Draft date: 10/30/26

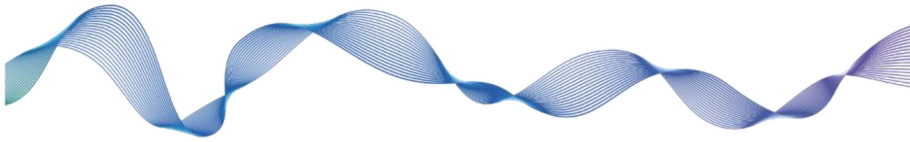
2026 Fall National Meeting
Dallas, Texas

FINANCIAL STABILITY (E) TASK FORCE
Sunday, November 15, 2026
4:00 – 5:00 p.m. CST
Convention Center—Texas C123—Level 3

ROLL CALL

NAIC Member	Representative	State/Territory
Susan Ochs, Chair	Susan Ochs	New Jersey
Kaitlin Asrow, Vice Chair	Avani Shah/Bob Kasinow	New York
Mark Fowler	Richard (Hamp) Russell	Alabama
Heather Carpenter	David Phifer	Alaska
Peter M. Fuimaono	Elizabeth Perri	American Samoa
Michael Conway	Rolf Kaumann	Colorado
Joshua Hershman	William Arfanis	Connecticut
Michael Yaworsky	Bradley Trim	Florida
Holly W. Lambert	Roy Eft	Indiana
Doug Ommen	Kim Cross	Iowa
Vicki Schmidt	Tish Becker	Kansas
Marie Grant	Dmitriy Valekha	Maryland
Michael T. Caljouw	John Turchi	Massachusetts
Julia Dreier	Ben Slutsker	Minnesota
Angela L. Nelson	John F. Rehagen	Missouri
Eric Dunning	Anthony Quandt	Nebraska
Alice T. Kane	Alice T. Kane	New Mexico
Jon Godfread	Matt Fischer	North Dakota
Remedio C. Mafnas	Maryann Borja-Arriola	Northern Mariana Islands
Judith L. French	Tracy Snow	Ohio
Glen Mulready	Eli Snowbarger	Oklahoma
TK Keen	Paul Throckmorton	Oregon
Michael Humphreys	Diana L. Sherman	Pennsylvania
Suzette M. Del Valle	Glorimar Santiago	Puerto Rico
Elizabeth Kelleher Dwyer	Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	Ryan Basnett	South Carolina
Amanda Crawford	Jamie Walker	Texas
Scott A. White	Dan Bumpus	Virginia
Nathan Houdek	Rebecca Easland	Wisconsin

NAIC Committee Support: Tim Nauheimer



AGENDA

1. Hear Opening Remarks—*Acting Commissioner Susan Ochs (NJ)*

2. Consider Adoption of its Summer National Meeting and Oct. 7 Meeting Minutes —*Acting Commissioner Susan Ochs (NJ)* — Attachment One, Attachment Two

3. Hear an Update on Financial Stability Oversight Council (FSOC) Developments—*Ethan Sonnichsen (NAIC)*

4. Hear an update on the interconnectedness project —*Acting Commissioner Susan Ochs (NJ)* — Attachment Three

5. Consider Adoption of the Report of the Macroprudential (E) Working Group—*Bob Kasinow (NY)*
   a. Receive RITF response to MWG referral on FABNs — Attachment Four
   b. Expose 2026 LST Framework — Attachment Five
   c. 2025 LST Summary of results — Attachment Six
   d. Macro Risk Dashboard Report

6. Receive an Update from the Valuation Analysis (E) Working Group —*Fred Andersen (MN)* — Attachment Seven

7. Hear an update on private credit
   a. Overview of NAIC's CMB Private Credit Report — Attachment Eight
      -Michele Wong, Jennifer Vento, Tim Nauheimer (NAIC)
   b. Additional observations and insight
      -Acting Commissioner Susan Ochs (NJ)

8. Hear an International Macroprudential Update —*Tim Nauheimer (NAIC)*

9. Discuss Any Other Matters Brought Before the Task Force —*Acting Commissioner Susan Ochs (NJ)*

10. Adjournment

Draft Pending Adoption

Draft: 8/19/26

Financial Stability (E) Task Force
and the Macroprudential (E) Working Group
Columbus, Ohio
August 12, 2025

The Financial Stability (E) Task Force met in Columbus, OH, on Aug. 12, 2026, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Susan Ochs, Chair (NJ); Kaitlin Asrow, Vice Chair, and Avani Shah (NY); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Richard Russell (AL); Michael Conway represented by Rolf Kaumann (CO); Joshua Hershman represented by William Arfanis (CT); Doug Ommen represented by Carrie Mears (IA); Holly W. Lambert represented by Roy Eft (IN); Michael T. Caljouw represented by James A. McCarthy (MA); Marie Grant represented by Dmitriy Valekha (MD); Julia Dreier represented by Fred Andersen (MN); Angela L. Nelson represented by John F. Rehagen (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Anthony Quandt (NE); Judith L. French represented by Dale Bruggeman (OH); Michael Humphreys represented by Diana L. Sherman (PA); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Amanda Crawford represented by Jamie Walker (TX); Scott A. White represented by Dan Bumpus (VA); Nathan Houdek represented by Rebecca Easland (WI). The following Working Group members participated: Bob Kasinow, Chair (NY); Anthony Quandt, Vice Chair (NE); William Arfanis and Ken Cotrone (CT); Tom Hudson (DE); Corey Hubbard (FL); Carrie Mears (IA); John Turchi (MA); Dmitriy Valekha (MD); Steve Mayhew (MI); Fred Andersen (MN); John F. Rehagen (MO); David Wolf (NJ); Diana L. Sherman (PA); Liz Ammerman (RI); Jamie Walker (TX); Greg Chew (VA); and Amy Malm (WI).

1. Adopted the Task Force's June 15 and March 16 Minutes

The Task Force met June 15 and March 16. During these meetings, it took the following action: 1) adopted its 2025 Fall National Meeting minutes; 2) heard a presentation from Standard & Poor's (S&P) on its research and stress-testing work on insurers' private credit holdings; 3) heard an update from the Financial Stability Oversight Council (FSOC) on its priorities; 4) received an update from the Valuation Analysis (E) Working Group; and 5) heard an international update.

Walker made a motion, seconded by Sherman, to adopt the Task Force's June 15 (Attachment One) and March 16 minutes (*see NAIC Proceedings – Spring 2026, Financial Stability (E) Task Force*). The motion passed unanimously.

2. Heard an Update on the FSOC

Tim Nauheimer (NAIC) provided an update on behalf of Director Dwyer on the FSOC's continued focus on monitoring risks across the banking sector, capital markets, and household finances, including insurance and financial innovation. During its July 15 meeting, the FSOC reviewed second-quarter financial-market developments and considered emerging risks associated with supply chains, cybersecurity, and artificial intelligence (AI).

Nauheimer noted that AI has become a significant FSOC policy workstream in 2026. The FSOC's AI Working Group has continued to assess both the potential benefits and financial stability risks of AI adoption across the financial sector, including through public-private roundtables. Discussions have addressed cybersecurity, risk management, operational resilience, and potential implications for labor and capital markets.

Cybersecurity and geopolitical developments remain key financial stability concerns. In July, the FSOC reviewed the results of an interagency tabletop exercise addressing geopolitical risk and economic security. The FSOC also

© 2026 National Association of Insurance Commissioners

© 2026 National Association of Insurance Commissioners

considered the relationship between AI and cybersecurity resilience, including the risks posed by AI-enabled cyber threats and the potential use of AI to strengthen defensive capabilities.

Nauheimer reported that the FSOC also continued its consideration of systemic risk outside the traditional banking sector. It reviewed public comments on proposed interpretive guidance regarding nonbank financial company designations and indicated it would continue work toward finalizing that guidance. This activity reflects continued attention to an activity-based approach to nonbank financial company oversight, consistent with the approach supported by the NAIC.

Nauheimer reported that the FSOC is preparing its 2026 annual report, which is expected to address emerging risks and include recommendations intended to support the resilience of the U.S. financial system. Current discussions indicate continued emphasis on the themes identified in the 2025 annual report, including U.S. Treasury market resilience, cybersecurity and cyber risk, bank supervisory and regulatory frameworks, and AI-related financial stability considerations.

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

Kasinow began with an update on the Macroprudential (E) Working Group, which met April 14 in regulator-to-regulator session pursuant to paragraph #6 (Consultations with NAIC staff members related to NAIC technical guidance, including, but not limited to, Annual and Quarterly Statement Blanks and Instructions, the Accounting Practices and Procedures Manual, and similar materials;) of the NAIC Policy Statement on Meetings. During this meeting, the Working Group reviewed the Macroprudential Risk Dashboard Summary Report (MRA Report). Working Group members had a productive discussion and made several edits to the report. The revised report was subsequently circulated to Working Group members for a three-week review period, during which no additional comments were received. The Working Group is requesting to expose the report for a 30-day public comment period.

Kasinow then moved to liquidity stress testing (LST). The Working Group announced the opening of the LST framework to review the appropriateness of its prescribed assumptions and the adequacy of the overall framework. A drafting group consisting of interested industry representatives and state regulators will be formed to conduct the review. This effort will use the collaborative model employed during the framework's initial development, which proved effective. The drafting group is expected to meet biweekly, and interested participants should contact Kasinow or Nauheimer.

Kasinow also announced an initiative to enhance the Working Group's methodology for assessing insurance industry interconnectedness and contagion risk. Interconnectedness is currently identified as a key risk category in the MRA Report. The initiative will focus on developing additional key risk indicators to identify significant risk-transmission channels and potential concentrations or buildup of related risks.

Finally, Kasinow states that the list of 13 Macroprudential (E) Working Group considerations has been updated and was included in this meeting's materials. Consistent with the Financial Stability (E) Task Force's and Working Group's heightened monitoring mandate relating to the 13th consideration (cross-border reinsurance), a regulator-only reinsurance analysis report was distributed by email on Aug. 5.

Sherman made a motion, seconded by Quandt, to adopt the report of the Macroprudential (E) Working Group. The motion passed unanimously.

© 2026 National Association of Insurance Commissioners

© 2026 National Association of Insurance Commissioners

4. Exposed the Macroprudential Risk Dashboard Summary

Kasinow reported that the Macroprudential Risk Dashboard Summary Report is seeking Working Group member approval to expose the report publicly for a 30-day comment period.

Walker made a motion, seconded by Rehagen, to expose the Macroprudential Risk Dashboard Summary Report (Attachment Two) for a 30-day comment period ending on Sept. 14. The motion passed unanimously.

5. Received an Overview of the Mid-Year GIMAR

Quandt provided an overview of the International Association of Insurance Supervisors' (IAIS') mid-year *Global Insurance Monitoring Report* (GIMAR). Quandt explained that the report is part of the IAIS Global Monitoring Exercise (GME), which includes individual insurer monitoring, sector-wide monitoring, an annual collective discussion, and recurring analysis of sector-wide risk themes. Approximately 60 insurers participate globally in the individual insurer monitoring exercise, while the NAIC submits the sector-wide monitoring information on behalf of the United States. The GME timeline includes submission of individual insurer monitoring and qualitative sector-wide monitoring information in May, quantitative sector-wide monitoring information at the end of June, and reinsurance sector-wide monitoring and Global Reinsurance Market Survey submissions at the end of July. The IAIS publishes the mid-year GIMAR during the third quarter and a more comprehensive report at year-end.

Quandt reported that the mid-year GIMAR provided a high-level assessment of global macro-financial conditions and insurer solvency, liquidity, and profitability. While the report noted challenges in 2025, including geopolitical tensions, energy market disruptions, and heightened macro-financial uncertainty, it found that the insurance sector remained generally resilient. Aggregate solvency ratios declined slightly from the prior year, primarily reflecting interest-rate volatility and adverse market movements, but the IAIS did not identify significant concerns.

Quandt highlighted the three sector-wide risk themes identified for 2026. The first theme is the impact of macroeconomic risks on life insurers' balance sheets, including market and investment risks, liquidity pressures, solvency considerations, interconnectedness with nonfinancial entities, and capital and asset liability management pressures. The second theme addresses the transmission channels through which geopolitical risk may affect the non-life insurance sector, considering inflation, energy prices, claims costs, maritime, shipping, and aviation exposures, war exclusions, and cyber risk. The third theme examines the impact of advances in AI and other technology on insurers' cyber resilience, including the increasing frequency and sophistication of cyberattacks, frontier AI models, underwriting implications, and insurer exposure as victims of cyber events.

Quandt stated the report also identified continuing work related to AI-enabled underwriting, digital assets, and climate-related risk. The IAIS expects to conduct additional work through the GME and an IAIS member survey to assess implications for insurer liabilities and broader risk management. Climate-related risks, previously addressed in a 2021 GIMAR special-topic report, are expected to receive renewed attention in light of the increasing frequency and severity of extreme-weather events. Quandt noted that several IAIS risk indicators are consistent with or similar to those included in the U.S. Macroprudential Risk Dashboard.

Quandt emphasized the value of NAIC participation in IAIS macroprudential work, noting that the NAIC contributes to IAIS workstreams while also benefiting from the IAIS's identification of global insurance-sector risks and trends. He also noted the broader collaboration among the IAIS, Financial Stability Board (FSB), and the NAIC in macroprudential risk analysis. The December GIMAR is expected to provide additional analysis of systemic-risk developments in insurance, comparisons of insurance-sector developments with the banking sector, and more detailed assessment of solvency, liquidity, and profitability. The IAIS also indicated that supervisory enhancements related to climate-risk modeling are under development.

© 2026 National Association of Insurance Commissioners

© 2026 National Association of Insurance Commissioners

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

Andersen provided an update on *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55), which was developed in response to macroprudential concerns about offshore and captive reinsurance transactions. The Macroprudential (E) Working Group had identified potential risks associated with these arrangements, including reduced reserves, lower capital buffers, increased investment risk, and greater organizational complexity. To address these concerns, the Life Actuarial (A) Task Force developed AG 55, which was adopted by the NAIC in 2025. AG 55 requires disclosures and cash-flow testing for certain material reinsurance transactions to assess whether reserves remaining after reinsurance transactions are sufficient to pay future policyholder claims under moderately adverse conditions and whether sufficient capital is available for more severe conditions.

Andersen reported that the first AG 55 filings were submitted during the second quarter of 2026. Seventy-six life insurers submitted a total of 124 AG 55 reports. The number of reports exceeded the number of reporting insurers because certain ceding insurers had multiple in-scope reinsurance counterparties and were required to perform separate reserve-adequacy analyses for each counterparty. The in-scope population included 70 Bermuda treaties, 25 Cayman treaties, and 29 treaties involving other jurisdictions, including U.S. captive reinsurers.

Andersen stated that the Valuation Analysis (E) Working Group is conducting and coordinating the review of the filings. A high-level review of all submissions has been completed, and detailed reviews are underway, beginning with companies that have ceded a significant portion of their liabilities through in-scope transactions. The review process includes ongoing engagement with reporting companies. Andersen emphasized that the reviews remain at an early stage and that no final conclusions have been reached. Many annuity blocks reflected lower reserve amounts after offshore captive reinsurance transactions. Companies generally attributed these lower amounts to assumptions that projected asset returns would exceed the U.S. statutory discount rate and to policyholder-behavior assumptions that differed from those reflected in U.S. statutory reserve requirements. Andersen also noted that recently adopted VM-22 changes may alter the relationship between reserve levels before and after reinsurance transactions. While some companies reported retaining 100% of the U.S. statutory reserve, Andersen emphasized that reserve adequacy must also be evaluated in conjunction with the availability of an additional capital cushion to address conditions more severe than moderately adverse scenarios.

Andersen further noted that companies have cited capital efficiency and the ability to attract outside investors as objectives of offshore captive reinsurance arrangements. The Valuation Analysis (E) Working Group intends to evaluate how capital efficiency is achieved in practice, the anticipated timing and amount of investor payments, and whether distributions or other asset outflows could reduce the funds available to meet future policyholder claims.

Andersen indicated that forthcoming review work will address actuarial, asset, and reinsurance issues. Actuarial review will focus on the reasonableness of asset- and liability-related assumptions used in cash-flow testing. Asset review will include particular attention to the valuation of Level 3 assets, for which observable market values are not readily available. The reinsurance review will address the transparency of assets held by offshore reinsurers, verification of reinsurer balance sheets and reserve levels, potential reliance on soft assets, and the business rationale for entering into offshore captive reinsurance transactions. Andersen concluded that the Valuation Analysis (E) Working Group will continue its company-specific and macro-level review, engage with affected companies, and provide updates at future NAIC meetings.

7. Heard an International Macroprudential Update

Jan Bauer (NAIC) reported that the Macroprudential Monitoring Working Group (MMWG) is actively conducting its GME work and is scheduled to meet later in the month to further analyze data received during the recent

© 2026 National Association of Insurance Commissioners

© 2026 National Association of Insurance Commissioners

reporting cycle. This analysis will include data and other inputs provided by NAIC committee support as part of ongoing efforts to support the four GME components previously outlined, as well as other elements of the annual GME process.

The MMWG Reinsurance Workstream has begun its annual work to draft the reinsurance chapter of the GIMAR. The workstream is also considering opportunities to improve efficiency and align data collection across related GME components. The MMWG Systemic Risk Analysis Workstream has continued its assessment of structural changes in the life insurance sector, including enhanced GME data collection on asset-intensive reinsurance and alternative assets. In addition, MMWG enhanced its financial-markets risk dashboard earlier in the year and considered potential topics for the next biennial GIMAR special edition. The MMWG's parent committees approved the topic for the 2027 GIMAR Special Topic at the end of June.

Bauer also provided an update on the IAIS Macroprudential Supervision Working Group (MSWG), which is implementing its 2026–2027 work plan. The work plan includes projects that follow from the IAIS's November 2025 issues paper on structural shifts in the life insurance sector. During 2026, the MSWG began considering updates to existing IAIS papers in response to recommendations from prior targeted jurisdictional assessment reports; developed an outline and designed a supervisory survey for an application paper addressing asset-intensive reinsurance; and began developing supporting material on life insurers' growing allocation to alternative assets. At its in-person meeting in May, the MSWG also exchanged information on macroprudential supervisory practices and frameworks related to asset-intensive reinsurance, alternative assets, and interconnectedness. The group is expected to meet in person again in October.

Bauer further reported that the IAIS Climate Risk Steering Group met virtually earlier in the summer. During that meeting, the group approved the scope of a project to review climate-risk scenario analyses conducted by IAIS members, discussed the use of external data in the 2026 GIMAR, and considered a draft survey intended to develop a repository of supervisory initiatives for the climate risk application paper.

8. Discussed Other Matters

Shah stated that earlier in the year, the Financial Stability (E) Task Force identified private credit exposure in the insurance industry as a potential financial stability concern. In response, the Task Force met July 14, July 1, June 15, June 1, and May 12 in regulator-to-regulator session, pursuant to paragraph #3 [Specific companies, entities or individuals, including, but not limited to, collaborative financial and market conduct examinations and analysis;] of the NAIC Policy Statement on Open Meetings. During these meetings, the Task Force met with individual insurers to obtain direct insight into their private-credit activities. The meetings also included representatives of the Invested Assets (E) Task Force and other interested regulators. NAIC committee support are preparing a debrief memorandum summarizing the discussions.

Shah stated that the insurer discussions were candid and informative, providing a practical perspective on private-credit market trends from significant industry participants. The meetings also identified potential best practices for key risk indicators and risk-management practices for private credit. The Task Force expects to use these observations to enhance regulatory tools and guidance, including the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook*.

Shah further stated that the Task Force requested S&P's assessment of private-credit exposure in the insurance sector following the publication of S&P's private credit stress-testing results. Under all but the most severe scenarios, the S&P concluded that rated insurers would likely experience no rating impact. Under the most extreme scenario, which the S&P characterized as highly unlikely, approximately one-half of rated insurers could experience modest rating pressure. Shah noted that these results suggest the industry generally has the capacity to withstand private-credit stresses, while emphasizing the need for continued monitoring. Shah also noted that

© 2026 National Association of Insurance Commissioners

© 2026 National Association of Insurance Commissioners

the NAIC Capital Markets Bureau recently provided regulators with an analysis of the industry's aggregate private-credit exposure.

