and future data collection points. He added that the MSWG has been engaged in providing educational sessions on asset-intensive reinsurance/cross-border reinsurance, including hearing many presentations from insurers and supervisors from across the globe that are similar to the ones heard by the Working Group and Task Force over the past year, but if new information is provided at the IAIS, NAIC staff will inform the Working Group and the Task Force.

Having no further business, the Financial Stability (E) Task Force and Macroprudential (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E Committee/FSTF/2023_2 Summer/Minutes

Draft: 7/10/23

Financial Stability (E) Task Force
and the Macroprudential (E) Working
Group Virtual Meeting
June 20, 2023

The Financial Stability (E) Task Force met June 20, 2023, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Marlene Caride, Chair, represented by John Sirovetz (NJ); Nathan Houdek, Vice Chair (WI); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Mike Yanacheak (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by Christopher Joyce (MA); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Lindsay Crawford (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tim Biler (OH); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise represented by Thomas Baldwin (SC); Cassie Brown represented by Rachel Hemphill (TX); and Scott A. White represented by Dan Bumpus (VA). The following Working Group members participated: Bob Kasinow, Chair (NY); Mike Yanacheak, Vice Chair (IA); Susan Bernard (CA); William Arfanis (CT); Philip Barlow (DC); Tom Hudson (DE); Virginia Christy (FL); Roy Eft (IN); Christopher Joyce (MA); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); John Sirovetz (NJ); Diana Sherman (PA); Elizabeth Kelleher Dwyer (RI); Rachel Hemphill (TX); Dan Bumpus (VA); and Amy Malm (WI). Also participating were: David Phifer (AK); Mark Fowler (AL); David Lee (AZ); Rolf Kaumann (CO); Russell Coy (KY); Pat Gosselin (NH); Leatrice Geckler (NM); Carter Lawrence (TN); Jon Pike (UT); Kevin Gaffney (VT); and Tim Hays (WA).

1. Heard Opening Remarks

Commissioner Houdek said materials for consideration and discussion for this meeting are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. He added that the materials were intentionally released two weeks in advance of the Task Force call to allow participants extra time to review and the option to express any major concerns. He summarized that the purpose of the call is to ensure comments received on the draft Reinsurance Worksheet have been addressed by the Working Group and to consider the draft for adoption, which the Task Force will be considering jointly with the Working Group.

2. Adopted the Reinsurance Worksheet

Kasinow summarized the clarifications of the Reinsurance Worksheet from comment letters received:

- **OPTIONAL TOOL**: This worksheet is designed as an **OPTIONAL** tool to assist lead state/domiciliary regulators when reviewing reinsurance transactions to allow them to obtain the information necessary to understand the economic impacts, typically upon initial review of the proposed transaction but also potentially when the lead state/domiciliary regulator is performing a historical review of the transaction for some specific purpose.

- **NOT AN ONGOING FILING**: This worksheet is **NOT** for use as an ongoing filing with the NAIC and/or the lead/domiciliary state. It is an **EDUCATIONAL** tool for lead state/domiciliary regulators to use on an ad hoc basis as needed.
- **ONLY USED IF NEEDED**: The worksheet is **NOT** designed to be used with **EVERY** reinsurance transaction. It is designed as a consistent tool for lead state/domiciliary regulators to use when reviewing reinsurance transactions for which they need to determine the economic impacts of said reinsurance transactions. If a reinsurance transaction is easily understood without the use of this worksheet, then a worksheet would not be used by the lead state/domiciliary regulator.
- **NOT A FIXED TEMPLATE**: The worksheet is **NOT** a fixed template that **MUST** be used to answer the lead state/domiciliary regulators' information needs. If an insurer has materials used in its own assessment of the reinsurance transaction that answer the information needs of the lead state/domiciliary regulator expressed in the worksheet, then those materials may be accepted by the lead state/domiciliary regulator rather than requiring the insurer to use the worksheet format. Every effort should be made to **avoid duplicate requests** for information.
- **OPEN TO REINSURANCE TYPE**: The worksheet **was designed with life reinsurance transactions** as the initial focus, but there is **no reason to limit this tool to life reinsurance transactions**. If the lead state/domiciliary regulator has a property/casualty (P/C) reinsurance transaction for which they are struggling to understand the economic impact (despite any existing notes, interrogatories, and Schedule F disclosures for already approved transactions), the lead state/domiciliary regulator would be able to use the worksheet to request the needed information, with appropriate edits. Again, this worksheet should not be used if the lead state/domiciliary regulator has a clear understanding of the transaction from data already provided.
    - Similarly, the worksheet was designed with affiliated transactions as the initial focus, but a lead state/domiciliary regulator should use the template for unaffiliated transactions if existing information does not provide a clear understanding of the transaction.
- **NOT REINSURANCE POLICY**: The Working Group is working in coordination with the Reinsurance (E) Task Force. This optional, informational tool is **not intended to affect any of its reinsurance policies or procedures**, such as the qualified/reciprocal jurisdiction evaluation process or the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement).
- **ONLY REFERENCED IN HANDBOOKS**: The worksheet is **not included in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook***; although, it may be referenced there as an optional tool. The worksheet will be available on StateNet.
- **CONFIDENTIALITY:** The worksheet would be confidential under a lead/domiciliary state's existing confidentiality laws and regulations in place to allow the lead state/domiciliary regulator to assess such transactions.