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

FSTF 2026 Fall NM, Dallas, Nov 15
Draft: 10/8/26

Financial Stability (E) Task Force
Virtual Meeting
October 7, 2026

The Financial Stability (E) Task Force met virtually, on Oct. 7, 2026. The following Task Force members participated: Susan Ochs, Chair (NJ); Kaitlin Asrow, Vice Chair, represented by Avani Shah (NY); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Richard Russell (AL); Michael Conway represented by Eric Unger (CO); Joshua Hershman represented by William Arfanis (CT); Michael Yaworsky represented by Carolyn Morgan (FL); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Marie Grant represented by Dmitriy Valekha (MD); Julia Dreier represented by Ben Slutsker (MN); Angela L. Nelson represented by John F. Rehagen (MO); Eric Dunning represented by Anthony Quandt (NE); Alice T. Kane represented by Donald Gilbert (NM); Judith L. French represented by Tracy Snow (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana L. Sherman (PA); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Ryan Basnett (SC); Amanda Crawford represented by Jamie Walker (TX); Scott A. White represented by Greg Chew(VA); Nathan Houdek represented by Aaron Kenseth (WI).

1. Heard Opening Remarks

Commissioner Ochs 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 then under the Financial Stability (E) Task Force page. The materials are also available on NAIC Connect.

2. Adopted its 2027 Proposed Charges

Commissioner Ochs stated the Financial Stability Task Force (E) and Macroprudential Working Group (E) charges were exposed for a 2-week comment period ending on Sept. 25. There was a minor editorial comment that was received from NY and the change was made.

Eft made a motion, seconded by Sherman to adopt the Task Force's 2027 proposed charges (Attachment 1). The motion passed unanimously.

3. Reviewed the Interconnectedness Project Plan

Tim Nauheimer (NAIC) presented an overview of the proposed interconnectedness project plan (Attachment 2), outlining its objectives, key components, and potential deliverables. The project would focus on identifying and assessing interconnectedness, including exposures related to investments, counterparties, reinsurance arrangements, asset managers, custodians, and organizational structures.

Nauheimer outlined a four-step approach involving identifying areas of interconnectedness and associated risk transmission channels, aggregating exposures to identify concentrations and overlaps, assessing potential contagion risks and contingent exposures, and exploring software solutions to automate the mapping and analysis of interconnected activities.

Nauheimer provided examples of how insurers could have multiple exposures to a single financial institution through investments, derivatives, repurchase agreements, securities lending, and custodial arrangements.

© 2026 National Association of Insurance Commissioners

Additional connections involving funding agreements, debt issuance, cyber risk, and third-party service providers were also highlighted.

Malm asked whether other working groups had been informed of the project and emphasized the importance of coordination, Nauheimer clarified that the project had received direction from the Financial Condition (E) Committee leadership and that coordination with relevant working groups would continue.

Mears asked whether the framework could eventually incorporate underlying exposures from less transparent investments and Nauheimer confirmed that this was a goal and that existing capital markets tools could potentially support the effort.

Tom Finnell (Interested Party) asked whether additional data would be required from insurers and what reporting burden might result and Nauheimer explained that specific data needs had not yet been identified and that industry input would be considered as the project develops.

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

© 2026 National Association of Insurance Commissioners

FSTF Interconnectedness Project Update

November 15, 2026
Attachment #3

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

1

© 2026 National Association of Insurance Commissioners

Interconnectedness Framework

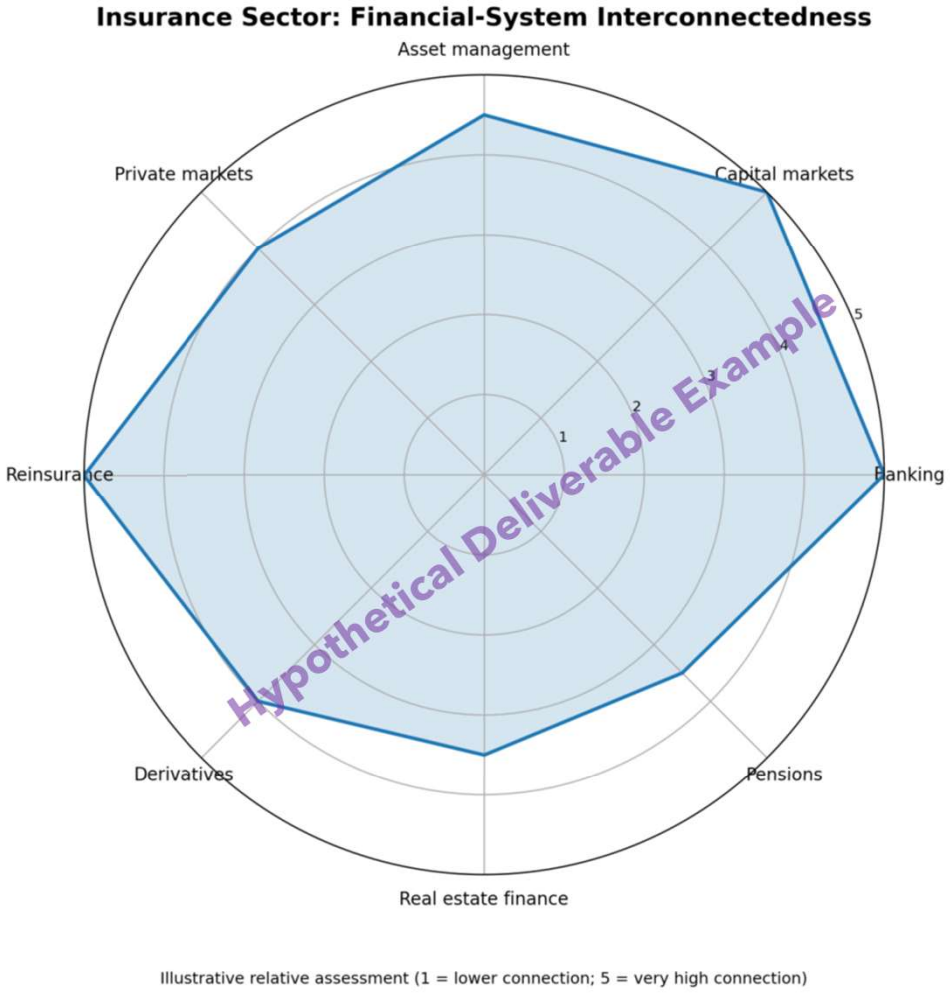
Project Update

- NAIC Committee support has prepared an Interconnectedness matrix
  - The matrix contains an inventory of:
    - Insurers activities
    - Sub-activities
    - The transmission channel (i.e., how the activity is connected outside and within the insurance industry)
    - The connected industry sector and the connected entities
    - Preliminary methodology to aggregate exposures and concentrations
    - Preliminary method to display the results

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2026 National Association of Insurance Commissioners

Interconnectedness
Illustrative Example



Top 10 Banks Hypothetical Example	
Bank	Exposure
JPMorgan Chase	$, % of C&IA
B of A	$, % of C&IA
Citibank	$, % of C&IA
Wells Fargo	$, % of C&IA
Goldman	$, % of C&IA
U.S. Bank	$, % of C&IA
Capital One	$, % of C&IA
PNC	$, % of C&IA
Truist	$, % of C&IA
BONY	$, % of C&IA
U.S. insurer exp to Bank Industry	$XXX,XXX

Hypothetical Deliverable Example

Top 10 Insurers expsoure to Banks Hypothetical Example	
Insurer	Exposure
Insurer A	$, % of C&IA
Insurer B	$, % of C&IA
Insurer C	$, % of C&IA
Insurer D	$, % of C&IA
Insurer E	$, % of C&IA
Insurer F	$, % of C&IA
Insurer G	$, % of C&IA
Insurer H	$, % of C&IA
Insurer I	$, % of C&IA
Insurer J	$, % of C&IA

Hypothetical Deliverable Example

3

© 2026 National Association of Insurance Commissioners

Interconnectedness Framework Proposal

Questions

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

4

© 2026 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Robert Kasinow (NY), Chair; and Anthony Quandt (NE), Vice Chair, Macroprudential (E) Working Group

From: Ann Gillespie, (IL), Chair, and Kevin Baldwin (IL); and, Glen Mulready, (OK), Vice Chair, and Donna Wilson (OK), Receivership and Insolvency (E) Task Force

Date: October 27, 2026

Re: Funding Agreement Backed Notes in Receivership

On March 16, 2026, the Macroprudential (E) Working Group (MPWG) requested the Receivership and Insolvency (E) Task Force to review the priority treatment of Funding Agreement Backed Notes (FABNs), or similar structures receivership, along with (pari passu) "traditional" policyholders in a receivership or insolvency.

The Task Force heard presentations on funding agreements and FABNs and solicited feedback from state insurance departments and interested parties requesting interpretation of states' receivership laws regarding treatment of FABNs and similar structures in an insolvency, guaranty fund coverage, and views on claim priority treatment pari passu with traditional policyholders[1].

Background and Caveats

The following interpretation is based on NAIC Models and a general understanding of funding agreements and FABNs; however, it should be noted that most states indicated limited or no prior experience with funding agreements, FABNs or similar structures in receivership[2]. In a receivership proceeding, handling of the funding agreement or FABN would be dependent on the terms and conditions of the actual agreement, for which there could be multiple variations of FABNs[3], as well as the receivership laws in the domiciliary state. While all states have a receivership law based on a version of the NAIC's *Insurer Receivership Model Act,* (Model #555, known as "IRMA"), most states laws are based on earlier versions (e.g., Insurer Rehabilitation and Liquidation Model Act, known as "IRLMA") and therefore certain provisions may vary.

The Task Force's conclusions are based on a general understanding of funding agreements. The conclusions are not based on a nationwide study of states' laws, nor do the conclusions address variations in a FABN structure, or any specific terms and conditions of the funding agreement that might present an unusual circumstance.

[1] *NAIC Proceedings – Summer 2026, Receivership and Insolvency (E) Task Force,* attachment Three, for related materials.
[2] Historical examples: Mutual Benefit Life Ins. Co. (Rehabilitation 1991, Superior Court of New Jersey, Chancery Division, C-91-00109); Executive Life Ins. Co. (Liquidation 1995, California Court of Appeal, 32 Cal.App.4th344)
[3] Examples of variations of FABNs: Funding agreement backed notes (FABNs), foreign currency funding agreement backed notes (FXFABNs), secured funding agreement structures (FABRs) where borrowings are collateralized, funding agreement backed loans (FABLs), and funding agreement backed municipal pre-pay/energy bonds.

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207

© 2026 National Association of Insurance Commissioners

Funding Agreement vs. the FABN (the "note") in Receivership

It is important to distinguish between the funding agreement and the FABN (i.e., the note) that is supported by the funding agreement.

The Funding Agreement: The insurance company issues the funding agreement to a special purpose vehicle (SPV). The insurer records the liability, typically as a deposit-type contract liability, and the proceeds are assets of the general account. The funding agreement is without mortality, morbidity or longevity risk. The insurer's obligation is to the SPV as the holder of the funding agreement. In the event of the insurer's receivership, the funding agreement would be a claim against the insurance company.

The Note: In a typical FABN program, a life insurance company issues a funding agreement to the SPV, which in turn issues notes to institutional investors (e.g., pension funds, asset manager, state and local government entities, sovereign wealth funds, etc.). The note is issued by the SPV, which is a separate non-insurance legal entity established for the specific purpose of issuing the FABN. The funding agreement is held by a trustee of the SPV. The insurer is not a party to the note agreement; therefore, the noteholder would not have a claim against the insurer's estate. As the SPV is not an insurance company, it is not subject to insurance receivership laws.

Model #555 Priority Class

Under the current Model #555, funding agreements fall within priority distribution Class 3 for policyholder claims. While the immediate prior version of Model #555—IRLMA does not specifically reference funding agreements, it does identify annuities within Class 3 as a policyholder claim. Funding agreements are commonly categorized as unallocated annuities. Refer to the Model #555 excerpts in Appendix A, below.

While a funding agreement should be evaluated based on the terms and conditions of the contract, under Model #555 it is typically a type of annuity contract. Funding agreements do not involve mortality, morbidity or longevity of the person to whom the funding agreement is issued. Under Model #555, annuities and funding agreements would fall within the priority of distribution as Class 3 policyholder claims. Where state law does not specifically address funding agreements, they would typically fall within the same priority class with insurance contracts. In states where funding agreements do not represent policyholder obligations under state law, the priority would be based on an assessment of the contract and the claim. Some states indicated funding agreements do not meet the statutory definition of insurance within their state's law[4]. In such cases, depending upon review of the contract, those obligations would likely classify the obligation as either an unsecured or a secured claim depending on whether the agreement includes collateral held in trust to secure obligations under a funding agreement.

The impact of unique contract terms or structural differences in FABNs may include for example, if collateral is involved in the funding agreement transactions. As there were a variety of structures presented, unique contract terms or structural differences would need to be assessed on a case-by-case basis in the event of receivership.

[4] Examples where funding agreements are not considered insurance per the Task Force's survey: North Carolina Article 30 of Chapter 52 General Statute § 58-1-10; Washington Title 48, RCW 48.31.280.

© 2026 National Association of Insurance Commissioners

With regard to executory contracts, based on those states responding to the Task Force's survey, FABNs would either not qualify as an executory contract or the receiver would not be obligated to continue an executory contract.

Pari Passu Treatment with Traditional Policyholders

The referral from MPWG requested the Task Force specifically consider pari passu treatment of claims under a funding agreement owned by a sophisticated investor would be treated differently than other policy owners. Some states have expressed concerns that in a receivership where the funding agreement represents a materially large claim liability to the estate, such a claim would reduce the assets available to other traditional policyholders and raise guaranty association assessment needs. The claim priority distribution provision in Model #555 does not make a distinction in claims priority based on type of policyholder as the statutory framework is designed to apply uniformly based on the substance of the obligation. The priority class for a claim is based on the review of the specific funding agreement and the nature of the underlying obligation, not the characteristics of the owner of the funding agreement.

Guaranty Association Coverage

The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) provided an analysis of eligibility of funding agreements for guaranty association coverage, based on the NAIC's *Life and Health Insurance Guaranty Association Model Act* (Model #520), and certain assumptions about funding agreements. Adoption of Model #520 is generally consistent across all states.

The following is a summary of NOLHGA's analysis as of May 2026[5] whereby it concluded funding agreements issued in FABN programs appear to be unallocated annuity contracts and would not qualify for guaranty association coverage. The Task Force agrees with NOLHGA's assessment.

For purposes of NOLHGA analysis, it assumes: 1) the SPV, which is not an individual, is the legal owner of and sole counterparty to the insurer under the funding agreement; 2) the insurer's contractual obligations under the funding agreement are only for the benefit of the SPV, and that none of the contractual benefits under the funding agreement are guaranteed to individuals; 3) the insurer does not issue certificates under funding agreements; and, 4) FABN Funding Agreements are issued to SPVs. SPVs are financing entities formed to issue notes in the capital markets and that they have no participants, no plan sponsors, and no benefit-plan structure of any kind.

Based on these facts, a funding agreement issued in an FABN program appears to be an "unallocated annuity contract" within the meaning of the Model #520. Since a funding agreement issued in an FABN program is issued to and owned by a SPV (i.e., not an individual), and there are no benefits guaranteed by the insurer to individuals under the FABN program or under related certificates issued by the insurer, FABN programs would appear to fall within the definition of an unallocated annuity contract under Model #520. Model #520 section 3B(2)(h) only provides coverage for unallocated annuity contracts issued to or in connection with benefit plans or government lotteries. SPVs used in FABN programs do not appear to be benefit plans or government lotteries. Therefore,

[5] See the *NAIC Proceedings – Summer 2026, Receivership and Insolvency (E) Task Force* as attachment three for NOLHGA's full comment letter.

© 2026 National Association of Insurance Commissioners

funding agreements fall within the exclusion in section 3B(2)(h) and would not appear to be eligible for guaranty association coverage.

Conclusion

The receivership laws of the insurer's domestic state govern the handling of funding agreements in receivership. In a receivership proceeding, determination of the handling of the funding agreement would be dependent on a review of the terms and conditions of the agreement. As stated above, in most states, based on this preliminary review, funding agreements (not FABNs) would be treated pari passu with other life and annuity policyholder claimants, but it appears would not be eligible for guaranty association coverage.

At this time the Task Force does not recommend any changes to existing receivership and guaranty association model laws. Since funding agreements are addressed in Section 801-Priority of Distributions of the current version of Model #555 and unallocated annuities are addressed in Model #520, the Task Force encourages more consistent adoption of related provisions by state insurance departments, where necessary, to clarify the treatment of funding agreements in line with the current Model #555 and Model #520.

The Task Force appreciates the NAIC's efforts to enhance insurer's statutory reporting requirements to improve disclosures and transparency to better understand funding agreements and related FABN structures within the insurance industry. This reporting will enable the Task Force and regulators to better evaluate the growth and concentration of these obligations at specific insurers and their potential significance in an insurance insolvency, as well as how these increasingly varied structures function in practice. After consideration of the results of future statutory reporting of FABNs, the Task Force will consider if this topic warrants future discussion.

The Task Force encourages the Macroprudential (E) Working Group or another appropriate NAIC group(s) to also consider evaluating such arrangements on an enterprise basis, including the role of affiliated entities and off-balance-sheet structures, to understand the broader holding company system exposure, and to ensure such structures operate in a manner that does not circumvent statutory protections.

If there are any questions regarding this response, please contact me or NAIC staff (Jane Koenigsman, jkoenigsman@naic.org) for further clarification.

© 2026 National Association of Insurance Commissioners

APPENDIX A

Insurer Receivership Model Act (Current 2007 Version of Model 555 "IRMA")

ARTICLE VIII. DISTRIBUTIONS.
Section 801. Priority of Distribution

C. Class. 3. All claims under policies of insurance including third party claims, claims under annuity contracts and funding agreements, claims under non-assessable policies for unearned premium, claims of obligees (and, subject to the discretion of the receiver, completion contractors) under surety bonds and surety undertakings (not to include bail bonds, mortgage or financial guaranty or other forms of insurance offering protection against investment risk, or warranties), claims by principals under surety bonds and surety undertakings for wrongful dissipation of collateral by the insurer or its agents, and claims incurred during the extension of coverage provided for in Section 502. All other claims incurred in fulfilling the statutory obligations of a guaranty association not included in Class 2, including but not limited to indemnity payments on covered claims and, in the case of a life, health and annuity guaranty association, all claims as a creditor of the impaired or insolvent insurer for all payments of and liabilities incurred on behalf of covered claims or covered obligations of the insurer and for the funds needed to reinsure those obligations with a solvent insurer.

Notwithstanding any other provision of this Act, the following claims shall be excluded from Class 3 priority and paid as claims in Class 7, except as otherwise provided in this section:

Drafting Note: If appropriate, states may add to Class 3: "This class shall also include indemnity payments on covered claims, unearned premiums, and payments for the continuation of coverage made by any entity responsible for the payment of claims or continuation of coverage of an insolvent health maintenance organization."

(1) Obligations of the insolvent insurer arising out of reinsurance contracts;
(2) Obligations incurred pursuant to an occurrence policy, or reported pursuant to a claims made policy, after the expiration date of the insurance policy or after the policy has been replaced by the insured or canceled at the insured's request or after the policy has been canceled as provided in this Act. Notwithstanding this subsection, unearned premium claims on policies, other than reinsurance agreements, shall not be excluded;
(3) Obligations to insurers, insurance pools or underwriting associations and their claims for contribution, indemnity or subrogation, equitable or otherwise, except for direct claims under policies where the insurer is the named insured;
(4) Any amount accrued as punitive or exemplary damages unless expressly covered under the terms of the policy, which shall be paid as claims in Class 9;

Drafting Note: In some jurisdictions the courts have held that coverage for punitive or exemplary damages may not be excluded from liability policies.

(5) Tort claims of any kind against the insurer, and claims against the insurer for bad faith or wrongful settlement practices; and
(6) Claims of the guaranty associations for assessments not paid by the insurer.

Insurers Rehabilitation and Liquidation Model Act (1999 Version of Model 555 "IRLMA")

Article II. Proceedings

Section 47. Priority of Distribution

C. Class 3. All claims under policies including claims of the federal or any state or local government for losses incurred, ("loss claims") including third party claims, claims for unearned premiums,

© 2026 National Association of Insurance Commissioners

and all claims of a guaranty association, for payment of covered claims or covered obligations of the insurer. All claims of a guaranty association for reasonable expenses other than those included in Class 2. All claims under life and health insurance and annuity policies, whether for death proceeds, health benefits, annuity proceeds, or investment values shall be treated as loss claims. That portion of any loss, indemnification for which is provided by other benefits or advantages recovered by the claimant, shall not be included in this class, other than benefits or advantages recovered or recoverable in discharge of familial obligation of support or by way of succession at death or as proceeds of life insurance, or as gratuities. No payment by an employer to his employee shall be treated as a gratuity.