Kasinow asked the following interested parties that provided comment letters if there were any remaining concerns: Swiss Re; the American Council of Life Insurers (ACLI); a representative for jointly made comments from the National Association of Mutual Insurance Companies (NAMIC), the Reinsurance Association of America (RAA), and American Property Casualty Insurance Association (APCIA); the Bermuda International Long Term Insurers and Reinsurers (BILTIR); and the Association of Bermuda Insurers and Reinsurers (ABIR).

Steve Clayburn (ACLI) said concerns expressed in the ACLI's comment letter were addressed in a positive direction in the resolution of comments, with confidentiality and avoiding duplication being the most important. He stressed that the Task Force should be working collaboratively with the Reinsurance (E) Task Force on any future enhancements.

Belfi asked if the questions on the transaction being requested by the lead or ancillary state would be the direct writer or ceding regulator or the reinsurance regulator. Kasinow responded that the ceding regulator would initiate questions to understand the economics of the transaction. He added that some states are already using something similar to the Reinsurance Worksheet as part of their financial analysis and review of transactions, and the intent was only to capture information for states that did not previously have that information.

Tim Nauheimer (NAIC) summarized the resolution of comments received:

- Indiana and Nebraska suggested that a fair amount of terminology should be defined; the other jurisdiction should be named; a summary description of key elements of that jurisdiction's accounting basis should be provided. Nauheimer said the Task Force would incorporate those suggestions.
- Swiss Re said the information requested in the Reinsurance Worksheet, such as cross-border reinsurance transaction details, is already available through existing filings.
- Nauheimer said state insurance regulators' use of the Reinsurance Worksheet is primarily intended for life but may be used for P/C. He added that the Reinsurance Worksheet is intended as needed not as an ongoing disclosure requirement, and it is intended for specific transaction approval. He concluded that state insurance regulators will leverage existing information, but they do not get all the data needed from annual statements.
- Swiss Re said the Working Group expressed concerns emanating from the Cayman Islands and/or Bermuda, and it asked for additional clarity on those specific concerns.
- Nauheimer responded that the Working Group never stated concerns with these jurisdictions. He added that the Working Group met with these jurisdictions to better understand their regulatory regime and their process for reviewing reinsurance deals to better coordinate with them.
- Swiss Re said the NAIC has already established a process for evaluating qualified and reciprocal jurisdictions, which is a means to recognize key NAIC solvency initiatives, including group supervision and group capital standards, and it recommends involving the established process and expertise of other NAIC groups.
- Nauheimer responded that the Task Force agrees that any broader issues that arise during a specific transaction approval should be raised to the groups responsible for the qualified and reciprocal process. He added that the Working Group is also closely coordinating with the Reinsurance (E) Task Force, but it is merely overseeing the 13 private equity (PE) and other considerations.
- The ACLI said the Reinsurance Worksheet should not be duplicative of other sources already available to state insurance regulators, and established confidentiality protections should be maintained.
- Nauheimer responded that the Working Group data may be used to complete a Form D, not in addition to, and it would be confidential under existing confidentiality state laws and regulations in place to assess such transactions; i.e., a tool for state insurance regulators to use and not filed with the NAIC.
- The BILTIR agreed with the ACLI letter, so Nauheimer said no additional response is needed.
- The RAA, the APCIA, and NAMIC recommended the following suggestions:
    - The Working Group should identify and limit the proposal to the types of cross-border reinsurance transactions that are of concern to state insurance regulators.
    - Simple and straightforward reinsurance transactions should not be subject to data requested in the Reinsurance Worksheet.
    - The brief introductory guidance on page 1 of the Reinsurance Worksheet is insufficient and should not be adopted until additional guidance in the *Financial Analysis Handbook* or a similar reference document is developed to provide context on the information that state insurance regulators need.