Notwithstanding the foregoing, the following claims shall be excluded from Class 3 priority:

(1) Obligations of the insolvent insurer arising out of reinsurance contracts;

(2) Obligations incurred after the expiration date of the insurance policy or after the policy has been replaced by the insured or canceled at the insured's request or after the policy has been canceled as provided in this Act;

(3) Obligations to insurers, insurance pools or underwriting associations and their claims for contribution, indemnity or subrogation, equitable or otherwise;

(4) Any claim which is in excess of any applicable limits provided in the insurance policy issued by the insolvent insurer;

(5) Any amount accrued as punitive or exemplary damages unless expressly covered under the terms of the policy; and

Drafting Note: In some jurisdictions the courts have held that coverage for punitive or exemplary damages may not be excluded from liability policies.

(6) Tort claims of any kind against the insurer, and claims against the insurer for bad faith or wrongful settlement practices.

Insurers Supervisions, Rehabilitation and Liquidation Model Act (1977 Version of Model 555)

Article III. Formal Proceedings

Section 42. Priority of Distribution

C. Class 3. All claims under policies for losses incurred, including third party claims, all claims against the insurer for liability for bodily injury or for injury to or destruction of tangible property which are not under policies, and all claims of a guaranty association or foreign guaranty association. All claims under life insurance and annuity policies, whether for death proceeds, annuity proceeds, or investment values shall be treated as loss claims. That portion of any loss, indemnification for which is provided by other benefits or advantages recovered by the claimant, shall not be included in this class, other than benefits or advantages recovered or recoverable in discharge of familial obligations of support or by way of succession at death or as proceeds of life insurance, or as gratuities. No payment by an employer to his employee shall be treated as a gratuity.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NAIC 2026 LIQUIDITY STRESS TEST FRAMEWORK

For Life Insurers Meeting the Scope Criteria

November 17, 2026

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Table of Contents (To be updated after adoption)

INTRODUCTION 4
Macroprudential Implications of a Liquidity Stress 4
BACKGROUND 5
NAIC Macroprudential Initiative 5
Liquidity Assessment Subgroup 6
Mandate 6
Data Gaps 7
Discussions with Insurers 8
Regulatory Goals of the Liquidity Stress Test 9
[Beginning of] Current Year Liquidity Stress Testing Framework – to be included/referenced in the NAIC Financial Analysis Handbook 10
Section 1. Scope Criteria for Determining Groups Subject to Current Year LST 10
Section 2. Liquidity Stress Test 11
2.1 Summary 11
2.2 Time Horizons 12
2.3 Insurer's Internal Liquidity Stress Testing System 13
Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria 13
Section 4. Cash Flow Approach – Liquidity Sources and Uses 17
4.1 Baseline Assumptions for Cash flows 17
Section 5. Stress Scenarios and their Assumptions 18
5.1 Adverse Liquidity Stress Scenario for Insurers 19
5.1.1 Narrative 19
5.1.2 Regulator-Prescribed Assumptions 20
5.1.3 Market Capacity Assumption 22
5.1.4 Economic Variables for Adverse Scenario 24
5.1.5 SWAP Spreads 25
5.1.6 Swaption Volatility 25
5.1.7 Moody's Transition Matrix/Migration Rates 26
5.1.8 Moody's Default Table 26
5.1.9 Moody's Recovery Rate Table 26
5.1.10 "What If" Modification 27
5.1.11 Company-Specific Assumptions 27

© 2026 National Association of Insurance Commissioners

5.2 Interest Rate Spike Scenario 27
5.2.1 Narrative 27
5.2.2 Regulator-Prescribed Assumptions 28
5.2.3 Company-Specific Assumptions 28
5.3 Insurer Specific Information Request - Worst-Case Scenario 29
5.3.1 Narrative 29
Section 6. Available and Expected Asset Sales 29
Section 7. Reporting 30
Section 8. Templates 33
8.1 Liquidity Sources Template 33
8.2 Liquidity Uses Template 34
8.3 Assets Template 35
Narrative/Explanatory Disclosures noted in the current year LST 37
[End of Current Year Liquidity Stress Testing Framework – to be included as an appendix in the NAIC Financial Analysis Handbook] 38
Data Aggregation 38
Regulatory Authority 38
Confidentiality 39
Timeline 39
Annex 1: Original Scope Criteria with Annual Statement References 40
Annex 2: Regulatory Prescribed Assumptions 42
Annex 2i. Economic and Market Variables 42
Annex 2ii. Market Capacity Assumption 45
Annex 2iii, A. Year-end Structured Spread Baseline Values 46
Annex 2iv. SWAP Spread Table 47
Annex 2v. Implied Volatility of IR Swaptions 48
Annex 2vi. Credit Assumptions: Moody's Transition Matrix/Migration Rates 48
Annex 2vii. Credit Assumptions: Moody's Default Table 49
Annex 2viii. Credit Assumptions: Moody's Recovery Rate Table 49

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

INTRODUCTION

Macroprudential Implications of a Liquidity Stress

Beginning mid-year 2017, the NAIC embarked on a project to develop a liquidity stress testing framework. While the NAIC has existing tools and processes for assessing liquidity risk at a legal entity level (i.e., 'inward' impacts to the insurer), there was recognition that the NAIC toolbox could be further enhanced with the addition of more granular data in the annual statement and a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., 'outward' impacts) of a liquidity stress impacting a large number of insurers simultaneously.

Post-financial crisis, there were several attempts to assess potential market impacts emanating from a liquidity stress in the insurance sector. Many of these analyses relied heavily on anecdotal assumptions and observations from behaviors of other financial sectors. To provide more evidence-based analyses, the NAIC decided to develop a Liquidity Stress Test (LST) Framework for large life insurers that would aim to capture the outward impacts on the broader financial markets of aggregate asset sales under a liquidity stress.

The stress test will be run annually and the findings, on an aggregate basis, reported annually as part of the NAIC's continuous macroprudential monitoring efforts. The NAIC's pursuit of the liquidity stress test should not suggest any pre-judgement of the outcomes. The NAIC believes there is value to the exercise whether it points to vulnerabilities of certain asset classes or markets or, alternatively, suggests that even a severe liquidity stress impacting the insurance sector is unlikely to have material impacts on financial markets. The NAIC liquidity stress testing framework is intended to supplement, not replace, a firm-specific liquidity risk management framework. The NAIC has not yet discussed steps that might be taken to address any identified vulnerabilities but acknowledges that any recommendations may require collaboration with other financial regulators.

© 2026 National Association of Insurance Commissioners

The NAIC's revised proposed liquidity stress testing framework is contained in the pages that follow. The NAIC recognizes that, at least in the early years, the stress testing process and analyses will be iterative.

BACKGROUND

NAIC Macroprudential Initiative

The NAIC's Macroprudential Initiative (MPI) commenced in 2017. It recognized the post-financial crisis reforms that became part of our Solvency Modernization Initiative (SMI) that continue to serve us well today. However, in the ensuing years since those reforms, insurers have had to contend with sustained low interest rates, changing demographics and rapid advancements in communication and technology. They have responded by offering new products, adjusting investment strategies, making structural changes, and expanding into new global markets. There are new market players, new distribution channels, and a complex web of interconnections between financial market players.

What has not changed since the financial crisis is the scrutiny on the insurance sector in terms of understanding how insurers react to financial stress, and how that reaction can impact, via various transmission channels, policyholders, other insurers, financial market participants, and the broader public.

The proposed work on macroprudential measures is reflective of the state insurance regulators' commitment to ensure that the companies they regulate remain financially strong for the protection of policyholders, while serving as a stabilizing force to contribute to financial stability, including in stressed financial markets. To that end, the NAIC's three-year strategic plan (2018-2020), "State Ahead", reflects the objective of "Evaluating Gaps and regulatory opportunities arising from macroprudential surveillance, and develop appropriate regulatory responses."

The NAIC's work on macroprudential surveillance is overseen by the Financial Stability Task Force of the NAIC (E) Committee. In April 2017, the Task Force was asked to consider new and improved tools to better monitor and respond to both the impact of external financial and economic risks

© 2026 National Association of Insurance Commissioners

on supervised firms, as well as the risks emanating from or amplified by these firms that might be transmitted externally. The Task Force, in turn, focused its efforts on potential enhancements to identify and monitor liquidity risk, among other areas. More specifically, the Task Force was requested to further develop the U.S. regulatory framework on liquidity risk with a focus on life insurers due to the long-term cash-buildup involved in many life insurance contracts and the potential for large scale liquidation of assets.

Liquidity Assessment Subgroup

To carry out its work on assessing liquidity considerations, the Task Force established the Liquidity Assessment Subgroup ("Subgroup") mid-year 2017.

Mandate

The charges and workplan of the Subgroup reflect the following assignments:

- Review existing public and regulator-only data related to liquidity risk, identify any gaps based on regulatory needs and determine the scope of application, and propose recommendations to enhance disclosures.
- Develop a liquidity stress testing framework proposal for consideration by the Financial Condition (E) Committee, including the proposed universe of companies to which the framework will apply (e.g., large life insurers).
- Once the stress testing framework is completed, consider potential further enhancements or additional disclosures.

In addition, a small informal study group comprised of regulators, industry participants and NAIC staff was formed to consider the specific data needs and technical aspects of the project. The study group is NOT an official NAIC working group. All recommendations from the study group must be vetted and considered by the Liquidity Assessment Subgroup and/or the Financial Stability (E) Task Force according to NAIC procedures.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Data Gaps

Prior to undertaking work on the Liquidity Stress Test, the Subgroup constructed an inventory list of existing life insurer disclosures as of 2018 that contribute to an understanding of liquidity risk. When assessing the current state, the Subgroup recognized the availability of significant detailed investment-related disclosures but contrasted it to the relatively sparse liability-related disclosures. To remedy this imbalance, a blanks proposal was constructed to significantly increase the disclosures for life insurance products.

Specifically, the Analysis of Operations by Line of Business schedule was expanded from a single exhibit to five exhibits, one each for Individual Life, Group Life, Individual Annuity, Group Annuity, and Accident and Health. The Analysis of Increase in Reserves schedule was similarly expanded. Within each of the five new exhibits, columns were added for more detailed product reporting. For example, columns were added to the Individual and Group Life exhibits to capture universal life insurance and universal life insurance with secondary guarantees, and columns were added to the Individual and Group Annuity exhibits to capture variable annuities and variable annuities with guaranteed benefits. In addition, two new lines were added to the now five exhibits of the Analysis of Increase in Reserves schedule: one capturing the cash surrender value of the products outstanding and another capturing the amount of policy loans available (less amounts already loaned). A new addition was also proposed to the Life Notes to Financial Statement. The new Note 33 considered the type of liquidity concerns disclosed in Note 32 for annuities and deposit-type contracts and added disclosures for life insurance products not covered in Note 32.

These proposals were exposed and commented upon several times at the Liquidity Assessment Subgroup, the Financial Stability (E) Task Force, and at the Blanks (E) Working Group. Ultimately, they were adopted by NAIC Plenary for inclusion in the 2019 Life Annual Statement Blank. As an interim step, The Financial Stability Task Force performed a data call requesting a few key lines of information from the newly adopted 2019 format of the Analysis of Operations by Line of Business schedule and the Analysis of Increase in Reserves schedule, as well as the new Note 33, but populated with 2018 year-end data. This data call was completed in July 2019.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Discussions with Insurers

During the latter part of 2017 and first quarter of 2018, the Subgroup conducted calls with several large life insurers who agreed to share their internal liquidity risk assessment processes. The dialogue provided extremely helpful input and informed the establishment of the initial direction of the Liquidity Stress Testing Framework. Feedback from these discussions include:

- Scope criteria should be risk-focused, not solely based on size.
- Stress test framework should align with internal management reporting and leverage the ORSA.
- Stress test should be principle-based and complement a company's internal stress testing methodology.
- Regulatory guidance should be provided to help define liquidity sources and uses, products/activities with liquidity risk, time horizons, level of aggregation, reporting frequency, and establishing stress scenarios.
- Public disclosure of results should be carefully considered to avoid exacerbating a liquidity crisis.

Regarding the specifics of liquidity assessments/stress test approaches, significant diversity in practices exist. Key observations in this regard included:

- Liquidity tests are performed at the material entity level and at the holding company level. Definitions of material entities differ.
- Most firms determine some sort of coverage ratio (Liquidity Sources) / (Liquidity Uses), for Base and Stress scenarios and monitor results to ensure they align with the firm's (internal) risk appetite. Categories of liquidity sources and uses differ across firms and assumptions vary depending on time horizon. Some insurers determine coverage ratios utilizing balance sheet values, applying different haircuts by asset class, time horizon and type of stress. Other insurers determine liquidity coverage gaps (Liquidity Inflows – Liquidity Outflows) utilizing a cash flow approach.
- Stress scenarios vary by company, reflecting a combination of market-driven, as well as idiosyncratic and insurer-specific scenarios.

© 2026 National Association of Insurance Commissioners

- Time horizons tested also vary, typically ranging from 7 days to 1 year.

Regulatory Goals of the Liquidity Stress Test

- The primary goal of this liquidity stress testing, and the specific stress scenarios utilized, is for macroprudential uses – to allow the FSTF regulators to identify amounts of asset sales by insurers that could impact the markets under stressed environments. Thus, the selected stress scenarios are consciously focused on industry-wide stresses – those that can impact many insurers within a similar timeframe. These may not be the most stressful scenarios for specific legal entity insurers, or even their groups. Regulators have indicated the liquidity stress testing is also meant to assist regulators in their micro prudential supervision, in the context of being helpful for domiciliary and lead state regulators to better understand liquidity stress testing programs at those legal entities and groups. There is no intent to require these stress scenarios to be used by individual insurers for some sort of assessment or regulatory intervention mechanism. Similarly, there has not been any consideration given to requiring them in the management of any entities in receivership.
- Regulatory concerns regarding liquidity risk for legal entity insurers and/or groups is more about the stress scenarios of most concern to those entities (not those identified for macro prudential purposes). Similarly, when considering liquidity risk at a legal entity and/or group, regulators need to understand the insurer's entire risk management framework. Much of this understanding may come from the ORSA filings. Thus, the LST is not meant to be a legal entity insurer requirement, or used as a ranking tool, etc. However, it is recognized that simply reviewing these LST results may help regulators better understand the role of liquidity stress testing within the entities – which may result in more questions and information requests regarding the entities' own liquidity risk management framework and dynamics of their internal liquidity stress tests.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

[Beginning of] Current Year Liquidity Stress Testing Framework

An overview regarding the LST is included in the NAIC Financial Analysis Handbook (FAH-25). In the FAH-25, there is a brief overview of the regulatory goals of the LST and the non-lead state reliance on the lead state analysis of LST. The summary also includes a link to the current year LST Framework.

Section 1. Scope Criteria for Determining Groups Subject to Current Year LST

HISTORY – Scope Criteria for the Initial 2020 LST:

In determining the companies subject to the liquidity stress test (LST), consideration was given to activities assumed to be correlated with liquidity risk. Another consideration was the desirability of tying data used in the criteria back to the statutory financial statements. Ultimately six activities were identified. Those activities are Fixed and Indexed Annuities, Funding Agreements, Derivatives, Securities Lending, Repurchase Agreements and Borrowed Money. Minimum thresholds were established for each of these six activities. A life insurance legal entity or life insurance group exceeding the threshold for any of the six activities is subject to the stress test (see Annex 1 for more details).

While the scope criteria only utilize statutory annual statement data, the stress test is not similarly limited. Thus, the stress test will consider many more liquidity risk elements than the scope criteria, and internal company data will be the source for many of those elements.

Just as the liquidity stress test structure and methodology may change over time, the scope criteria may also be modified, for example, in response to new data points in the NAIC Annual Statement Blank. The scope criteria will be reviewed annually.

Using the agreed criteria, NAIC staff obtained the amounts for all life insurance legal entities from the 2018 annual statutory financial statements (filed by March 1, 2019). If two or more life insurers were part of an insurance group with an NAIC group code, then the numbers for each of those legal entity life insurers was summed together to represent an insurance group result. Thus, a legal entity life insurer not in an insurance group can meet the threshold on its own, or the sum of legal entity life insurers in a group could meet the threshold. Twenty-three insurance groups met the initial scope criteria.

© 2026 National Association of Insurance Commissioners

In establishing whether an insurer or group met or exceeded the threshold criteria, the Subgroup members supported using the most current single year activity rather than a multi-year average. This resulted in coverage amounts ranging from 60% to 80% of the industry total for each activity based on 2018 data. It was recognized that using single year activity could result in more instances of an insurance group being in scope one year and out of scope the next, but regulators viewed it more important to have the most recent financial data utilized for determining scope. To address concerns about insurers moving in and out of scope, regulatory judgment will be used to address an insurer's exit from or entry to the scope of insurers subject to the liquidity stress test. Per revisions to the model Holding Company Act, the lead state regulator will consult with the Task Force in determining when it is appropriate to remove an insurer from the LST requirement if it no longer meets the scope criteria. Similarly, lead state regulators should have the ability to consult with the Task Force and require the LST from an insurer not meeting the scope criteria (e.g., an insurer close to triggering the scope criteria for more than one year).

Scope Criteria for the Current Year LST:

Regulators have not changed the same 6 criteria and thresholds from the previous year's LST Scope Criteria for use as the current year LST Scope Criteria.

Section 2. Liquidity Stress Test

2.1 Summary

The stress testing framework employs a company cash flow projection approach incorporating liquidity sources and uses over various time horizons under a baseline assumption and some number of stress scenarios (for the current year LST there are 2 stress scenarios and also an insurer-specific request for information). The available assets are then recorded by asset category. The framework then calls for identification of expected asset sales by category, or other funding as allowed in the stress test, to cure any cash flow deficits (liquidity uses exceed liquidity sources) under the stress scenarios. The stress tests are to be performed at the legal entity level; the aggregated group does not perform the LST.

© 2026 National Association of Insurance Commissioners

2.2 Time Horizons

The time horizons chosen by regulators are 30 days, 90 days, and 1 year, because, overall, insurance products are designed to be for the benefit of customers as risk protection over the long term and not designed to provide short term liquidity like other financial products. Historical experience in times of stress demonstrate slow policyholder reaction in short periods of time, as opposed to an event that occurs over months or years. Features designed to protect the long-term nature of the product for the policyholders ultimately reduce the likelihood of policyholder reaction to short-term volatility in markets. Therefore, evaluating shorter than 30-day time horizons has been deemed not warranted for the overarching macroprudential purpose of gauging liquidity risk in the Life insurance industry.

Policyholders do not "run" from an insurer in times of economic stress to the extent depositors do from a bank, because insurance is purchased to obtain the protection insurance provides, not as a source of liquidity or discretionary funds. In the United States, life insurance and annuities are purchased primarily for long-term financial protections upon death or retirement. Surrendering a life insurance contract to harvest its cash surrender value would leave the policyholder without death benefit protection that would be expensive or impossible to replace at a future date. Surrendering a variable annuity contract would lock in potentially temporary decreases in account value and could result in the loss of living benefit protection that becomes more valuable when market conditions depress account values below trigger points. Further, mitigating contract features such as surrender charges and the insurer's right to delay the processing of withdrawals and surrenders for up to 30 days are common.

There are also non-contractual mitigating factors at play, such as potential negative tax consequences, that further reduce the short-term nature of liquidity risk for life insurers.

Simply put, policyholders are highly disincentivized to give up the likely irreplaceable protection for which they have already paid. The run-like mass surrender of insurance policies would require large numbers of policyholders to act against their self-interest.

© 2026 National Association of Insurance Commissioners

From a holistic risk perspective, liquidity stress is traditionally experienced on the asset side. One short-term consequence of market turmoil could be a requirement to post collateral in connection with existing derivative contracts. However, even in this scenario, collateral is typically posted in the form of securities, so a demand for cash is not generated.

We do acknowledge liquidity risk does exist with respect to shorter time horizons and that many insurers do consider shorter time horizons (7-days for example) as part of their internal liquidity stress testing framework. This is viewed as a cash management/Treasury function impacting the daily operations of individual insurers, however, that would not affect the industry as a whole. Hence, these considerations are typically reviewed as part of individual/microprudential surveillance efforts in the U.S.

2.3 Insurer's Internal Liquidity Stress Testing System

Insurers are to use their own internal liquidity stress testing system to perform the regulatory LST, adjusting for regulatory assumptions, metrics, etc., as specified in this document. For example, assessing materiality of stressed cash flows for inclusion in the liquidity uses and sources templates is per the insurer's own internal methodology, but determining which legal entities are to perform the LST and report on those templates is specified in this document. Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars (see Section 7. Reporting). The stress scenarios may vary from year-to-year and contain variations referred to as "What-if" scenarios. The following sections provide a further description of each of the key components of the framework.

Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria

The scope of entities included within an insurance group for the purposes of liquidity stress testing to assess the potential for large scale liquidation of assets (i.e., the legal entities within the group which should perform the LST), should include:

© 2026 National Association of Insurance Commissioners

- U.S. Life insurance legal entities, including reinsurers, regardless of corporate structure, so including captive (regulators specifically want all U.S. life insurance/reinsurance legal entities to perform the current year LST for informational purposes – future LST iterations may see a materiality consideration added);

  Non-guaranteed/market value separate account cash flows are generally not in scope for the LST. The rationale is that even though non-guaranteed/market value separate accounts may experience asset sales during stressed environments, those sales are at the policyholder's discretion and do not generate liquidity stress for the insurer/group. As such they are deemed other market activity rather than insurance entity activity. Thus, for annuities that provide both non-guaranteed and guaranteed benefits, insurers should only include the cash flow impact of the guaranteed benefits. LST filers should consider including all cash flows related to assets and liabilities that may be grouped with general account assets in the event of a liquidation regardless of Separate Account classification.

  - Non-U.S. life insurance/reinsurance legal entities should perform the current year LST if they pose material liquidity risks to the U.S. group (see below on non-U.S. legal entities).
- Where applicable, holding companies that could be a source or draw of liquidity to the life insurance legal entities; and
- Non-life insurance entities and non-insurance entities with material sources of liquidity, or that carry out material liquidity risk-bearing activities and could, directly or indirectly, pose material liquidity risk to the U.S. group. This materiality consideration should occur within the context of the specific stress scenario (and "what if" modification if applicable). The materiality criteria and initial list of legal entities in scope should be reviewed by the lead state regulator and modified by the insurer as needed based on regulator direction.
  - Non-U.S. legal entities (including non-U.S. holding companies) are subject to this materiality consideration and should be subject to performing the LST if they pose material liquidity risk to the U.S. group.
  - U.S. non-life insurers and reinsurers are not automatically exempted. If the U.S. non-life insurer poses material liquidity risk, per the stress scenario, to the U.S. group, then that legal entity insurer should perform the LST.

© 2026 National Association of Insurance Commissioners

- Legal entity asset managers and mutual funds (both U.S. and non-U.S.) are **excluded** from performing the current year LST.
    - However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity asset manager/mutual fund in their current year LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).
    - If such material stressed cash flows from/to the legal entity asset manager/mutual fund exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the narrative/explanatory disclosures submitted along with the templates).
    - Examples of when such legal entity asset manager/mutual fund considerations and disclosures would need to be made for a specific stress scenario include:
        - If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a mutual fund/asset manager (i.e., redemptions exceed the ability to sell assets), then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements);
        - If the holding company or another legal entity(ies) in the group is expected to provide capital to the mutual fund/asset manager or is expecting dividends from them, the material expected cash flows must be reflected; and
        - If the asset manager manages financial instruments under which it retains some risk, such as new European CLOs, or has contractual risk retention agreements for U.S. CLOs, the required risk retention limit (5% for Europe) must be reflected if sourced from the holding company or another legal entity(ies) in the group and considered material.

DRAFT

© 2026 National Association of Insurance Commissioners

- Legal entity banks (both U.S. and non-U.S.) are **excluded** from performing the current year LST.
    - However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity bank in their current year LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).
    - If such material stressed cash flows from/to the legal entity bank exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the explanatory disclosures submitted along with the templates).
    - Examples of when such legal entity bank considerations and disclosures would need to be made for a specific stress scenario include:
        - If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a bank, then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements); and
        - If the holding company or another legal entity(ies) in the group is expected to provide capital to the bank or is expecting dividends from them, the material expected cash flows must be reflected.

For the current year, the legal entities identified in the bullets above, per a Company's ORSA and/or other materiality criteria applied to the specific stress scenario, must be considered as material or identified as carrying out material liquidity risk bearing activities and hence subject to internal liquidity stress testing requirements. Although a legal entity in the group may not be required to perform the stress test due to materiality considerations or exemptions, those entities' material cash impacts on entities performing the stress test must be captured in the sources and uses templates of the entities performing the LST. The insurer will need to disclose

DRAFT

© 2026 National Association of Insurance Commissioners

the materiality criteria (agreed upon by the Lead State regulator) used in determining the legal entities subject to the current LST in the submission of its results.

Section 4. Cash Flow Approach – Liquidity Sources and Uses

The Liquidity Stress Testing Framework is anchored by a cash flow approach, utilizing companies' actual cash flow projections of sources and uses of liquidity over various time horizons based upon experience and expectations. This contrasts with a Balance Sheet Approach, which employs static balance sheet amounts and generic assumptions about asset liquidity. While a Balance Sheet Approach is easier to apply and provides calculation consistency (and thus the perception of increased comparability), its 'one-size fits all' approach could result in a misleading assessment of liquidity risk and fail to capture certain asset activities or product features under different stress scenarios and time horizons. The cash flow approach is deemed more dynamic and hence to capture liquidity risk impacts more precisely.

The insurer should produce cash flow projections for sources of liquidity and uses of liquidity that cover: operating items, investments and derivatives, capital items, and funding arrangements. (See Liquidity Sources and Uses templates in Section 7). To clarify an issue regarding funding arrangements, the projected cash flows for liquidity sources and uses should include already existing funding arrangements such as FHLB draws outstanding in the current time period. Also, specific to the holding company, these projected cash flows for liquidity sources and uses should include material non-U.S. impacts as well.

The insurer will produce these liquidity sources and uses cash flow projections in a baseline, normal course of business scenario, for each time horizon. The insurer will also produce these cash flows for each time horizon for a specific number of required stress scenarios (for the current year LST there are 2 stress scenarios and also an insurer-specific worst-case scenario).

4.1 Baseline Assumptions for Cash flows

Baseline (pre-stress) cash flows are the insurer-specific cash flows from normal expected operations. Insurers should prepare cash flow projections under normal operating conditions and report the net cash flows (projected liquidity sources less uses) for each time horizon. These cash

© 2026 National Association of Insurance Commissioners

flow projections should be consistent with those used for internal baseline liquidity forecasts, such as those used for financial planning and analysis (FP&A), risk management, etc. A positive net cash flow is presumed in the baseline cash flows since companies are usually not expected to be operating in a net cash flow deficiency state.

Section 5. Stress Scenarios and their Assumptions

For the current year-end there are two regulatory liquidity stress scenarios: an adverse liquidity stress scenario for insurers, and an interest rate spike scenario. There is also an insurer-specific information request for each group's own most adverse liquidity stress scenario(s). The adverse liquidity stress scenario contains a regulator provided narrative, regulator-prescribed assumptions, and company-specific assumptions. The interest rate spike scenario allows all other narrative description components and key metrics (including how much interest rates spike) to be provided by each company. The insurer-specific information request contains a company provided narrative and a description of key company metrics. The regulator provided narrative will be a qualitative description of the specified stress scenario to highlight the particular risks and sensitivities associated with that stress scenario. The regulator prescribed assumptions are specific parameters insurers should incorporate into their process for a particular stress scenario. Company-specific assumptions should be consistent with the information provided in the regulator provided narrative and regulator prescribed assumptions, and represent the detailed assumptions needed for a specific company's liquidity stress testing process. Examples of where companies should provide their assumptions include: debt issuance, lapse sensitivity, new business sensitivity and mortality sensitivity. Regulators expect insurers to utilize policyholder behavior assumptions (e.g., surrenders and policy loan withdrawals, existence of new sales activity) as well as the insurer's response (e.g., assuming delays in payment of policyholder benefits), consistent with the severity of the stress, and to provide very thorough explanatory information. All key business activities and product- type impacts to liquidity should be considered by the companies.

If the insurer's internal model does not utilize a specific economic and/or company-specific assumption included in this document, the internal model does not need to be modified to

© 2026 National Association of Insurance Commissioners

incorporate it. However, if the insurer's internal model does utilize a specific economic and/or company-specific assumption included in this document, the insurer should use the approach outlined below to calculate the value for that assumption. (This emphasizes the macro surveillance benefit of the current year LST, allowing for a level of consistency of assumptions across the industry. As discussed previously, this is not meant to specify assumptions used by the insurers in their own internal liquidity stress testing work.) If there is no specific value included in the current year LST Framework and instead there is an illustrative value or suggested guidance, the company should use a value consistent with the illustrative value or suggested guidance. For example, guidance is given below on using Moody's values for migration, default, and recoveries. However, insurers may use S&P data or other appropriate data sources.

5.1 Adverse Liquidity Stress Scenario for Insurers

5.1.1 Narrative

Insurers are required to apply an adverse liquidity stress scenario as one of the two stress scenarios. The following is a summary of market conditions in the adverse scenario extracted from the Federal Reserve Board's 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule.

The adverse scenario is characterized by weakening economic activity across all economies included in the scenario. This economic downturn is accompanied by a global aversion to long-term fixed-income assets that, despite lower short-term rates, brings about a near-term rise in long-term rates and steepening yield curves in the United States and the four countries/country blocks in the scenario.

The economic indicator levels described below provide the backdrop for the economic climate insurers should assume in the adverse scenario. The actual levels insurers should use in the adverse scenario are provided in Annex 2.

- Macroeconomic
    - Real GDP falls slightly more than 2 percent from the pre-recession peak in the fourth quarter of 2016 to the recession trough in the first quarter of 2018.

© 2026 National Association of Insurance Commissioners

- *Unemployment rate increases.*
- *Headline CPI falls and then rises over the scenario period.*

- Interest Rates and Credit Spreads
  - *Short-term Treasury rates fall and remain near zero throughout the stress.*
  - *10-year Treasury yields rise.*
  - *Investment Grade (IG) corporate credit spreads widen.*
- Asset Valuations
  - *Equity prices decline by roughly 40%.*
  - *The Volatility Index (VIX) peaks at approximately 35.*
  - *Housing prices and commercial real estate prices decline through 8 quarters.*
- Description of International Market Conditions
  - *Recessions and slowdowns in growth are experienced in the Euro area, United Kingdom, Japan, and developing Asia economies.*
  - *All foreign economies experience a decline in consumer prices.*
  - *U.S. Dollar appreciates against the Euro, British Pound, and developing Asia currencies.*
  - *U.S. Dollar depreciates modestly against the Japanese Yen, driven by flight-to-safety capital flow.*

5.1.2 Regulator-Prescribed Assumptions

Insurers should utilize the values for the economic indicators from the Federal Reserve Board's annual Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule as the basis for scenario assumptions, Table A.1 Historical data and Table A.5 (Annex 2i, A) Supervisory adverse scenario. Insurers should use the version published in February 2017 (refer to the tables in Annex 2i). Specifically, insurers should run the adverse liquidity stress scenario using the deltas for the Treasury curve, Corporate spreads, GDP, Unemployment, U.S. Inflation (CPI), Housing Price Index (HPI), S&P 500 index (SPX SPOT), Commercial Real Estate Index (CREI) and VIX index. These economic variables should be used to

DRAFT

© 2026 National Association of Insurance Commissioners

the extent these variables are included in an insurer's internal liquidity stress test process or models.

Insurers should apply the same change in economic variables experienced between Q4 2016 Table A.1 and the stress scenarios in Table A.5 to current economic variable levels (Annex 2i, D). Insurers should use the tables in Annex 2i for an illustrative example of how the deltas from the 2017 Fed's CCAR are applied to the current reference quarter (Annex 2i, B). For example, insurers should use current year (or most recent year-end) 10 Yr. Treasury rates and apply the same percentage or absolute b.p. change shown from Q4 2016 to the 2017 Table A.5 amounts in their current year LST stress scenarios. Table C (Annex 2i, C) shows the 2017 deltas applied to the current year-end levels on an absolute and percentage basis for 3 month and 1-year horizons for ease of use. The deltas to apply are provided for the 30-day, 90-day and 1-year horizons. Note, the tables also include structured spread assumptions described below in section 5.1.4. The tables are included in Annex 2i of this document.

In addition, other market indicators are necessary for insurers to apply to stressed cash flows and to assess the impact on expected asset sales. These are as follows (with details to be found in Annex 2):

- Market Capacity Assumption
- Economic Variables for Adverse Scenario
- SWAP Spreads
- Swaption Volatility
- Credit Assumptions: Moody's Transition Matrix/Migration Rates
- Credit Assumptions: Moody's Default Table
- Credit Assumptions: Moody's Recovery Rate Table

Necessary edits for 2026 year-end values will be posted as Lead State Guidance to the Annexes in late February/early March of every year.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

5.1.3 Market Capacity Assumption

The following is suggested guidance to determine market constraints on asset categories to be sold in times of stress. It represents standards followed by many insurers to estimate assets sales by stress scenario, asset category and time horizon that can be sold without meaningfully impacting the entire market by widening bid-offer spreads. We recognize each company has its own individual methodology for determining potential asset sales under stress, and we request a written narrative be provided as to how they make their determination.

Once an asset class has been identified as available to be sold to satisfy a cash deficiency from cash flow stress testing, the insurer should calculate its percentage of the total amount issued and outstanding. Next the insurer should obtain average daily trading volumes (ADTV) and make an assumption for the haircut amount to apply to that volume to reflect stressed conditions (the "haircut ADTV"). Next, the insurer would apply its calculated percentage of total outstanding owned to the haircut ADTV, and the result would be divided by the number of days in the stress testing time horizon to arrive at a daily amount that can be sold. This daily amount able to be sold would be multiplied by the number of days in the prescribed time horizon: 30 days for the 30-day horizon, 60 days for the 90-day horizon (31-90 days) and 274 days for the 1-year horizon (91-365 days). An illustrative example best explains the above-described process.

Illustrative example (also included in Appendix 2ii):

Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a $100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A's unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	**10%**	**97**	**$9.7 B**	**$440 M**
31-90 Days	**20%**	**94**	**$18.8 B**	**$430 M**

© 2026 National Association of Insurance Commissioners

91-365 Days	**50%**	**90**	**$45.0 B**	**$230 M**

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been $13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to $8.0 B per day. Since Insurer A is 5% of the market, Insurer A can only trade $400 M per day ($8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	**$440 M**	**$400 M**	**($40 M)**
31-90 Days	**$430 M**	**$400 M**	**($30 M)**
91-365 Days	**$230 M**	**$400 M**	**$0**

5.1.4 Economic Variables for Adverse Scenario

Insurers should use Annex 2i and 2iii to assist in determining cash flows, asset values and the quantity of assets to be sold in stressed markets. For baseline values, the industry shall submit year-end spreads to the regulators shortly after year-end. The regulators will review and approve the values for use in the table for liquidity stress testing purposes. Structured spread data was derived from the JPMorgan ABS Weekly Asset Spread Datasheet. The spreads were scaled to a stressed economic environment consistent with an adverse scenario as described by the Fed, described above and adopted for this stress testing. For the 2020 LST, economic conditions experienced in March of 2020 were deemed consistent with an adverse scenario. Therefore, structured spreads from March 2020 were used as the basis for the stressed spreads assumptions for insurers to use in their stress testing scenario for the 30-day, 90-day and 1-year horizons. Note, to calculate structured spreads for CLO/CDO 5.5-7 year and ABS Auto3 year, it was necessary to construct a Treasury yield curve with 3-year and 7-year points. These points were calculated using a straight-line linear interpolation method. For the current LST, the same March 2020 structured spreads were deemed appropriate for use.

Regulators ask industry members to agree on one set of structured spread values amongst themselves to submit for approval, not each insurer submitting values that each need to be approved. Regulators and/or the NAIC need to do a reasonableness check of current baseline/market levels of spreads insurers use before applying the stressed amounts in the JPMorgan spreadsheet. For example, if current spreads are already greater than the JPMorgan stressed spread amounts, regulators may have to consider alternatives or additional stressed levels. One agreed upon set of values will help provide uniformity, consistency, and comparability of stress testing results across insurers.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

When utilizing these spreads, insurers should assume the percentage increase in spreads experienced in March 2020 from the JPMorgan ABS Weekly Asset Spread Datasheet; and apply the absolute increase to the agreed upon December 31 baseline spreads. These tables are provided in Annex 2i, B.

Since the reasonableness check is merely a check of current market rates, it is not anticipated that it will be burdensome for insurers to provide an agreed upon set of December 31 baseline values to regulators by January 31 of each year or for the regulators to be able to respond by February 28 of every year to allow insurers sufficient time to incorporate into their stress testing framework. Baseline amounts are included in Annex 2i, B.

For the current year LST – NAIC values are to be established as Lead State guidance in late February/early March of every year after the current year LST Framework has been adopted. These NAIC values will be established using the industry developed process.

5.1.5 SWAP Spreads

Stressed spread levels may impact assets prices for expected sales calculations necessary for the stress scenarios. Insurers should complete the SWAP Spread table in Annex 2iv to document assumptions used in determining asset values and the quantity of assets to be sold in stressed markets. SWAP spread source data is no longer provided in the Federal Reserve's H.15 FRED data. Use of Bloomberg Swap Spreads is preferred – if options exist within Bloomberg, identify which option was used. If a different source from Bloomberg is used, then identify the source and option.

5.1.6 Swaption Volatility

Insurers should use the table in Annex 2v to assist in determining asset values and the quantity of assets to be sold in stressed markets. Insurers should obtain the information to populate the table using Bloomberg's Swaption Volatility for various time horizons and expiry. For consistency, insurers should use the table found on Bloomberg at NSV [Go].

Commented [EB1]: To be updated as Lead State Guidance in early 2027

© 2026 National Association of Insurance Commissioners

5.1.7 Moody's Transition Matrix/Migration Rates

Insurers should use the table in Annex 2vi to assist in determining corporate credit migrations, asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 36 - Average one-year alphanumeric rating migration rates, 1983-2026. If available, insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

5.1.8 Moody's Default Table

Insurers should use the table in Annex 2vii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 41 - Average cumulative issuer-weighted global default rates by letter rating, 1983-2026. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should disclosed as well as the rationale for their use.

5.1.9 Moody's Recovery Rate Table

Insurers should use the table in Annex 2viii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 8 - Average corporate debt recovery rates measured by ultimate recoveries, 1987-2026. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should disclosed as well as the rationale for their use.

If relevant for a given insurer, the adverse liquidity stress scenario for insurers can be run considering sources other than expected asset sales (e.g., FHLB credit line draws, bank lines of credit and holding company contributions). Should that be the case, the insurer must clearly identify the sources other than asset sales utilized to meet expected liquidity deficiencies.

DRAFT

© 2026 National Association of Insurance Commissioners

5.1.10 "What If" Modification

The "What if" modification to the adverse liquidity stress scenario removes the ability for insurers to use extraordinary internal and external funding sources to satisfy any liquidity deficiency under stress, i.e., no actions taken in response to the stress (as opposed to ongoing operational funding agreements included in the insurer's baseline templates) or in response to a liquidity deficiency. Intragroup "keep well" agreements would be considered extraordinary transactions. Thus, expected asset sales will be the primary source of meeting any liquidity deficiency for the "What if" scenario. Any existing funding such as commercial paper will not be assumed to roll, nor will FHLB facilities ability to roll upon maturity.

5.1.11 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above adverse liquidity stress scenario for insurers. Company specific assumptions should be consistent with the above scenario as narrative and regulator prescribed assumptions. Examples include the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).

5.2 Interest Rate Spike Scenario

5.2.1 Narrative

Insurers should run an interest rate spike stress test that resembles the late 70's/early 80's inflationary period as it most closely mirrors the regulatory desired interest rate spike scenario. Historical data from the late 70's/early 80's show the following economic conditions:

- Inflationary forces caused interest rates to rise quickly.
- Investors rotated out of fixed income and into equities, real estate, and commodities.
- Central bank responded by tightening monetary policy in tandem, eventually causing the yield curve to invert.

Insurers should provide a detailed narrative outlining their scenario and assumptions around general economic conditions bulleted above and specific assumptions for economic variables for each time horizon. The economic variables in the table below and the amount of expected

© 2026 National Association of Insurance Commissioners

movement in each variable should be fully described in the narrative to the extent are used in a company's internal model. The table outlines the directional movement of the relevant economic indicators. Insurers should specify the amount of movement for each variable they consider to be part of the scenario for a severe interest rate spike. For example, insurers may indicate a parallel shift in Treasury rates up 100bps in the first 30 days, up 200bps in 90 days and 300bps over 12 months. The table is a guide and not to be interpreted as a strict template and may be supplemented or customized by the insurer. Narrative/Explanatory disclosures should explain these assumptions.