- P/C reinsurance contracts subject to existing requirements from the scope of contracts should be exempt from the Reinsurance Worksheet.
- The Reinsurance Worksheet appears to be required to be completed by the ceding company, but it is unclear whether the option to request it resides primarily with the domestic state of the cedent or whether the option is available to any state in which the cedent is licensed.
- Clarification is needed regarding the date the balance sheet effects are measured, the time period, and the intended retrocession details of the Reinsurance Worksheet.
- Consider whether the Working Group considered the Reinsurance Summary Supplemental Filing and related Reinsurance Attestation Supplement in its development of the Reinsurance Worksheet.
- It is unclear whether the proposal is intended to apply to only affiliated off-shore reinsurance transactions or to any cessions to third parties.
- Provide a reasonable minimum timeframe for the completion of the worksheet.

- Nauheimer responded that state insurance regulators may use the Reinsurance Worksheet as they see fit, as it is a tool for states, and the clarification summary should address those concerns. He added that:
  - The Working Group will enhance guidance and instructions, but it is not intended for the *Financial Analysis Handbook*.
  - Companies should add the transaction date and specify before and immediately after the reinsurance transaction, and the retrocession details are intended to understand the structure.
  - The clarification summary should address the other comments.
  - The Reinsurance Worksheet:
    - May be used for any purpose (e.g., affiliated and unaffiliated deals).
    - Would be confidential under existing confidentiality state laws and regulations in place to assess such transactions.
    - Is for state insurance regulator use and not intended to be required filing by a company with a filing deadline.
- The ABIR recommends:
  - Avoiding impeding the solid work on the existing and future U.S. Covered Agreements and NAIC qualified reinsurance designation by one-off interventions into international reinsurance.
  - Assigning further considerations of the Reinsurance Worksheet exclusively to the Reinsurance (E) Task Force.
  - Using the Reinsurance Worksheet in traditional, unaffiliated P/C reinsurance transactions has not been identified as necessary.
  - Further consultation and discussion are required to address:
    - Questions on context and clarity are needed before being considered further by state insurance regulators, i.e., where the Reinsurance Worksheet would reside in the regulatory framework.
    - Whether the Reinsurance Worksheet should be part of the *Financial Condition Examiners Handbook*.
    - Whether the Reinsurance Worksheet should be considered a desk drawer rule; i.e., what outcomes of the calculations suggest.
    - What action is being considered upon completion of the Reinsurance Worksheet.
    - What the safeguards are to protect confidential and proprietary information.
- Nauheimer responded that the Reinsurance Worksheet will not be part of the *Financial Condition Examiners Handbook*, and it will not be considered a desk drawer rule. He added that the Reinsurance Worksheet may be used as state insurance regulators deem necessary, and it will be used to educate state insurance regulators on the economics of a deal and to analyze a transaction. He said as noted earlier, the Reinsurance Worksheet will be confidential under the existing confidentiality state laws and regulations in place to assess such transactions.

Mayhew made a motion, seconded by Arfanis, to adopt the Reinsurance Worksheet (Attachment One-A). The motion passed unanimously by the Working Group.

Yanacheak made a motion, seconded by Sherman, to adopt the Reinsurance Worksheet. The motion passed unanimously by the Task Force.
Commissioner Houdek said there is no urgency after adopting the Reinsurance Worksheet, as the Financial Condition (E) Committee will consider it for adoption during its Summer National Meeting and due to it being an optional tool that state insurance regulators may already choose to use if needed.

Having no further business, the Financial Stability (E) Task Force and Macroprudential (E) Working Group adjourned.

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Cross-border Affiliated Reinsurance Comparison Worksheet - by Treaty						
Date:						
Category	**US Stat. Pre-Transaction**	**Impacts of Transaction (Col's B-D)**	**US Stat. Post-Transaction**		**Other Jurisdiction**	**(Alternate Method) - Other Jurisdiction**
Other Jurisdiction Name						
BALANCE SHEET COMPARISON:						
Asset Grouping 1 (e.g., Cash/Investments)						
Asset Grouping 2 (e.g., Policy Loans)						
Asset Grouping3 (e.g., Separate Accounts)						
Other Assets						
TOTAL ASSETS *						
Liab. Grouping1 (e.g., Gen. Acct. Reserves)						
Liab. Grouping2 (e.g., Gen. Acct. Policy Loan Reserves)						
Liab. Grouping3 (e.g., Separate Accounts)						
Unauthorized Reinsurance Liability						
Other Liabilities (*See NOTES SECTION*)						
TOTAL LIABILITIES						
TOTAL ASSET REQUIREMENT COMPARTISON:						
Reserve Grouping1 (e.g., Separate Account Reserves)						
Reserve Grouping2 (e.g., GA Policy Loan Reserves)						
Reserve Grouping3 (e.g., GA Policy Reserves)						
TOTAL RESERVES						
Capital Grouping1 (e.g., Required Capital)						
Capital Grouping2 (e.g., Add'l Capital for Rating Agency)						
Capital Grouping3 (e.g., in Excess of Rating Agency Cap.)						
TOTAL CAPITAL						
TOTAL ASSET REQUIREMENT						
CHANGE IN CAPITAL AND SURPLUS:						
Capital and Surplus						
Net Income						
Change in Liability for Unauthorized Reinsurance						
Aggregate Write Ins for gains and losses in surplus						
Capital Contribution/(Dividends)						
Other Changes in surplus						
TOTAL LIABILITIES & CAPITAL						
SOLVENCY RATIO						

* Supported by listings of asset categories and amounts to highlight differences in supporting assets after the transaction.

NOTES SECTION:

(e.g., explain product line, describe transaction and any unique aspects)

(If Asset Adequacy Testing is included in "Other Liabilities," additional regulatory guidance may be needed, e.g., on counterparty asset assumptions where access is limited.)

Transaction Details

Please identify the following transaction details if applicable:	Contract 1 (if needed)	Contract 2 (if needed)	Contract 3 (if needed)	Contract 4 (if needed)
Which party of the contract are you (assuming or (retro)ceding)?				
Description risk category covered (mortality, longevity, Cat Risk, etc.)				
Start date				
End date				
Currency				
Sum Insured / Gross Notional amount / PML				
Capital at risk				
Line of Business (e.g. annuities, term, participating guarantee, etc.)				
Risks covered (e.g. longevity, mortality, etc.)				
Type of reinsurance treaty (XoL, Quota share – proportionate, etc.)				
Collateral value				
Value of guarantee				
Name(s) of the reinsurer(s) (please only include top 3 by premium share if more than one)				
Rating of reinsurer(s)				
Countries of reinsurer(s)				
Assets pledged by reinsurer				
Initial premium				
Initial fees				
Value of reserves				
Ceding commission structure		If yes, please provide a brief description		
Any experience refund or loss carryforward features		If yes, please provide a brief description		
Do you use or plan to use any form of derivatives for reinsurance purposes (e.g. longevity or mortality swaps)?		If yes, provide description of these derivatives		
Was any debt or surplus note issued in connection with the transaction? Ex. Such as in an embedded value securitization		If yes, please provide a brief description		

Please identify and describe if any of the following types of arrangements are associated with this transaction:	Description	
Trust		
Funds Withheld		
Coinsurance		
Modified Coinsurance		
Sidecars		Please describe Exit mechanism if known
Any other Joint Venture or SPV		
Third-party capital		

Ceded and Retroceded Details	Reinsurer Name	Jurisdiction
If ceding to an offshore affiliate please identify the assuming affiliated reinsurer(s) and their regulatory jurisdiction		
If ceding to an offshore affiliate and that affiliate is going to retrocede to another reinsurer, please identify the ultimate assuming reinsurer(s) and their regulatory jurisdiction		

Key Definitions
PML-Probable Maximum Loss
Capital at risk-required capital or capital charge.
Collateral value-the market value of securities pledged as collateral if a trust is set up in connection with the transaction.
Value of the guarantee – For example, third party guarantees in non-standard types of reinsurance. e.g. an MGA owns affiliated insurers, an unaffiliated reinsurer reinsures with the MGA affiliate with a guarantee from the MGA.

Please list the asset types and amounts backing the ceded business and indicate with a * (or some other symbol) if they do not meet the statutory accounting definition of admitted assets

As of Date:

Asset Listing			
Description	**Book Value**	**Market Value**	**NRSRO Rating**

Plan for the List of MWG Considerations – PE Related and Other

Some of these Working Group projects will continue for several years. The status of the 13 MWG Considerations is as follows as of ***August 13, 2023***:

1. Holding Company Structures:

   Sent a referral for new work to the Group Solvency Issues (E) Working Group.

   GSIWG Update 3/22/23: *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*

   GSIWG Update 8/13/23: *The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.*

2. Ownership and Control:

   Sent a referral for new work to the Group Solvency Issues (E) Working Group.