5.2.2 Regulator-Prescribed Assumptions

Regulators did not adopt any regulator-prescribed assumption values for this stress scenario. Instead, they provided the below regulator guidance for insurers to use when establishing their own company specific assumptions for this stress scenario.

Economic Variable	Expected Movement	Comments
Treasury rates	Increase rapidly	Critical factors for modeling impacts to asset prices, collateral flows, and product cash flows
Equity prices	Increase rapidly	
Credit spreads	Increase moderately	
Inflation rates	Increase rapidly	These factors help define the macroeconomic conditions of the scenario
Real GDP growth	Flat	These factors help define the macroeconomic conditions of the scenario
Unemployment rate	Flat	
Real estate prices	Increase	
Swap spreads	Increase	Impact derivative collateral requirements
FX rates	Unclear	
Implied volatility	Increase	
Credit assumptions (transition, default, recovery rates)	Unclear	May not be an important assumption to define for the scenario

5.2.3 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above stress scenario. Companies are encouraged to provide more information beyond these guidelines as they feel is appropriate to help regulators understand their assumptions for the scenario.

© 2026 National Association of Insurance Commissioners

Company specific assumptions should be consistent with the stress scenario's narrative and regulator prescribed assumptions. Based on the 2022 significant increases to inflation and interest rates, insurers should consider appropriately stressed interest rates in the current LST to ensure a "severe interest rate spike."

5.3 Insurer Specific Information Request - Worst-Case Scenario

5.3.1 Narrative

This information request requires insurers to provide a detailed narrative of their most severe liquidity stress scenario(s) to obtain greater insight to the drivers of liquidity risk for specific insurers. The most severe scenario should be one that results in the largest liquidity deficiency (liquidity sources less uses) from their existing internal liquidity stress testing process. The scenario should be focused on the insurer's internal model scenario with the worst-case outcome for the group. Regulators may use this information to inform future prescribed stress scenarios.

Insurers should provide a comprehensive narrative describing the stress scenario(s) and the economic environment(s). This stress scenario(s) could be a combination of multiple stressors. Insurers should review these scenarios to ensure they are worst case for their business model, products, etc., particularly if no liquidity deficiencies are identified.

Section 6. Available and Expected Asset Sales

Once the stressed sources and uses of liquidity have been established, and the net cash flows calculated, insurers then project the assets available at the end of the time horizon by asset category (please refer to the asset categories in the Assets Template in Section 7). The valuation of available assets for the baseline scenario utilizes current and projected asset values for a normal operating environment. The valuation of available assets for a stress scenario will be based upon fair value haircuts per the specific stress scenario narrative, its regulatory prescribed assumptions, and/or the company assumptions based on the narrative and regulatory prescribed assumptions (e.g., fair market value haircuts and capacity indicators). Note: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and

© 2026 National Association of Insurance Commissioners

considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

To the extent that stressed cash inflows are insufficient to meet the anticipated cash outflows, the insurer must provide for cash flows to meet the deficiency. Unless a stress scenario (or "What-if" modification of a stress scenario) indicates otherwise, the insurer can utilize internal and external funding sources (e.g., FHLB new draws) as well as asset sales to satisfy a liquidity deficiency. Any expected asset sales must be reported in the appropriate column(s) of the template. Insurers decide which categories of available assets to sell, as well as the quantity to sell. (Please refer to the Assets Template in Section 7.)

Asset sales will appear in two different places - 1) within the liquidity sources template for expected/planned activity during the time horizon (pre-liquidity deficiency calculation), and 2) in the assets template for any amount of asset sales used to meet a liquidity deficiency (Liquidity Sources less Liquidity Uses). If an insurer has no liquidity deficiency, then there are no asset sales needed in the Assets Template (though available assets still apply). Similarly, if cash on hand was sufficient to meet the liquidity deficiency and the insurer chose to utilize that cash, then no asset sales would be reported in the Assets template.

The expected asset sales amounts calculated based on the insurer's own models should also be subjected to portfolio manager and/or Chief Investment Officer (CIO) feedback. This feedback may take the form of "topside" adjustments to the expected asset sales. Regulators expect robust disclosures around the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales. The intent is for these asset sales to most accurately represent what actions the insurer could reasonably take in the given scenario, market conditions, and the company's anticipated investment policy and/or strategy.

Section 7. Reporting

Insurers should submit data in the reporting template for liquidity sources, liquidity uses, and assets (available assets and expected asset sales) in U.S. dollars. These templates utilize

© 2026 National Association of Insurance Commissioners

categories for 30-day, 90-day and 1-year time horizons. The assets template further illustrates available assets and final expected asset sales by asset sub-category to cover any liquidity deficiency (negative amounts of net liquidity sources less liquidity uses over the prescribed time horizons). Use of these consistent sub-categories of assets is critical for allowing the Task Force to aggregate the asset sales results.

DRAFT

© 2026 National Association of Insurance Commissioners

Liquidity Sources and Liquidity Uses Templates:

A liquidity sources report and a liquidity uses report should be generated for each legal entity within the group that was subjected to liquidity stress testing, using the NAIC templates. These legal entity amounts should also be aggregated into a group liquidity sources report and a group liquidity uses report for submission (the LST is not performed at the group level; rather it is performed at the legal entity level and those results are aggregated to present a group level report).

- For the Baseline, the Adverse Liquidity stress scenario, and the Interest Rate Spike stress scenario, Liquidity Sources and Liquidity Uses templates at both the individual entity level and the aggregated group level are to be submitted.
- For the "What If" Variation of the Adverse Liquidity stress scenario, a group level Liquidity Sources template and/or a group level Liquidity Uses template is only required if there is a material difference from the Adverse Liquidity stress scenario's group level Liquidity Sources and Liquidity Uses templates.

Assets Template:

As with the Liquidity Uses and Liquidity Sources templates, the Assets template is to be generated for each legal entity performing the LST. For the current year LST, the insurer may submit the assets template at the group level only, without submission of the legal entity asset sales templates.

- A group level assets template is required for the Baseline and all stress scenarios, including the "What If" variation of the Adverse Liquidity stress scenario.

Modification of Templates:

Insurers are allowed to add lines to the templates to provide more detailed breakdown of existing categories (e.g., for cash flows to/from legal entity asset manager/mutual funds as well as banks), but deletions of existing lines/categories are highly discouraged.

Submission Deadline:

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

The reporting templates and many other narrative disclosures referenced in this document are to be submitted to the Lead State by June 30 of every year.

Section 8. Templates

8.1 Liquidity Sources Template

			Group Summary			Legal Entity 1		
Cash Flow	**CF Type**	**CF Category**	**1 Month**	**3 Month**	**12 Month**	**1 Month**	**3 Month**	**12 Month**
Sources	Operating	Premiums and Deposits (Renewal / New Business)	-	-	-	-	-	-
		Cash Charges / Fees	-	-	-	-	-	-
		Reinsurance Recoverables	-	-	-	-	-	-
		Expenses – Intercompany Settlements	-	-	-	-	-	-
		Tax Payments (Inflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Investment and Derivatives	Principal and Interest	-	-	-	-	-	-
		Dividends / Distributions	-	-	-	-	-	-
		Initial and Variation Margin Received	-	-	-	-	-	-
		Other Collateral Received	-	-	-	-	-	-
		Asset Sales (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Capital	Capital Contributions	-	-	-	-	-	-
		Commitments	-	-	-	-	-	-
		Dividends from Subsidiaries	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Funding	Debt Issuance / Refinancing	-	-	-	-	-	-
		GICs	-	-	-	-	-	-
		FHLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
		Credit Facilities (Incl. Contingency Funding Facilities)	-	-	-	-	-	-
		Intercompany Loans	-	-	-	-	-	-
		Commercial Paper	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
		Total Sources (before Asset Sales)	-	-	-	-	-	-

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Sales (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/31 trade date and 01/01 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company's best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

8.2 Liquidity Uses Template

			Group Summary			Legal Entity 1		
Cash Flow	CF Type	CF Category	1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
Uses	Operating	Non-Elective Benefits / Claims	-	-	-	-	-	-
		Elective Benefits / Claims	-	-	-	-	-	-
		Commissions	-	-	-	-	-	-
		Reinsurance Payables	-	-	-	-	-	-
		Expenses - Other	-	-	-	-	-	-
		Expenses - Intercompany Settlements	-	-	-	-	-	-
		Insurance Product Commitments	-	-	-	-	-	-
		Tax Payments (Outflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Investment and Derivatives	Asset Commitments	-	-	-	-	-	-
		Initial and Variation Margin Paid	-	-	-	-	-	-
		Other Collateral Pledged	-	-	-	-	-	-
		Asset Purchases (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Capital	Shareholder/Policyholder Dividends	-	-	-	-	-	-
		Capital Contributions to Subsidiaries	-	-	-	-	-	-
		Dividends to Parent	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Funding	Debt Maturities / Debt Servicing	-	-	-	-	-	-
		GICs Benefits / Maturities	-	-	-	-	-	-
		FHLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
		Credit Facilities (Incl. Contingency Funding Facilities)	-	-	-	-	-	-
		Intercompany Loans	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
		Total Uses	-	-	-	-	-	-

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Purchases (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/31 trade date and 01/01 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company's best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

8.3 Assets Template

Cash and Invested Assets Available for Sale				
		Group Summary		
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month
Cash	Cash & Cash Equivalents	-	-	-
Government Securities	Treasury Bonds	-	-	-
	Agency Bonds	-	-	-
	Other IG Sovereigns & Regional Government	-	-	-
	Below IG Sovereigns & Regional Government	-	-	-
	Agency CMO	-	-	-
	Agency MBS	-	-	-
	Agency CMBS	-	-	-
	Agency ABS	-	-	-
Public Bonds	IG Public Corporate Bonds	-	-	-
	IG Municipal Bonds	-	-	-
	Below IG Public Corporate Bonds	-	-	-
	Below IG Municipal Bonds	-	-	-
Private Bonds	IG Private Placement Bonds	-	-	-
	IG 144As	-	-	-
	Below IG Private Placement Bonds	-	-	-
	Below IG 144As	-	-	-
Non-Agency Structured Debt	IG CMO	-	-	-
	IG MBS	-	-	-
	IG CMBS	-	-	-
	IG ABS	-	-	-
	IG CLO	-	-	-
	Below IG CMO	-	-	-
	Below IG MBS	-	-	-
	Below IG CMBS	-	-	-
	Below IG ABS	-	-	-
	Below IG CLO	-	-	-
Equity	Common Stock	-	-	-
	Preferred Stock	-	-	-
	Other Equity and Alternative Investments	-	-	-
Other	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-
	Other	-	-	-
	Total Invested Assets Available for Sale	-	-	-

Confidential--For Discussion Purposes Only, Do Not Distribute

Scenario	
As of Date	

Summary

	Group Summary			Legal Entity 1		
	1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
Total Sources (before Asset Sales)	-	-	-	-	-	-
Total Uses	-	-	-	-	-	-
Net Sources & Uses (Deficit before Asset Sales)	-	-	-	-	-	-
Total Invested Assets Available for Sale	-	-	-	-	-	-
Cash applied to deficit	-	-	-	-	-	-
Deficit Sub-total	-	-	-	-	-	-
Total Assets Sold	-	-	-	-	-	-
Deficit satisfied if zero or greater	-	-	-	-	-	-

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Final Expected Asset Sales After Adjustments					
		Group Summary			
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month	
Cash	Cash & Cash Equivalents	-	-	-	
Government Securities	Treasury Bonds	-	-	-	
	Agency Bonds	-	-	-	
	Other IG Sovereigns & Regional Government	-	-	-	
	Below IG Sovereigns & Regional Government	-	-	-	
	Agency CMO	-	-	-	
	Agency MBS	-	-	-	
	Agency CMBS	-	-	-	
	Agency ABS	-	-	-	
Public Bonds	IG Public Corporate Bonds	-	-	-	
	IG Municipal Bonds	-	-	-	
	Below IG Public Corporate Bonds	-	-	-	
	Below IG Municipal Bonds	-	-	-	
Private Bonds	IG Private Placement Bonds	-	-	-	
	IG 144As	-	-	-	
	Below IG Private Placement Bonds	-	-	-	
	Below IG 144As	-	-	-	
Non-Agency Structured Debt	IG CMO	-	-	-	
	IG MBS	-	-	-	
	IG CMBS	-	-	-	
	IG ABS	-	-	-	
	IG CLO	-	-	-	
	Below IG CMO	-	-	-	
	Below IG MBS	-	-	-	
	Below IG CMBS	-	-	-	
	Below IG ABS	-	-	-	
	Below IG CLO	-	-	-	
Equity	Common Stock	-	-	-	
	Preferred Stock	-	-	-	
	Other Equity and Alternative Investments	-	-	-	
Other	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-	
	Other	-	-	-	
	Total Invested Assets Final Sale	-	-	-	

Note 1: Insurers will enter "Illiquid" in a data field for any asset category deemed such within a specific time horizon. (Regulators can then follow up with questions later if there are concerns, etc.)

Note 2: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

Note 3: Reminder that regulators want robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales. Might need to supplement the template comments with additional narrative disclosures.

Note 4: Excluding the "What If" variation, insurers are to provide disclosures indicating when affiliated amounts are provided to assist a legal entity in addressing a liquidity deficiency.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Narrative/Explanatory Disclosures noted in the current year LST

Narrative/explanatory disclosures are expected to be in English.

- Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars.
- Specific disclosures on material stressed cash flows to/from legal entity banks/asset managers/mutual funds if needed.
- Company-specific narrative on assumptions and metrics used for the adverse liquidity stress scenario for insurers, for example the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).
- Company-specific narrative on the interest rate shock scenario, assumptions around general economic conditions bulleted in 5.2.1 Narrative, and specific metrics for economic variables for each time horizon. The economic variables in the table in 5.2.2 Regulator-Prescribed Assumptions should be fully described in the narrative, to the extent they are use in the company's internal model.
- Insurers should provide a comprehensive narrative describing their worst-case liquidity stress scenario(s) and the economic environment(s), including assumptions, key metrics and results.
- Written narrative on the insurer's own individual methodology for determining asset sales under stress.
- Robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales, if needed.
- Excluding the "What If" variation, disclosures to identify when affiliated amounts are contributed to assist a legal entity in addressing a liquidity deficiency.
- Disclose when a regulatory prescribed variable is not used for the LST because it is not used in the internal liquidity stress testing process or models.

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

[End of] Current Year Liquidity Stress Testing Framework]

Data Aggregation

Given the NAIC's primary focus is on macroprudential impacts of a liquidity stress impacting the life insurance sector, the NAIC will aggregate final expected asset sales data across the insurance groups subject to the liquidity stress test. The aggregation will be done by asset category. The NAIC aims to compare the aggregated results against various benchmarks, potentially including normal and/or stressed trading volumes and asset values for various asset classes, to determine the impact such sales may have on the capital markets in times of stress. Findings from this analysis may also inform expected asset sale assumptions utilized in future runs of the liquidity stress test.

As part of its macroprudential surveillance, the insurance regulators and/or NAIC may reach out to other regulatory agencies to discuss aggregate results that may impact other regulated industries such as banks, securities brokers, and asset managers. Insurance regulators may also coordinate with other agencies to identify appropriate and perhaps coordinated action they may take to prevent or minimize the effect large asset sales may have on the financial markets and overall economy.

Regulatory Authority

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers and to keep the data confidential. A long-term solution was developed at the Financial Stability (E) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the 2026 LST as well, while others may rely upon adopted revisions to their Holding Company Act.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Confidentiality

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers identified by the scope criteria. Existing protocols for collecting confidential/sensitive data for each state and insurer were utilized. A long-term solution was developed at the Financial Stability (E) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the current year LST as well, while others may rely upon adopted revisions to their Holding Company Act.

Timeline

- December – Adopt next year's LST Framework.
- Regulators agreed to make no substantive changes for the current LST Framework, including the Scope Criteria. Minor template revisions and Annex updates to the current LST Framework document need to be finalized early in the year every year as Lead State Guidance to allow insurers adequate time to generate the current LST filings in time for the June 30, filing deadline; ideally by the end of March.
- June – Incorporate all appropriate Lead State Guidance into the current LST Framework document as the starting place for the next year's LST Framework and begin work on any changes specific to the following year's LST.

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 1: Original Scope Criteria with Annual Statement References

The Subgroup proposes to include in the scope of the Liquidity Stress Testing Framework any insurer/group that exceeds the following thresholds for any of the noted activities (or account balance as a proxy for that activity). The thresholds have been established taking into consideration both the account balance of the insurer/group to the total balance for the life insurance sector, as well as the aggregate account balance of insurers/groups within scope to the aggregate account balance for the life insurance sector.

Account Balances	Threshold in $B "greater than"	Reference to NAIC life/accident and health (A&H) annual financial statement blank
Fixed and Indexed Annuities	25	**Analysis of Increase in Annuity Reserves** Page: Analysis of Increase in Reserves Line: Reserves December 31, current year (15) Column: Sum of Individual Fixed Annuities, Individual Indexed Annuities, Group Fixed Annuities, and Group Indexed Annuities
Funding Agreements and GICs[i]	10	**Deposit-Type Contracts** Page: Exhibit 7 – Deposit-Type Contracts Line: 9 Column: Guaranteed Investment Contracts (Column 2) + Column: Premium and Other Deposit Funds (Column 6) IF the amount of FHLB Funding Reserves from Note 11.B(4)(b) suggests funding agreements are not reported in Column 2 of Exhibit 7 + Synthetic GICS Page: Exhibit 5 – Interrogatories Line: 7.1
Derivatives–Notional Value (absolute value)	75	**Derivatives – Notional Value (absolute value)** Pages: Schedule DB, Part A; Schedule DB, Part B, Section 1 Column: Notional Value (sum all)
Securities Lending	2	**Securities Lending Collateral Assets** Pages: Schedule DL, Part 1; Schedule DL, Part 2 Line: Total (9999999) Column: Fair Value
Repurchase Agreements	1	**Repurchase Agreements** Page: Notes to Financial Statement Investments Restricted Assets Line: Sum of 05L1C, 05L1D, 05L1E, 05L1F Column: Total (General Account Plus Separate Account)

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Borrowed Money (includes commercial papers, letters of credit, etc.)	1	**Borrowed Money** Page: Liabilities Line: Borrowed Money (22) Column: Current Year

[i] In performing the addition of the FHLB funding agreement amount to the GICs amount, NAIC staff discovered that the reporting of FHLB funding agreements is not consistent in Exhibit 7, Deposit-Type Contracts. The source of the FHLB amount is Note 11.B(4)(b):

Line: Funding agreements, current year, amount as of the reporting date, borrowing from FHLB, collateral pledged to FHLB Column: Funding Agreement Reserves Established

For some insurers, we were able to match amounts from the FHLB funding agreement footnote to the exact same amount in Exhibit 7, either Column 2 (GICs) or Column 6 (Premiums and Other Deposit Funds). For those insurers where the FHLB amount matched Exhibit 7, Column 2, we did not add the FHLB funding agreement amount to the GICs amount, because that would be double-counting the FHLB funding agreements. For other insurers, even though the amounts did not match exactly, we were able to assume the FHLB funding agreements were reported in either Column 2 or Column 6 (e.g., the amount in Exhibit 7, Column 2 was zero or much smaller than the FHLB note, while the Column 6 amount was larger). However, for several insurers, we were not able to make an informed assumption (e.g., both Column 2 and Column 6 amounts were larger than the FHLB funding agreement amount). To be conservative in these instances, we added the FHLB funding agreement amount to the GICs amount. Overall, for the $10 billion threshold, adding FHLB funding agreements to GICs does not result in a different list of insurance groups from the list with GICs of more than $10 billion.

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2: Regulatory Prescribed Assumptions

Annex 2i. Economic and Market Variables

A. Fed reference Table A.5 Adverse Scenario

2017 CCAR Adverse Scenario

Date	Real GDP growth	Nominal GDP growth	Real disposable income growth	Nominal disposable income growth	Unemployment rate	CPI inflation rate	3-month Treasury rate	5-year Treasury yield	10-year Treasury yield	BBB corporate yield	Mortgage rate	Prime rate	Level			
													Dow Jones Total Stock Market Index	House Price Index	Commercial Real Estate Price Index	Market Volatility Index
Q1 2017	-1.5	0.9	0.7	2.4	5.2	1.8	0.1	1.7	2.3	5.6	4.7	3.3	15,960	181	291	37.1
Q2 2017	-2.8	-0.7	-0.6	1.1	5.8	1.8	0.1	1.8	2.4	5.9	4.9	3.3	15,042	179	283	32.7
Q3 2017	-2.0	0.0	-0.5	1.1	6.3	1.8	0.1	1.8	2.5	6.1	5.1	3.3	14,290	176	275	34.4
Q4 2017	-1.5	0.5	-0.5	1.2	6.8	1.8	0.1	1.9	2.5	6.2	5.2	3.2	13,982	173	267	32.0
Q1 2018	-0.5	1.4	0.2	1.9	7.1	1.8	0.1	1.9	2.6	6.0	5.2	3.2	14,367	170	259	28.5
Q2 2018	1.0	3.0	0.6	2.4	7.3	2.0	0.1	1.9	2.7	5.8	5.2	3.2	15,001	166	254	25.8
Q3 2018	1.4	3.3	1.0	2.7	7.4	2.0	0.1	2.0	2.7	5.6	5.1	3.2	15,693	163	250	23.6
Q4 2018	2.6	4.4	1.5	3.4	7.3	2.1	0.1	2.0	2.7	5.4	5.1	3.2	16,603	161	249	21.6
Q1 2019	2.6	4.3	1.6	3.5	7.2	2.1	0.1	2.0	2.7	5.2	5.0	3.2	17,519	161	249	20.1
Q2 2019	3.0	4.6	2.1	3.8	7.1	2.0	0.1	2.0	2.7	5.0	4.9	3.2	18,514	161	251	18.7
Q3 2019	3.0	4.5	2.2	3.8	7.0	2.0	0.1	2.0	2.7	4.8	4.8	3.2	19,243	162	255	18.2
Q4 2019	3.0	4.5	2.1	3.8	6.9	1.9	0.1	2.0	2.7	4.7	4.8	3.2	20,025	163	259	17.6
Q1 2020	3.0	4.5	2.0	3.5	6.8	1.8	0.1	2.0	2.7	4.5	4.7	3.2	20,867	164	262	17.3

"Adverse Scenario":
BBB corporate yield spread is 3.7% at its peak in Q4:2017 when financial conditions are generally at their most acute

Narrative: "The U.S. economy experiences a moderate recession. Real GDP falls slightly more than 2 percent from the pre-recession peak , while the unemployment rate rises steadily, peaking at about 7¾ percent in the third quarter of 2018. The U.S. recession is accompanied by an initial fall in inflation through the third quarter of 2017, with the rate of increase in consumer prices then rising steadily and reaching 2 percent by the middle of 2018. Reflecting weak economic conditions, short-term interest rates in the United States fall and remain near zero for the rest of the scenario period. With the increase in term premiums, 10-year Treasury yields gradually rise to a little less than 2¾ percent by the second half of 2018. Financial conditions tighten for corporations and households during the recession. Spreads between investment-grade corporate bond yields and 10-year Treasury yields widen to about 3¾ percentage points by the end of 2017, while spreads between mortgage rates and 10-year Treasury yields widen to about 2½ percentage points over the same period. Asset prices decline in the adverse scenario accompanied by a rise in equity market volatility. Aggregate house prices and commercial real estate prices experience less sizable but more sustained declines compared to equity prices; house prices fall 12 percent through the first quarter of 2019 and commercial real estate prices fall 15 percent through the fourth quarter of 2018. Following the recession in the United States, real activity picks up slowly at first and then gains momentum; growth in real U.S. GDP accelerates from an increase of 1 percent at an annual rate in the second quarter of 2018 to an increase of 3 percent at an annual rate by the middle of 2019. The unemployment rate declines modestly."

Source: Federal Reserve

Source: 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule
https://www.federalreserve.gov/publications/2017-june-dodd-frank-act-stress-test-appendix-a-supervisory-scenarios.htm

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

B. Economic Variables-data deltas to apply to current levels (Including Structured)

	Inputs to Use		
	Adverse: 1 Mo	**Adverse: 3 Mo**	**Adverse: 12 mo**
Real GDP Growth	-1.5	-1.5	-1.5
Nominal GDP Growth	0.9	0.9	0.5
Real Disposable Income Growth	0.7	0.7	-0.5
Nominal Disposable Income Growth	2.4	2.4	1.2

- Use 3 month value for 1 month horizon since CCAR does not prescribe monthly values.

	Deltas to Apply		
	Adverse: 1 Mo	**Adverse: 3 Mo**	**Adverse: 12 mo**
Unemployment	0.2	0.5	2.1
CPI Inflation Rate	-0.5	-1.6	-1.6
3M Treasury	-1.3	-4.0	-4.0
3Y Treasury	-0.1	-0.2	0.2
5Y Treasury	0.0	0.0	0.2
7Y Treasury	0.0	0.1	0.5
10Y Treasury	0.1	0.2	0.6
BBB Corporate Yield	0.8	2.3	3.2
Agency MBS 10 Year Yield	0.2	0.7	2.4
Non-Agency MBS 10 Year AA Yield	0.7	2.2	8.5
CMBS 10 Year AA Yield	0.7	2.1	8.3
CLO/CDO 5.5-7 Year AA Yield	0.5	1.4	5.8
ABS -Cards 5 Year AAA Yield	0.3	1.0	4.4
ABS-Auto Near prime 3 year AAA Yield	0.4	1.1	5.3
Mortgage Rate	0.5	1.5	2.4
Prime Rate	-0.2	-0.5	-0.7
Dow Jones	-10.5%	-31.4%	-39.9%
House Price Index	-0.4%	-1.1%	-5.5%
Commercial Real Estate Price Index	-0.3%	-1.0%	-9.2%
VIX	4.9	14.6	9.5

- 1 month delta is 1/3 of 3 month value

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

C. 2017 CCAR Economic variable delta calculations

2017 CCAR

		12/31/2016	Adverse: Q1	Adverse: Q4
1	Real GDP Growth	3.1	-1.5	-1.5
2	Nominal GDP Growth	6.1	0.9	0.5
3	Real Disposable Income Growth	1.6	0.7	-0.5
4	Nominal Disposable Income Growth	4.5	2.4	1.2
5	Unemployment	4.7	5.2	6.8
6	CPI Inflation Rate	3.4	1.8	1.8
7	3M Treasury	0.4	0.1	0.1
8	3Y Treasury	1.3	1.2	1.3
9	5Y Treasury	1.7	1.7	1.9
10	7Y Treasury	2.0	2.0	2.2
11	10Y Treasury	2.2	2.3	2.5
12	BBB Corporate Yield	4.1	5.6	6.2
13	Agency MBS 10 Year Yield	2.9	3.2	4.1
14	Non-Agency MBS 10 Year AA Yield	3.5	4.5	7.6
15	CMBS 10 Year AA Yield	3.6	4.7	7.8
16	CLO/CDO AA 5.5-7 Year AA Yield	3.8	4.7	7.2
16	ABS -Cards 5 Year AAA Yield	2.1	2.5	3.9
18	ABS-Auto Near prime 3 year AAA Yield	1.7	2.0	3.4
19	Mortgage Rates	3.9	4.7	5.2
20	Prime Rate	3.5	3.3	3.2
21	Dow Jones	$23,277.0	$15,960.0	$13,982.0
22	House Price Index	183.0	181.0	173.0
23	Commercial Real Estate Price Index	294.0	291.0	267.0
24	VIX	22.5	37.1	32.0

Annex 2iii, A

Spreads (%) 2016:Q4 Averages*
0.71
1.27
1.37
1.87
0.45
0.44

*Quarterly averages; Spread to treasuries

3-Month	12-Month
Spreads over horizon (in %)*	
0.92	1.56
2.23	5.10
2.35	5.29
2.65	5.00
0.85	2.04
0.85	2.07

*Spread to treasuries

DRAFT

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2ii. Market Capacity Assumption

Illustrative Example only

Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a $100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A's unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	**10%**	**97**	**$9.7 B**	**$440 M**
31-90 Days	**20%**	**94**	**$18.8 B**	**$430 M**
91-365 Days	**50%**	**90**	**$45.0 B**	**$230 M**

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been $13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to $8.0 B per day.

Since Insurer A is 5% of the market, Insurer A can only trade $400 M per day ($8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	**$440 M**	**$400 M**	**($40 M)**
31-90 Days	**$430 M**	**$400 M**	**($30 M)**
91-365 Days	**$230 M**	**$400 M**	**$0**

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2iii, A. Year-end Structured Spread Baseline Values

Commented [EB2]: To be updated as Lead State Guidance in early 2027

	Q4 2016 Baseline Spreads (%)	Q4 2024 Spreads (%) Averages*
Agency MBS 10 Year Yield	0.71	1.642
Non-Agency MBS 10 Year AA Yield	1.27	2.665
CMBS 10 Year AA Yield	1.37	2.565
CLO/CDO 5.5-7 Year AA Yield	1.87	2.181
ABS -Cards 5 Year AAA Yield	0.45	0.810
ABS-Auto Near prime 3 Year AAA Yield	0.44	0.851

*Quarterly averages;
Spread to treasuries

DRAFT

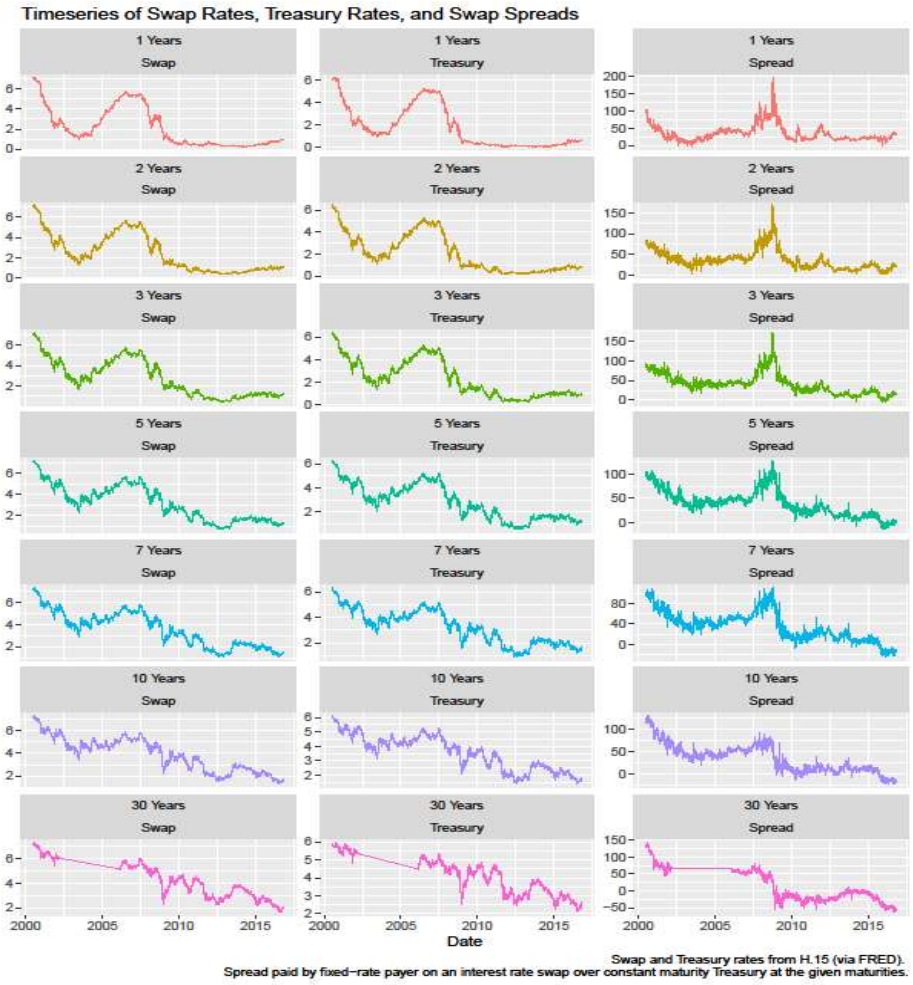
© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2iv. SWAP Spread Table

Swap Spreads [1,2]						
Maturity	Baseline	1 Mo.	3 Mo.	6 Mo.	9 Mo.	12 Mo.
3 Mo.	X	X	X	X	X	X
5 Yr	X	X	X	X	X	X
10 Yr	X	X	X	X	X	X
20 Yr	X	X	X	X	X	X
30 Yr	X	X	X	X	X	X

1 - (Nominal) Swap Spreads (in BPS)
2 - IR Par Swap Spreads for USD, EUR, JPY, GBP, AUD and CAD



Source: Federal Reserve

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2v. Implied Volatility of IR Swaptions

Implied Volatility		
Implied Normal Volatility of IR Swaption by Tenor and Expiry		
Time Horizon 0		
Tenor/Expiry	**3Y**	**7Y**
3 Mo.	X	X
3Y	X	X
5Y	X	X
7Y	X	X
10Y	X	X

Annex 2vi. Credit Assumptions: Moody's Transition Matrix/Migration Rates

Commented [EB3]: To be updated as Lead State Guidance in early 2027

Average one-year alphanumeric rating migration rates, 1983-2023

From\To	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca_C	WR	Def
Aaa	87.36%	5.11%	2.16%	0.53%	0.28%	0.14%	0.02%	0.05%	0.00%	0.02%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.30%	0.00%
Aa1	1.60%	77.10%	7.79%	5.52%	1.35%	1.00%	0.20%	0.14%	0.07%	0.01%	0.03%	0.00%	0.01%	0.04%	0.02%	0.01%	0.02%	0.02%	0.00%	0.00%	5.08%	0.00%
Aa2	0.94%	4.11%	75.12%	9.59%	3.19%	1.50%	0.40%	0.08%	0.14%	0.06%	0.03%	0.01%	0.00%	0.02%	0.01%	0.02%	0.00%	0.02%	0.00%	0.00%	4.75%	0.00%
Aa3	0.14%	0.98%	4.02%	76.30%	8.53%	3.28%	0.78%	0.23%	0.23%	0.11%	0.02%	0.03%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.26%	0.04%
A1	0.04%	0.08%	0.97%	4.94%	77.66%	7.18%	2.43%	0.55%	0.38%	0.17%	0.15%	0.11%	0.04%	0.05%	0.01%	0.01%	0.01%	0.01%	0.01%	0.00%	5.14%	0.06%
A2	0.05%	0.03%	0.19%	0.93%	5.72%	77.54%	6.98%	2.33%	0.89%	0.33%	0.15%	0.12%	0.14%	0.05%	0.03%	0.01%	0.02%	0.02%	0.00%	0.00%	4.44%	0.04%
A3	0.04%	0.04%	0.08%	0.26%	1.32%	6.10%	76.86%	6.55%	2.33%	0.78%	0.30%	0.13%	0.11%	0.09%	0.04%	0.02%	0.02%	0.01%	0.00%	0.01%	4.86%	0.06%
Baa1	0.01%	0.02%	0.06%	0.09%	0.19%	1.31%	6.17%	77.64%	6.27%	1.97%	0.49%	0.25%	0.18%	0.21%	0.05%	0.02%	0.04%	0.02%	0.00%	0.02%	4.88%	0.09%
Baa2	0.03%	0.03%	0.01%	0.06%	0.14%	0.51%	1.64%	6.54%	77.21%	5.85%	1.15%	0.53%	0.38%	0.27%	0.16%	0.07%	0.08%	0.01%	0.01%	0.01%	5.13%	0.16%
Baa3	0.02%	0.01%	0.02%	0.03%	0.06%	0.14%	0.39%	1.62%	8.67%	74.16%	4.45%	1.86%	0.85%	0.68%	0.22%	0.22%	0.12%	0.06%	0.05%	0.04%	6.09%	0.26%
Ba1	0.01%	0.00%	0.01%	0.01%	0.14%	0.11%	0.20%	0.59%	2.20%	10.01%	65.87%	5.53%	3.81%	1.47%	0.55%	0.48%	0.14%	0.19%	0.04%	0.11%	8.03%	0.49%
Ba2	0.00%	0.00%	0.01%	0.02%	0.06%	0.10%	0.14%	0.31%	0.63%	3.52%	7.98%	65.12%	6.19%	3.63%	1.24%	0.81%	0.33%	0.21%	0.07%	0.12%	8.80%	0.71%
Ba3	0.00%	0.01%	0.01%	0.01%	0.05%	0.14%	0.15%	0.08%	0.38%	0.77%	2.77%	7.11%	64.91%	6.91%	3.01%	1.76%	0.69%	0.36%	0.08%	0.11%	9.41%	1.25%
B1	0.01%	0.01%	0.01%	0.01%	0.04%	0.02%	0.07%	0.08%	0.17%	0.34%	0.62%	2.68%	6.97%	63.74%	6.33%	4.36%	1.31%	0.73%	0.22%	0.24%	10.28%	1.76%
B2	0.00%	0.01%	0.00%	0.01%	0.01%	0.02%	0.08%	0.11%	0.12%	0.22%	0.19%	0.62%	2.03%	7.48%	62.51%	7.96%	3.54%	1.87%	0.42%	0.44%	9.61%	2.74%
B3	0.01%	0.00%	0.02%	0.00%	0.03%	0.03%	0.05%	0.03%	0.04%	0.08%	0.13%	0.23%	0.79%	2.47%	6.48%	60.65%	7.50%	3.35%	1.07%	0.77%	12.05%	4.23%
Caa1	0.00%	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.03%	0.05%	0.10%	0.20%	0.57%	1.25%	7.55%	59.33%	9.39%	2.82%	1.24%	13.68%	3.78%
Caa2	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.00%	0.00%	0.03%	0.05%	0.03%	0.02%	0.09%	0.25%	0.71%	1.75%	6.37%	60.43%	6.61%	2.81%	14.31%	6.49%
Caa3	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.02%	0.02%	0.09%	0.18%	0.89%	2.68%	9.92%	47.02%	9.22%	14.10%	15.82%
Ca_C	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.00%	0.06%	0.11%	0.10%	0.12%	0.07%	0.35%	1.42%	1.61%	3.30%	5.98%	38.16%	19.02%	29.67%

Source: Moody's

© 2026 National Association of Insurance Commissioners

Draft: 11/4/26

Annex 2vii. Credit Assumptions: Moody's Default Table

Commented [EB4]: To be updated as Lead State Guidance in early 2027

Exhibit 40

Average cumulative issuer-weighted global default rates by letter rating, 1983-2023

Rating\Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Aaa	0.00%	0.01%	0.01%	0.03%	0.06%	0.09%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Aa	0.02%	0.06%	0.11%	0.19%	0.29%	0.37%	0.46%	0.54%	0.61%	0.69%	0.77%	0.88%	0.98%	1.05%	1.12%	1.19%	1.27%	1.39%	1.56%	1.70%
A	0.05%	0.16%	0.33%	0.50%	0.71%	0.94%	1.18%	1.43%	1.67%	1.92%	2.16%	2.40%	2.64%	2.93%	3.27%	3.60%	3.91%	4.23%	4.50%	4.78%
Baa	0.17%	0.43%	0.74%	1.08%	1.43%	1.78%	2.12%	2.51%	2.91%	3.32%	3.74%	4.19%	4.69%	5.16%	5.60%	6.06%	6.55%	6.96%	7.31%	7.61%
Ba	0.89%	2.45%	4.27%	6.18%	7.96%	9.62%	11.14%	12.56%	13.95%	15.36%	16.66%	17.96%	19.14%	20.25%	21.48%	22.59%	23.56%	24.42%	25.27%	25.78%
B	3.13%	7.52%	12.09%	16.31%	20.16%	23.62%	26.68%	29.39%	31.86%	34.04%	36.01%	37.90%	39.76%	41.64%	43.25%	44.82%	46.20%	47.54%	48.78%	50.07%
Caa-C	8.95%	16.14%	22.43%	27.87%	32.64%	36.60%	39.88%	42.79%	45.49%	47.75%	49.70%	51.08%	52.14%	52.87%	53.78%	54.80%	55.41%	55.99%	56.66%	57.24%
IG	0.09%	0.24%	0.43%	0.65%	0.88%	1.12%	1.35%	1.60%	1.85%	2.10%	2.36%	2.62%	2.89%	3.17%	3.45%	3.74%	4.02%	4.29%	4.54%	4.77%
SG	4.16%	8.40%	12.46%	16.11%	19.33%	22.12%	24.52%	26.64%	28.58%	30.34%	31.92%	33.39%	34.77%	36.08%	37.36%	38.57%	39.61%	40.58%	41.50%	42.26%
All	1.69%	3.38%	4.93%	6.28%	7.44%	8.42%	9.24%	9.97%	10.63%	11.22%	11.77%	12.28%	12.77%	13.25%	13.71%	14.16%	14.57%	14.96%	15.31%	15.62%

Source: Moody's

Annex 2viii. Credit Assumptions: Moody's Recovery Rate Table

Commented [EB5]: To be updated as Lead State Guidance in early 2027

Exhibit 9

Average debt ultimate recovery rates, 1987-2023

	Emergence year			Default year		
Debt type	2023	2022	1987-2023	2023	2022	1987-2023
Revolvers*	75.6%	94.5%	86.5%	81.2%	82.7%	86.5%
Term loans**	54.6%	73.6%	71.1%	49.1%	67.6%	71.1%
Senior secured bonds	49.2%	81.5%	61.7%	39.0%	84.5%	61.7%
Senior unsecured bonds	19.3%	40.9%	46.9%	12.4%	46.6%	46.9%
Subordinated bonds	–	–	27.9%	–	–	27.9%

The Moody's Ultimate Recovery Database primarily covers default resolutions of US nonfinancial companies. The emergence year column refers to recovery rates of companies that resolved their defaults that year regardless of when they defaulted. The default year column refers to recovery rates of companies that both defaulted and resolved their defaults in that same year.