   GSIWG Update 3/22/23: *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*

   GSIWG Update 8/13/23: *The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.*

3. Investment Management Agreements (IMAs):

   Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and Form D filings. Also sent a referral to the Valuation of Securities (E) Task Force (VOSTF) to highlight the regulatory discussion involving topics it administers.

   RFSWG Update 3/22/23: *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its* *ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.*

RFSWG Update 8/13/23: *The RFSWG is nearing the completion of its project to update general guidance in NAIC handbooks related to affiliated service agreements, which is expected to be completed by the 2023 Summer National Meeting. After the general guidance is completed, the Working Group plans to begin work on more targeted guidance related to affiliated investment management agreements.*

4. Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer: Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees. Also sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.

   RFSWG Update 3/22/23: *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.*

   RFSWG Update 8/13/23: *No update.*

   LATF Update 3/22/23: *Asset adequacy analysis requirements in NAIC Model #820 and VM-30 require that company Appointed Actuaries perform testing to ensure that the reserves held for the company's liabilities are adequate in light of the assets supporting the business. Regulators review associated company Statements of Actuarial Opinion periodically.*

   LATF Update 8/13/23: *Actuarial Guideline 53 – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) became effective for year-end 2022. AG 53 requires additional disclosures related to life insurance and annuity company investment return assumptions for complex and high yielding assets. Regulators are conducting targeted reviews of the AG 53 disclosures to ensure that company investment returns for complex and high-yielding assets are not overly optimistic.*

5. Operational, Governance and Market Conduct Practices:

The MWG will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.

MWG Update 3/22/23: *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration*.

MWG Update 8/13/23: *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.*

6. Definition of Private Equity (PE):
   No action was deemed necessary for this consideration.

   No update.

7. Identifying Related Party-Originated Investments (Including Structured Securities):
   Sent a referral to the Statutory Accounting Principles (E) Working (SAPWG) Group recognizing its existing work regarding disclosures for related-party issuance/acquisition. Once MWG regulators work with these SAPWG disclosures and regulatory enhancements from referrals to other groups, further regulatory guidance may be considered as needed.

   SAPWG Completed Actions 3/22/23:

   - *Ref #2021-21 included revisions that clarified guidance for related parties and developed a blanks proposal which provided new investment schedule column with reporting codes to identify investments that involve related parties. (Adopted May 2022)*

   - *Ref #2021-22BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures include codes that identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)*

   SAPWG Completed Actions 8/13/23:

   - *Ref #2022-15, included revisions to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Adopted March 2023)*

8. Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities:

Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investment. Also sent a referral for new work to the Examination Oversight (E) Task Force for the CLO/structured security considerations.

SAPWG Completed Actions 3/22/23:

- *See above descriptions (Ref # 2021-21 and Ref #2021-22 BWG) on investment reporting codes for year end 2022 reporting.*

- *Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a "related party" and the disclosure of material transactions. This agenda item also resulted in the creation of a new Schedule Y Part 3, which was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Ref #2019-34 and Ref #2020-37BWG, both adopted March 2021)*

SAPWG Completed Actions 8/13/23:

- *See above descriptions (Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG).*

EOTF Update 3/22/23: *The EOTF delegated work on this referral to its Financial Analysis Solvency Tools (E) Working Group and its Financial Examiners Handbook (E) Technical Group. Both groups developed new guidance for inclusion in 2023 NAIC handbooks related to the new related party investment disclosures developed by SAPWG and the AG 53 standards developed by LATF that will be in place for 12/31/22 reporting. The groups may develop additional guidance for NAIC handbooks, as well as supporting regulatory reports and tools, as work proceeds in this area.*

9. Asset Manager Affiliates and Disclaimers of Affiliation:

MWG regulators are comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed. Also, a referral was sent to the Statutory Accounting Principles (E) Working Group recognizing its existing work to revamp Schedule D reporting along with the previously mentioned code disclosures will assist with this consideration.

SAPWG Completed Actions 3/22/23:

- *See above descriptions of Schedule Y Part 3. (Ref #2019-34 and Ref #2020-37BWG).*

SAPWG Ongoing Work 3/22/23:

- *Ref #2022-15, which clarifies affiliated investment reporting, is planned for exposure at the 2022 Fall National Meeting. It adds guidance on reporting of affiliated investments.*

- *As part of a project known as the bond project, the SAPWG is developing a proposal to revise Schedule D reporting, which intends to determine what is considered a qualifying bond and to identify different types of investments more clearly. For example, the current bond proposal would divide Schedule D-1 into a Schedule D-1-1 for issuer credit obligations and a Schedule D-1-2 for asset-backed securities. The proposal includes more detailed reporting lines to provide more granularity on the actual types of investments held. The effective date of the bond proposal, and the reporting changes, is anticipated for January 1, 2025. The Ref #2019-21 is the primary Form A; however, the project has several documents.*

- *Ref #2022-17, which clarifies interest income disclosures, is planned for exposure at the 2022 Fall National Meeting.*

SAPWG Completed Actions 8/13/23:

- *See above descriptions Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG; Ref #2022-17, incorporated revisions to data-capture interest income disclosures, and established new disclosures for aggregate paid-in-kind interest and deferred interest. (Adopted March 2023). SAPWG Ongoing Work: Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023, and updated revisions are anticipated for exposure shortly after the 2023 Summer National Meeting. The statutory accounting revisions to incorporate a new principles-based bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities will be presented for adoption at the 2023 Summer National Meeting.*

10. <u>Privately Structured Securities</u>:

Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an Actuarial Guideline including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks. Sent a referral to the VOSTF highlighting the MWG regulators' support for the blanks proposal to add market data fields for private securities being considered by the Valuation of Securities (E) Task Force (VOSTF). MWG regulators will wait on any further work or referrals until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project. Sent a referral for new work to the RBC Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.

LATF Update 3/22/23: *Actuarial Guideline 53 (AG 53) has been adopted by the Life Actuarial (A) Task Force and will be effective for year-end 2022 reporting. Regulators on the Valuation Analysis (E) Working Group will be conducting AG 53 reviews.*

VOSTF Update 3/22/23: The VOSTF will be sending referrals to a number of NAIC committee groups requesting feedback on a replacement proposal to have the NAIC produce analytical risk metrics for bond investments. These groups will also be asked if they support the proposal and to describe different ways they envision being able to take advantage of such a capability within the NAIC.

SAPWG Ongoing Work 8/13/23:

- *As discussed above, the Schedule D bond proposal is planned for 2025 reporting.*

RBCIREWG Update 8/13/23: *The Risk-Based Capital Investment Risk and Evaluation (E) Working Group added this item to its working agenda. While not specifically addressing privately structured securities, the Working Group's current work on collateralized loan obligations may contribute to addressing this item.*

11. <u>Reliance on Rating Agencies</u>:
Sent a referral to the VOSTF indicating the MWG regulators' agreement to monitor the work of its ad hoc group addressing various rating agency considerations.

VOSTF Update 3/22/23:

- *The Task Force adopted an amendment at it Feb. 21 meeting that effective Jan. 1, 2024, financially modeled collateralized loan obligations (CLO) will not be eligible to use credit rating provider ratings to determine an NAIC Designation.*

- *The Task Force has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The questions are in the materials for the Spring National Meeting and will likely being exposed for public comment.*

- *The Securities Valuation Office (SVO) has proposed an amendment to remove Structured Equity and Funds transactions from being eligible to use credit rating provider (CRP) ratings to assign an NAIC Designation. The SVO has proposed defining Structured Equity and Funds investments as investments which, through the insertion of an intervening entity such as a special purpose vehicle (SPV) or limited partnership, enable underlying assets that may not qualify as 'bonds' or be eligible to receive an NAIC Designation under the current regulatory guidance, to be reported as 'bonds' because the intervening entity issues notes and those notes receive a credit rating provider rating. The SVO identified multiple regulatory reporting arbitrage opportunities with these investments that circumvent regulatory guidance using a CRP rating to accomplish that result.*

- *The Task Force adopted a new charge for 2023 to stablish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The criteria have not yet been proposed.*

VOSTF Update 8/13/23:

- *VOSTF received referral responses from the Financial Condition (E) Committee, the Life Actuarial (A) Task Force, the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group. The Life Actuarial Task Force and Valuation Analysis Working Group supported the proposal and provided examples of risk metrics which would be useful to their groups. The Financial Analysis Working Group supported the VOSTF investigating various products because it said the risk metrics could be more effective in helping financial analysts and examiners to fully evaluate and assess investment risks. The Financial Condition Committee said it was worthwhile for the VOSTF to continue to investigate the various products which could be made available to the SVO staff and state regulators that provide some of the alternative investment risk measures as they could obviate the need for the NAIC to collect that information form NAIC Annual Statements. However, the E Committee said that before it could sponsor the proposal it would need more information to fully understand the costs and benefits of such products. This is an ongoing initiative.*