* Includes cash revolvers and borrowing base facilities.

** Includes all types of term loans: first-, second-lien and unsecured

Source: Moody's Ultimate Recovery Database

© 2026 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability Task Force and Macroprudential Working Group

FROM: NAIC committee support

DATE: November 15, 2026

RE: LST Report Summary

Overview:

The NAIC alongside regulators and with input from interested parties continue to enhance the U.S. Insurance Solvency Framework since the 2008 financial crisis. The Liquidity Stress Testing (LST) Framework development began in 2017 as part of the Macroprudential Initiative. While regulators have existing tools and processes for assessing liquidity risk at a legal entity level (i.e., 'inward' impacts to the insurer), there was recognition that the solvency regulator toolbox could be further enhanced with a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., 'outward' impacts) of a liquidity stress impacting a large number of life insurers simultaneously. The primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in the various stress scenarios. However, the LST results also provide regulators with additional insights for the microprudential supervision of individual insurers, which is a secondary benefit.

Note the Macroprudential Working Group has launched an initiative to review the LST Framework and Guidance manual. The project is estimated to be completed by the Fall National Meeting in 2027 to present the revised framework at that time.

The 2025 Liquidity Stress Test filings were submitted by 27 life insurance groups (insurers), which represents approximately 60% of the Life industry's cash and invested assets. Subsequent to receiving LST submissions, NAIC staff reviews the narratives, aggregates the quantitative results, and provides detailed analysis to regulators and this summary analysis.

Most insurers prepared the 2025 LST filings due June 30, 2026, utilizing year-end 2025 data and projected cash flows based on various stress scenarios for three different time horizons. The three required time horizons are one month, three months, and one year. The five scenarios are as follows: a Baseline scenario, an Adverse scenario, a "What If" modification to the Adverse scenario, an Interest Rate Spike scenario, and the insurer's own Worst-Case scenario. Insurers were not required to provide Worst-Case scenario data, but they were required to provide a narrative for the scenario. Economic metrics are prescribed by the regulators for the adverse scenario, and for the interest rate scenario insurers establish their own assumptions based on the

© 2026 National Association of Insurance Commissioners

regulators' stress scenario description. The insurers report their potential stressed cash flows for sources and uses of cash and the resulting potential asset sales needed to satisfy any cash flow deficiency. Asset sales are reported by asset type, which are aggregated by NAIC staff and compared to average daily trading volumes and issues outstanding. The potential impact of asset sales to the capital markets is the primary macroprudential objective of this exercise. The largest asset sales emanated from the investment grade corporate and U.S. Treasury and Agency categories. The impact of insurers' asset sales of these two asset classes were compared to market data for these two categories. The 2025 LST results show a nil effect of potential asset sales to the capital markets in the most severe scenarios. Please see Appendix for details.

Another key objective is the assessment of the Life industry's liquidity profile. Overall, insurers demonstrated their ability to manage any projected cash flow deficits. Most cash flow deficits projected in the various scenarios were reported as satisfied with cash on hand. In some cases, relatively small asset sales were projected, which are a very small percentage of the industry's overall liquid assets and a very small percentage of the market size for a specified asset class.

2025 LST RESULTS:

1. Baseline Scenario

Baseline scenario cash flows are the insurer-specific cash flows from normal expected operations. For this reason, a positive net cash flow is presumed in the baseline cash flows since companies are typically not projecting to be operating in a net cash flow deficiency.

2. Adverse Scenario

The Adverse Scenario is one of the two regulatory required liquidity stress scenarios. The Adverse liquidity stress scenario contains a regulator provided narrative and regulator-prescribed assumptions, and company-specific liability assumptions.

In the Adverse Scenario, aggregate results showed no cash flow deficit across the 1, 3, and 12-month horizons, although some companies experienced individual shortfalls and projected asset sales. Some companies also reported asset sales despite having no remaining deficit after applying available cash, indicating continued inconsistencies with the reporting instruction to limit sales to those needed to address a deficit.

3. Adverse What-If Scenario

The "What-If" modification to the adverse stress scenarios removes the ability for insurers to use extraordinary internal and external funding sources such as Bank and FHLB lines of credit to satisfy any liquidity deficiency under stress.

Compared to the Adverse Scenario, companies experienced higher cash flow deficits. The total assets sold increased from 2024 while there was a slight increase in the deficit prior to asset sales. Aggregate results show a deficit in the one month and the three-month horizon, however most companies had sufficient cash on hand to apply to the deficit, therefore less asset sales were required.

© 2026 National Association of Insurance Commissioners

4. Interest Rate Spike

The Interest Rate Spike is the second of the two regulatory required liquidity stress scenarios. The interest rate spike scenario allows insurers to use the economic variables they use for their own internal liquidity stress testing function, (including the amount of interest rate spike).

The Interest Rate Spike scenario saw less asset sales as compared to 2024. Although there were deficits for the 1 month time horizon, there was enough cash to satisfy the deficit. For the 3 month and 12 month horizons, there was a decrease in total assets sold from the previous year. Most assumptions remained the same, with insurers reporting a range of 200-400 bps increase in rates with 300 bps being the most common over the one-year horizon.

5. Worst-Case Scenario

A detailed reporting template was not required for this scenario. However, insurers were still required to communicate these results in their written narrative submission.

This scenario requires insurers to provide a detailed narrative of their most severe liquidity stress test scenario. The scenario should be focused on the insurers internal model scenario with the worst-case outcome for the group. Some insurers reported their worst-case scenario is an interest rate spike and therefore their own worst case and interest rate spike scenario was the same.

There were insurers that adopted the 2008-2009 financial crisis as a means of a worst-case scenario assumption. Those who adopted this assumption did not need to sell assets or sold very little to meet their deficit.

Conclusion:

Overall, most insurers' assumptions for all scenarios remained the same as or similar to the prior year's submissions.

Overall, results across all scenarios indicate that aggregate liquidity resources were sufficient to meet projected cash flow needs, although the extent and timing of liquidity pressures varied among insurers. The total potential assets sold remained relatively consistent this year compared to last year for the Baseline, Adverse, the Adverse What-if scenarios and Interest Rate Spike scenario. Most potential asset sales are comprised of Treasury and Agency Bonds and Investment Grade Public Corporate Bonds, which is also consistent with last year's report.

The 2025 LST filings continue to show the amount of potential assets sold would not be significant given historical average daily trading volumes by asset type.

© 2026 National Association of Insurance Commissioners

Appendix:

A. Total Asset Sales for Interest Rate Spike (in millions)

	1 Month	3 Month	12 Month
Interest Spike Rate	18,717	25,266	37,392

B. Asset sales as a Percentage of Average Daily Trading Volumes (ADTV) and Issues Outstanding for IG Public Corporate Bonds and US Treasury Bonds in the Interest Rated Spike Scenario over the 1-month horizon.

	ADTV	Issues Outstanding
IG Public Corporate Bonds	2.6%	0.12%
US Treasury Bonds	0.6%	0.01%

C. Percentage of Industry Assets Sold (in millions) Interest Rate Spike Scenario

	Total Assets Sold applied to deficit	Life Invested Assets	Assets Sold as a Percentage of Life Industry Invested Assets
1 Month	18,717	5,880,692	0.32%
12 Month	37,392	5,880,692	0.64%

© 2026 National Association of Insurance Commissioners

Valuation Analysis Working Group (VAWG) update

Fred Andersen, Minnesota

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2026 National Association of Insurance Commissioners

Actuarial Guideline 53 and Level 3 Assets

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
© 2026 National Association of Insurance Commissioners

Level 3 assets - overview

- Fair value is measured using unobservable inputs
- AG 53 and actuarial cash flow testing:
  - Assets are projected to be sold in some scenarios to cover liability cash flows
- What is the accuracy of current year-end and projected asset valuations?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
© 2026 National Association of Insurance Commissioners

Issues to pursue better understanding

- Value of a level 3 asset in a stress scenario
- What that stress scenario looks like
- Cash flow testing and reserve impact considerations
- Modeling of asset features that could impact cash flows

© 2026 National Association of Insurance Commissioners

Issues to pursue better understanding

- Modeling of early indicators of future asset underperformance
- Reporting accuracy: level 3 and less than fully “liquid” assets
- Importance of initial valuation
- Bermuda standards – any lessons for projections?

© 2026 National Association of Insurance Commissioners

Coordinated reviews

- Actuaries, investment experts, financial regulation leaders
- Inquiries of life insurers with high level 3 exposure
- Planned meetings with life insurers
  - Identify range of practices
  - Address areas where improved practices are needed
- Engagement with commissioners / NAIC leadership

© 2026 National Association of Insurance Commissioners

Actuarial Guideline 55 reviews

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
© 2026 National Association of Insurance Commissioners

AG 55 Background

- Adopted last year, first filings this year
- After certain asset-intensive reinsurance:
  - Is the new reserve held adequate to cover moderately adverse conditions?
  - Is there capital held to cover beyond moderately adverse conditions?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
© 2026 National Association of Insurance Commissioners

AG 55 Findings

- Range of reasons for captive & offshore reinsurance
  - Reserve reduction
  - Capital efficiency
  - Other reasons
- In some cases, working through issues re: optimistic assumptions underlying reserve and capital reduction

© 2026 National Association of Insurance Commissioners

U.S. Insurance Industry Private Credit Overview

NAIC Team
Michele Wong
Jennifer Vento
Tim Nauheimer

FSTF, November 15, 2026; Attachment Eight

© 2026 National Association of Insurance Commissioners

Private Credit by the Numbers: How Much Do U.S. Insurers Hold?

$1.21 trillion
Total insurer holdings under a broad definition of private credit, approximately 13% of cash and invested assets.

=

$544 billion
Holdings in privately rated bonds, business development companies, and private credit funds.

+

$666 billion
Holdings in private placement bonds, bank loans, and middle-market CLOs.

© 2026 National Association of Insurance Commissioners

Private Credit Analysis, Special Report

NAIC Capital Markets Bureau, Private Credit Analysis, Special Report
Public report:
https://content.naic.org/sites/default/files/capital-markets-special-reports-private-credit-analysis.pdf

THE NAIC HAS IDENTIFIED FIVE CATEGORIES IN WHICH U.S. INSURERS' EXPOSURES FIT THE GENERAL DESCRIPTION OF PRIVATE CREDIT.
THEY ARE:

- Private placement bonds
- Bonds with private letter ratings
- Bank loans and direct lending
- Middle-market collateralized loan obligations (MM CLOs)
- Business development companies (BDCs) and private credit funds

© 2026 National Association of Insurance Commissioners

Private Credit Analysis, Special Report

NAIC Capital Markets Bureau, Private Credit Analysis, Special Report

Table 1:

U.S. INSURERS' PRIVATE CREDIT EXPOSURES – YEAR-END 2025 (BACV$ IN BILLIONS)

Asset Category		Total
Private Placements[1]	$	580
Privately Rated Bonds		512
Bank Loans		44
Middle Market CLOs		42
BDCs/Private Credit Funds		32
Total	**$**	**1,210**
% of Cash & Invested Assets		13%
% of Bonds[2]		21%

[1] *Does not include private placements with private letter ratings.*

[2] *Includes private placements, privately rated securities, bank loans and middle-market CLOs.*

Note: Numbers included in the table are best estimates based on insurers' current reporting requirements and data availability.

© 2026 National Association of Insurance Commissioners

Private Credit Analysis, Special Report

Performance Trends

- Payment in kind (PIK)
- Non-accruals
- Defaults
- Annualized Return

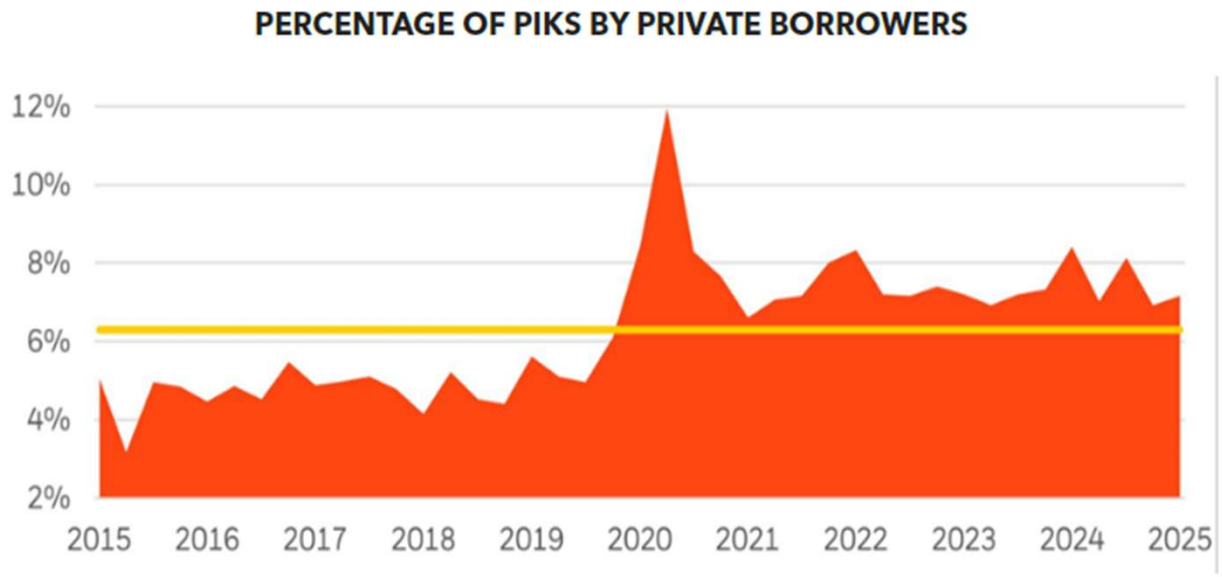
© 2026 National Association of Insurance Commissioners

Private Credit Analysis, Special Report

Payment in kind (PIK)

PIK update
2Q 2026 - 6.92% Stable

Chart 3:



Source: Cliffwater Direct Lending Index, Nov. 1, 2025

© 2026 National Association of Insurance Commissioners

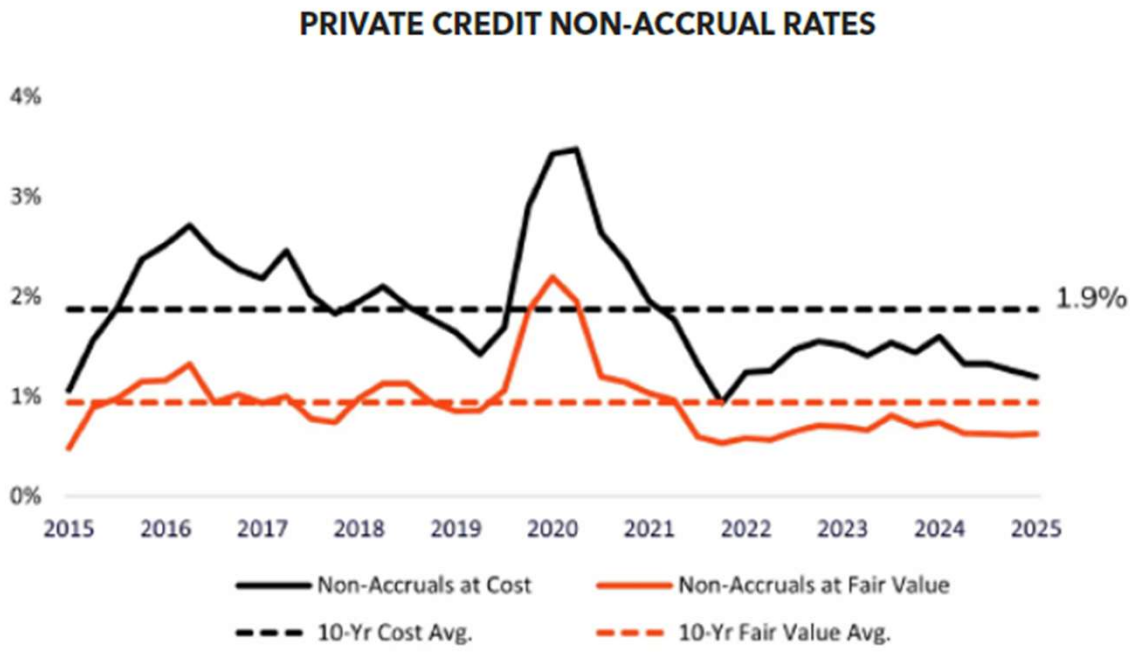
Private Credit Analysis, Special Report

Non-accruals

Non-accrual Update
1Q 2026 – 2% Increase
2Q 2026 – 1.8% Decrease

BDC Aggregate

Chart 4:



Source: Blackrock

© 2026 National Association of Insurance Commissioners

Private Credit Analysis, Special Report

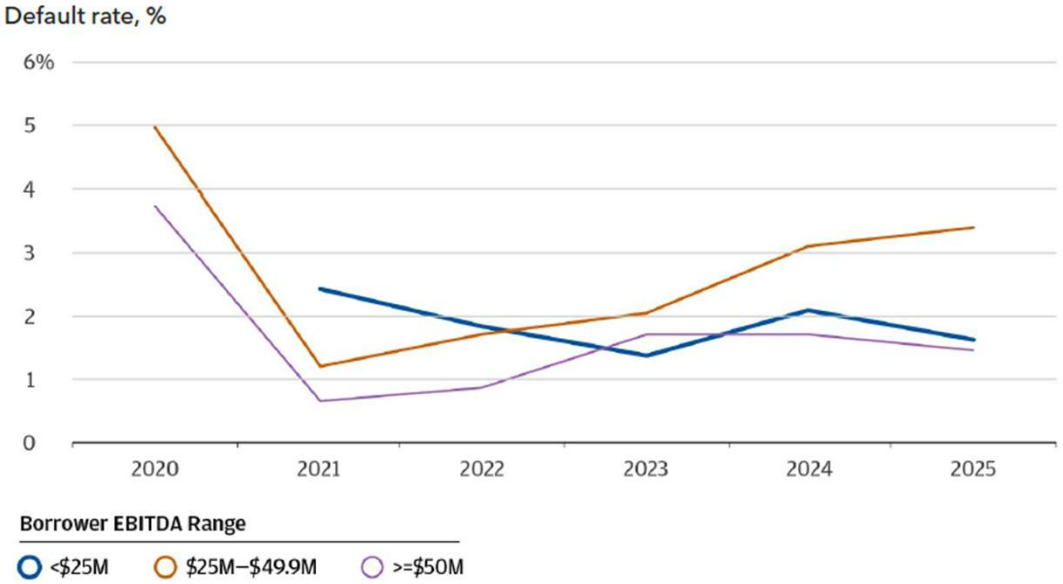
Defaults

Default Update

2Q 2026
<25 – 1.9% Stable
25-49.9 – 3.4% Stable
>50 – 2.4% Increased

Chart 5:

PRIVATE CREDIT DEFAULTS TICK UP IN MEDIUM SIZE BUSINESSES



Sources: Proskauer, JPM Global Alternative Investment Solutions. Data as of February 2026. Default rate represents average quarterly default rate.