- *VOSTF has drafted a list of questions to discuss with each rating agency in future regulator-only meetings. The SVO has received comments from certain rating agencies and is incorporating those comments into a final list of questions to be agreed to by the Task Force. At the 2023 Spring National, during the discussion of the proposed amendment on Structured Equity and Funds, the Task Force deferred action on the Structured Equity and Funds amendment and directed the SVO staff to draft a distinct process on how it would recommend challenging an NAIC Designation assigned from a credit rating provider ("CRP") rating pursuant to the Filing Exemption ("FE") process which the SVO thinks is not a reasonable assessment of risk for regulatory purposes. The SVO subsequently proposed an amendment which would grant the SVO staff a limited amount of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. The amendment would establish strict due process requirements before the SVO could over-ride a CRP rating including a materiality threshold of a 3-notch difference in order to flag a CRP rating and sufficient notice to insurers to provide time for insurers to appeal SVO assessments. This amendment will continue to be discussed by the Task Force and interested parties.*

12. Pension Risk Transfer (PRT) Business Supported by Complex Investments.

a. LATF's Actuarial Guideline:

Sent a referral to the LATF recognizing its work on an Actuarial Guideline which should address the reserve considerations of pension risk transfer (PRT) business. Sent a referral to the SAPWG to address the related disclosure considerations as the goal was to have them in the Notes to Financial Statements.

LATF Update 3/22/23: *The PRT Drafting Group of the VM-22 SG is considering the development of PRT/longevity risk mortality factors. The DG hopes to share data with the Longevity Risk Subgroup of LATF that the Subgroup could consider for C-2 RBC for PRT products and longevity risk transactions.*

SAPWG Completed Actions 3/22/23:

- *Ref #2020-37: Separate Account – Product Identifiers and Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure, which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements, was adopted by the SAPWG May 2021. Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021.*

Comment *– The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented; most entities are still broadly grouping PRT activity in the disclosures.*

LATF Update 8/13/23: *The PRT drafting group hasn't met since January, and the Longevity Risk Subgroup is holding off on meeting until the VM-22 Subgroup finalizes the VM-22 methodology*

b. Department of Labor Protections:

MWG Update 8/13/23: *Discussions with DoL continue. DoL is in the process of updating their fiduciary requirements under 95-1, which require due diligence in assessing an insurer prior to a PRT transaction.*

c. State Guaranty Funds Compared to PBGC Protection – NOLHGA 2016 Study:

No further action was deemed necessary.

MWG Update 8/13/23: No update necessary.

d. RBC Treatment of PRT Business:

Sent a referral to the Longevity Risk (E/A) Subgroup recognizing its work will also address PRT business and indicating the MWG regulators will monitor this work.

LATF Update 3/22/23: *The Longevity Risk (E/A) Subgroup has not met since the Summer National Meeting. The subgroup will resume the meetings once the currently exposed VM-22 PBR methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.*

LATF Update 8/13/23: *No change in this item as the VM-22 framework is not final yet.*

13. Offshore/Complex Reinsurance:

MWG Update 12/13/22: *MWG regulators are wrapping up the confidential discussions with industry participants and other jurisdictions regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles. They are continuing discussions to identify the best mechanism to ensure reviewing/approving regulators can identify the true economic impacts of the reinsurance* *transaction. MWG regulators will consider further work and/or referrals once they have concluded these discussions.*

MWG Update 3/22/23: *At the Spring NM 2023 The Working Group released for comment the reinsurance comparison worksheet designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved. We believe the cross-border reinsurance worksheet will enhance state insurance regulators' ability to monitor these transactions. The comment period ended Apr 28 and the MWG is in the process of addressing comments received.*

MWG Update 8/13/23: *The Reinsurance Worksheet was adopted on a joint FSTF/MWG virtual meeting on June 20, 2023.*

Updates on Actuarial Guideline 53

Fred Andersen, FSA, MAAA

8/13/2023

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

AG 53 Background

- Actuarial Guideline 53 was adopted in 2022
- Main purpose: help ensure claims paying ability even if complex assets do not perform as expected
- Requires disclosures and asset-related information for most life insurers over a size threshold
  - An opportunity for companies to tell their stories regarding:
    - Their complex assets & associated risks
    - How their cash-flow testing models address those risks
- First submissions were due April 2023

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

AG 53 Reviews – activity to date

Done:

- ✓ AG 53 filings received from 246 life insurers
- ✓ AG 53 Review Group (within the Valuation Analysis Working Group) formed
  - Team of actuaries, investment experts, and other financial staff to perform reviews
- ✓ Review process started with company prioritization, based on prior knowledge and template information

In Progress:

- AG 53 Review Group meeting frequently, with various state regulators presenting their review findings
- Identifying companies with outlier net yield assumptions
- Engaging with domestic regulators with the goal of decreasing highest net yield assumptions to remove companies from outlier list

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

Implications of Higher Investment Net Yield Assumptions

- More favorable asset adequacy analysis results
- Lower amounts of assets needed for reserves to be considered adequate
  - A signal that more money could be released (dividends or other)
- Concern is, if risk is understated and assets underperform, reserves will turn out to be inadequate and that previously released money may have been needed

Amount to fund $1 Billion liability in 15 years

Company assumption type	Assumed net yield for high- yield assets	Adequate reserve per company's CFT	Adequate reserve per average conservative company's CFT	Amount (in excess of adequate reserve) available to be released per company's CFT
Most conservative	4.5%	$ 520,000,000	$ 520,000,000	$ -
Moderately conservative	5.8%	$ 430,000,000	$ 520,000,000	$ 90,000,000
Fairly aggressive	6.5%	$ 390,000,000	$ 520,000,000	$ 130,000,000
Outlying / aggressive	7.8%	$ 320,000,000	$ 520,000,000	$ 200,000,000

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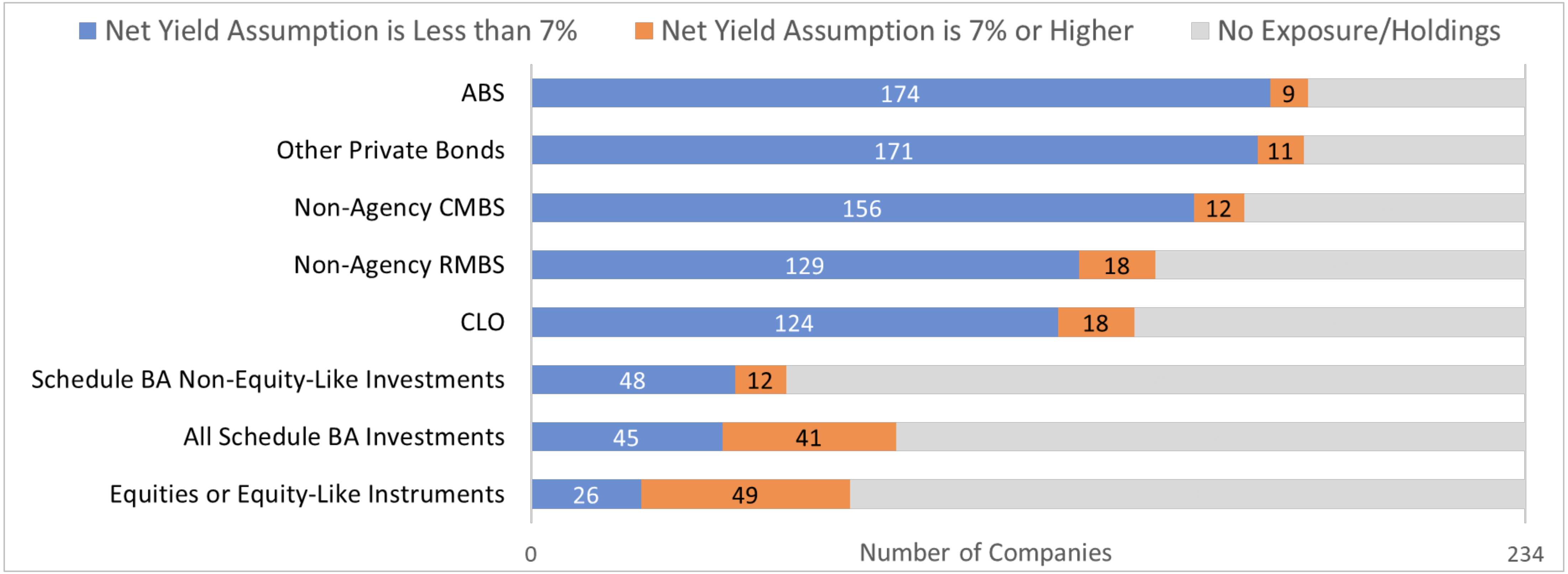
Net Yield Assumptions

A majority of companies assumed Net Yields < 7% for Initial Assets,
but a sizable number of companies assumed Net Yields ≥ 7%



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AG 53 Reviews – upcoming activities

- Review reinsurance counterparty risk
  - Send requests for additional information, as relevant:
    - Description and reason for significant reinsurance ceded transactions
    - Process and metrics used to evaluate the counterparty's asset risk and financial health

- Review other AG 53-related issues

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