© 2026 National Association of Insurance Commissioners

The following document is a late addition to agenda item #5

NAIC

FINANCIAL STABILITY(E) TASK FORCE

Macroprudential Risk Dashboard Summary Report

U.S. INSURANCE INDUSTRY

As of December 31, 2025

Published: November 2026

Table of Contents

Macroprudential Risk Dashboard Summary 3

Executive Summary 5

Recommendations 8

Macroprudential Assessment 10

Macroeconomic Risk: Summary 12

Interconnectedness Risk: Summary 20

Underwriting and Profitability Risk: Summary 25

Market Risk: Summary 36

Credit Risk: Summary 41

Liquidity Risk: Summary 47

Capital Adequacy Risk: Summary 52

Emerging/Other Risk 58

Appendix A: Risk Assessment Scale 60

Appendix B: Insurance Industry by the Numbers 61

Macroprudential Risk Dashboard Summary

Risk Category	Trend	Summary of Assessment
MACROECONOMIC		The U.S. economy is strong based on traditional indicators. This is tempered by rating agency downgrades of the U.S. sovereign credit rating and USD/FX volatility.
INTERCONNECTEDNESS		Funding agreement-backed note (FABN) issuance and life cross-border reinsurance activity continue their upward trend, while most other transmission channels of interconnectedness remain stable.
CAPITAL ADEQUACY		Life and property/casualty (P/C) sectors remain well-capitalized with stable outlooks. However, the health sector has experienced some capital deterioration and has a negative outlook from credit rating agencies.
UNDERWRITING & PROFITABILITY		Life and P/C sectors are profitable. However, health experienced a significant decrease in net income and profit margin. Natural catastrophe and long-term care (LTC) risks were also key risk drivers.
CREDIT		Private credit, structured securities, and offshore life reinsurance exposure are the drivers of the moderate-high assessment.
MARKET		Common equity holdings increased, while private equity and other indicators remain stable. Level 3 assets are significant but remain stable.
LIQUIDITY		P/C and life liquidity ratios, as well as cash flows, improved. Cash, short-term investments, and U.S. government allocations remain increased. Health cash flow and liquid assets have modestly declined.
EMERGING/OTHER		Heightened monitoring of private credit, cross-border reinsurance, AI, and cyber continues and may overlap with other risk categories.

Macroprudential Risk Dashboard Summary

Risk Assessment Scale/Legend

Low	Moderate – Low	Moderate – High	High

Trend Scale (Trend of the risk)



Significant Increase	Increase	Stable	Decrease	Significant Decrease

Executive Summary

Overall, the U.S. insurance industry continues its well-established pattern of adapting to a dynamic risk landscape and playing a key role in the financial sector by helping policyholders manage risk.

Aggregate capital levels continue to increase overall, providing a significant buffer above regulatory capital requirements to absorb risk. Liquidity risk is deemed low, as overall industry allocation to cash, short-term investments, and U.S. government securities is at its highest level in the last five years.

REGULATOR USE

This report was derived from a detailed, regulator-only comprehensive risk dashboard. Each of the eight risk categories summarized in this report contains a set of key risk indicators that provide the basis for the assessment. Key risk indicators that have significantly changed or are key drivers of the risk assessment are highlighted in this report. State regulators may wish to review these industry-wide risk drivers to determine whether the same or similar risks are impacting their individual regulated entities. The risks identified in this report may assist with the risk assessment components of financial analysis and completion of risk matrices during examinations.

Key Highlights:

Health Sector

Several risk indicators across the underwriting, capital adequacy, and liquidity risk categories indicate heightened risk in the health sector. Specifically, capital has deteriorated, loss and combined ratios are elevated, cash flow has decreased, and some rating agencies have a negative outlook on the sector.

Private Credit

Private credit funds have experienced substantial growth in recent years, with assets under management (AUM) now comparable in size to the U.S. high-yield corporate bond and leveraged loan markets, which has led to some increase in insurance company holdings in this area. The size of the exposure and the increased growth in the insurance sector led us to identify private credit as a heightened risk. Limited available information on borrower fundamentals and a lack of secondary market trading can make timely valuations challenging and reduce transparency into the sector. These factors also make quantifying exposure for the insurance industry a challenge.

Level 3 Assets

Level 3 asset exposure continues to grow modestly, currently at 17% of cash and invested assets, which is significant. Level 3 concentration may contribute to valuation and liquidity risk. Note that many private credit investments are also considered Level 3 assets. This is a new risk indicator in the market risk category, and the exposure will continue to be monitored. The Invested Assets (E) Task Force will analyze, research, and discuss the exposure in more detail throughout 2026.

Natural Catastrophe Risk

The overall exposure of the U.S. insurance industry to natural catastrophe risk, primarily affecting property insurers, remains a concern. Meteorological factors, insured losses, rate increases, and residual market activity drive the elevated level of concern.

Key Highlights: (continued)

Macroeconomic Trends

The more significant macroeconomic trends that state insurance regulators closely monitor are inflation and interest rates. Recent higher inflation poses a risk to various property insurance coverages, as rising costs of materials and labor could affect underwriting results.

Significant Shifts in Life Sector

There has been a noted trend of changing strategies and ownership structures to improve the performance and profitability of life insurance operations. Some of these trends have been in response to the previous prolonged low-interest rate environment and other market conditions. In many cases, these trends have been associated with new entrants attempting to utilize their experience in other areas of asset management to enhance returns. Other monitored trends include increases in complex investment structures, pension risk transfer activity, asset-intensive reinsurance, affiliated asset managers, and cross-border reinsurance structures, which are key factors driving the assessment.

Increased issuance of funding agreements backing funding agreement-backed notes (FABNs) and Federal Home Loan Bank (FHLB) advances, along with securities lending and repurchase agreement activity, has significantly increased the life industry's operating leverage to enhance returns. This risk is tempered by asset-liability management practices and the predictability of these types of liabilities.

Recommendations

State regulators and NAIC committee support have raised the following recommendations for further consideration either by the Financial Stability (E) Task Force or the Macroprudential (E) Working Group.

Interconnectedness

Several of the key issues and topics highlighted in this document have the potential to increase or obscure the level of financial interconnectedness between U.S. insurers and other financial institutions and other jurisdictions.

This includes increased complexity in investment practices, greater use of asset-intensive offshore reinsurance, and increased use of off-balance-sheet special purpose vehicles (SPVs), all of which can lead to less transparent forms of interconnectivity among insurers and other financial institutions.

Therefore, we recommend the Task Force, in collaboration with other Financial Condition (E) Committee groups, continue to discuss ways to improve the identification and assessment of industry and group interconnectedness.

Life Reinsurance Counterparty Risk

This report highlights an increase in cross-border life reinsurance, which exposes U.S. insurers to additional credit risk and, if the ceded business does not perform as expected, to recapture risk. While some regulatory enhancements are already underway (*e.g., Actuarial Guideline LV—Application of The Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* [AG 55], enhanced disclosures, and enhanced monitoring), the significance of this trend could warrant additional policy considerations, including capital and reserve considerations.

Private Credit

Quantifying insurers' private credit exposure is limited by challenges in identifying and understanding all private credit investments. While several initiatives regarding additional disclosures and identifiers in the annual statement have been implemented or will be implemented in 2026 to assist in identifying private credit investments, there might still be room for additional enhancement in this area. As such, we recommend that enhanced disclosure requirements aimed at improving regulator identification and understanding of private credit exposures continue to be pursued and implemented.

Operating leverage

Federal Home Loan Bank (FHLB) and funding agreement-backed note (FABN) activity represents significant operating leverage in nontraditional insurance products for the industry and may also have interconnectedness and liquidity risk associated with the activity. Given the continued growth in this activity, state insurance regulators have implemented enhanced disclosures planned for the 2026 Annual Statement in this area via the Financial Stability (E) Task Force, the Macroprudential (E) Working Group, the Statutory Accounting Principles (E) Working Group, and the Blanks (E) Working Group. The new disclosures will enable regulators to more accurately quantify the funding agreements that back FABNs and measure the extent of operating leverage. As such, we recommend that the implementation of the new disclosures, including the accuracy and utility of the information received, continue to be monitored and closely reviewed by regulators.

Macroprudential Assessment

Macroprudential policies and practices are intended to provide regulatory oversight to the overall financial system. The financial crisis of 2008 demonstrated that insufficient capital, liquidity, and transparency can lead to substantial consequences in the financial sector during times of stress. In response to the financial crisis, state insurance regulators have increased their focus on the stability of the insurance industry within the overall financial system.

The primary aim of our domestic macroprudential policy is to identify potential financial stability threats to and from the U.S. insurance industry (inward and outward risks). The U.S. Insurance Industry Macroprudential Risk Assessment shall serve as our primary tool for identifying, measuring, and monitoring risks to the insurance industry.

Financial Stability Oversight Council (FSOC)

The state insurance commissioner member of the U.S. Financial Stability Oversight Council (FSOC) has traditionally been the chair or a member of the Financial Stability (E) Task Force. The state insurance commissioner member of FSOC provides regular updates to the Task Force on financial stability and macroprudential topics that may impact the U.S. insurance industry. Additionally, several NAIC staff are members of FSOC committees and working groups in support of the state insurance commissioner FSOC member.

This structure provides a formal mechanism for state insurance regulators to incorporate U.S. financial stability risks into their state-based insurance regulatory system and its macroprudential supervision of the insurance industry. Additionally, the structure provides a mechanism for state-based insurance regulation to communicate potential financial stability risk within the insurance industry to other federal FSOC member regulatory agencies. This process may also be referred to as an inward and outward view of risks to and from the insurance industry.

International Association of Insurance Supervisors (IAIS) and Other International Bodies

The NAIC and a few of its members are members of the International Association of Insurance Supervisors (IAIS) and its macroprudential monitoring process. The NAIC and a few state regulators are members of various IAIS committees and working groups, through which they contribute to and benefit from global financial stability and macroprudential risk monitoring processes. The IAIS Global Monitoring Exercise (GME)[1], is the formal process the IAIS has in place to monitor global insurance risks. A couple of key IAIS risk-monitoring deliverables include the Global Insurance Market Report (GIMAR) and a global risk dashboard.

The NAIC and state regulator members of the IAIS are also the support personnel and members of the NAIC Financial Stability (E) Task Force and the Macroprudential (E) Working Group. This structure is the formal mechanism for exchanging information on potential financial stability risks between the global and U.S. insurance industries. This U.S. Macroprudential Risk Dashboard Report may include global risks if they are also deemed risks in the U.S.

In addition, the IAIS provides the Financial Stability Board (FSB) outcomes of the annual GME and the insurance sector perspective on the FSB cross-sectoral analysis of financial stability.

1 *For more information on the IAIS GME, as an integral element of the IAIS Holistic Framework, please visit* **iais.org**.

Macroeconomic Risk: Summary

The U.S. economy is generally robust, with above-trend growth in 2024 and 2025. However, global trade tensions, financial market volatility, inflation, and geopolitical tensions persist.

Economic growth accelerated in 2025, pushing it further above trend. The unemployment rate slightly increased through 2025, but from a historical perspective, it remains relatively low. Total employment increased 2.8% in 2025 but has since leveled off. The labor force participation rate has remained steady over the past three years, meaning that millions of able-bodied men and women are neither working nor seeking work, limiting economic growth. However, the long-term decline in the labor force participation rate in recent years reflects a secular trend rather than a cyclical trend. Internationally, the highly valued dollar has continued to stifle exports but has put downward pressure on inflation.

ASSESSMENT LEVEL:

Moderate–Low

TREND:

Increasing ↗

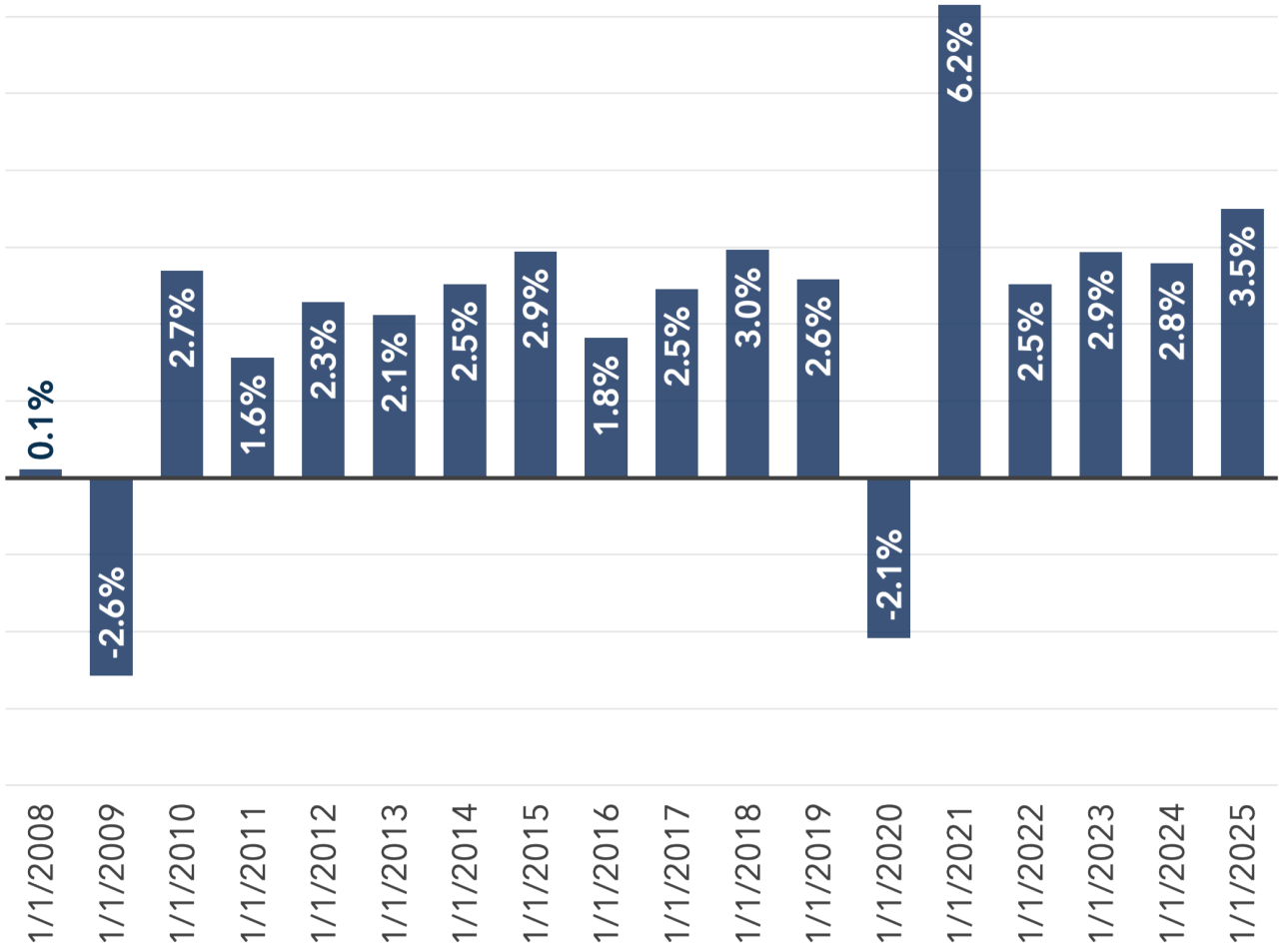
MACROECONOMIC: OVERARCHING OBSERVATIONS

The macroeconomic environment is foundational to the health and stability of the financial sector. Historically, the performance of financial markets has been closely tied to macroeconomic performance. The returns in the equity market, as measured by the S&P 500 Index, have been at historically high levels over the last three years.

The broadest measure of economic output is gross domestic product (GDP), the sum total value of annual output. Adjusted for inflation (real GDP), economic output experienced growth in 2025, well above the historical average over the past few decades.

FIGURE 1.

Annual Percentage Change in Inflation-Adjusted Gross Domestic Product (GDP)



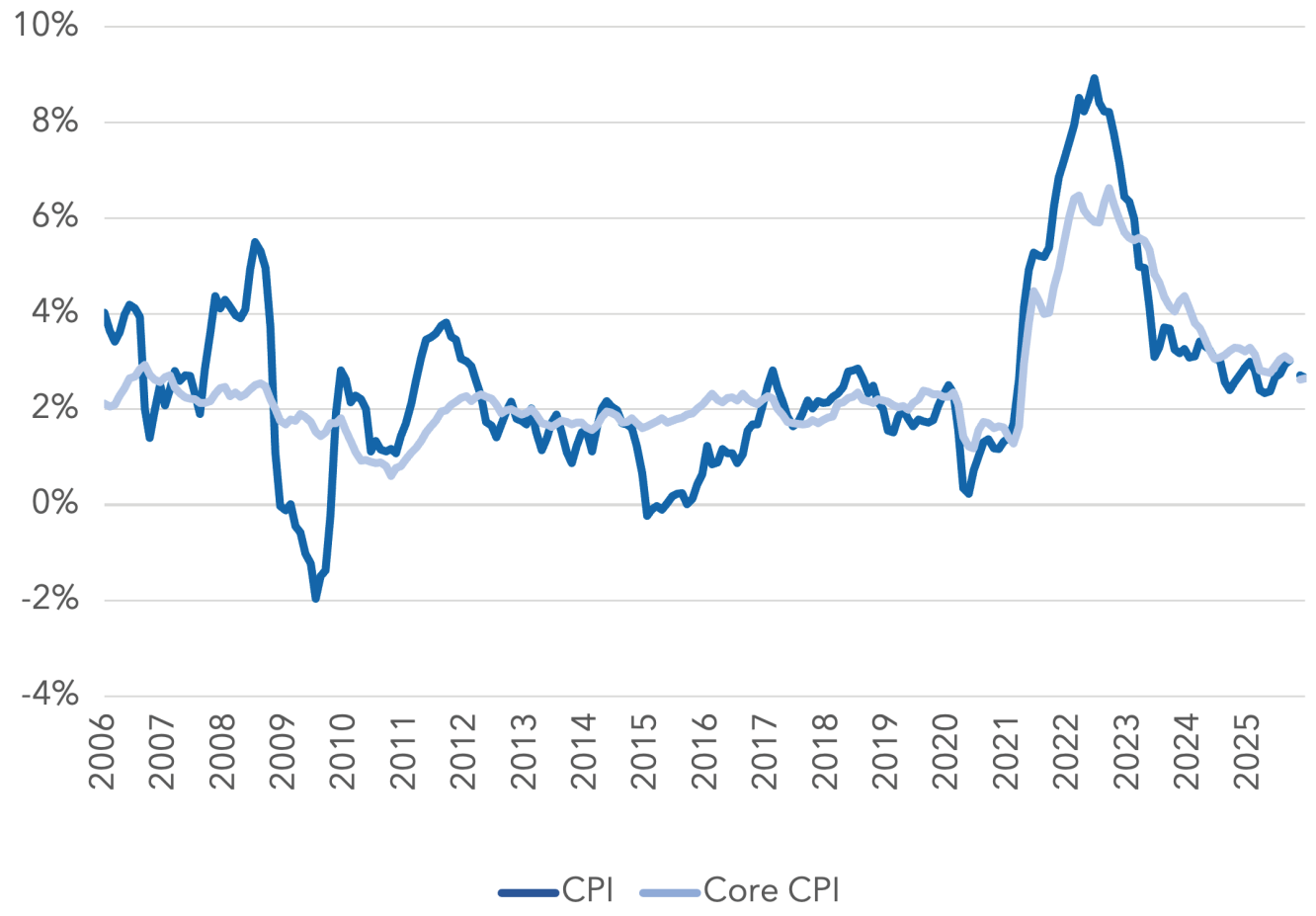
Source: *U.S. Bureau of Labor Statistics*

MACROECONOMIC: GENERAL ECONOMIC TRENDS

Inflation spiked in 2021 following many years of historically low levels. In its April 2021 policy statement, the Federal Reserve cited "transitory factors," ostensibly supply chain disruptions and other pandemic-related causes. Unchecked, inflation erodes the real return on fixed income assets, which make up the largest share of insurance industry assets. Inflation in earnings can be a harbinger of future consumer prices and is also elevated. Inflation remains meaningfully higher than pre-2021 levels. In its January 2026 policy statement, the Federal Reserve stated that the inflation rate "remains somewhat elevated."

FIGURE 2.

Inflation Rate (Annualized)
[Consumer Price Index (CPI)]



Source: *U.S. Bureau of Labor Statistics*
Note*: Core CPI excludes volatile food and energy components*

MACROECONOMIC: ASSET PRICES, INTEREST RATES, AND HOME PRICES

Many economists feel financial asset prices are highly overvalued. The price-earnings ratio (P/E) for the S&P 500 has been as high as 35 in the last three years. The historical average (since 2000) is 26.8, while the long-term historical average is 15–16. A value around 15–18 is generally considered neutral. Moreover, both the stock market, as measured by the S&P 500 Index, and the bond market, as measured by a price index for AA-rated corporate bonds, are more than double their values from 10 years ago (150% for bonds). Bond prices, which are inversely proportional to interest rates, have climbed consistently over the last two decades. Home prices rose modestly in 2025 following a relatively brisk 4.0% increase in 2024.

FIGURE 3.

Interest Rate Trends



Notes: *10-Year Treasury is the Constant Maturity Rate*
AA Corporate is the ICE Bank of America AA Corporate Effective Yield

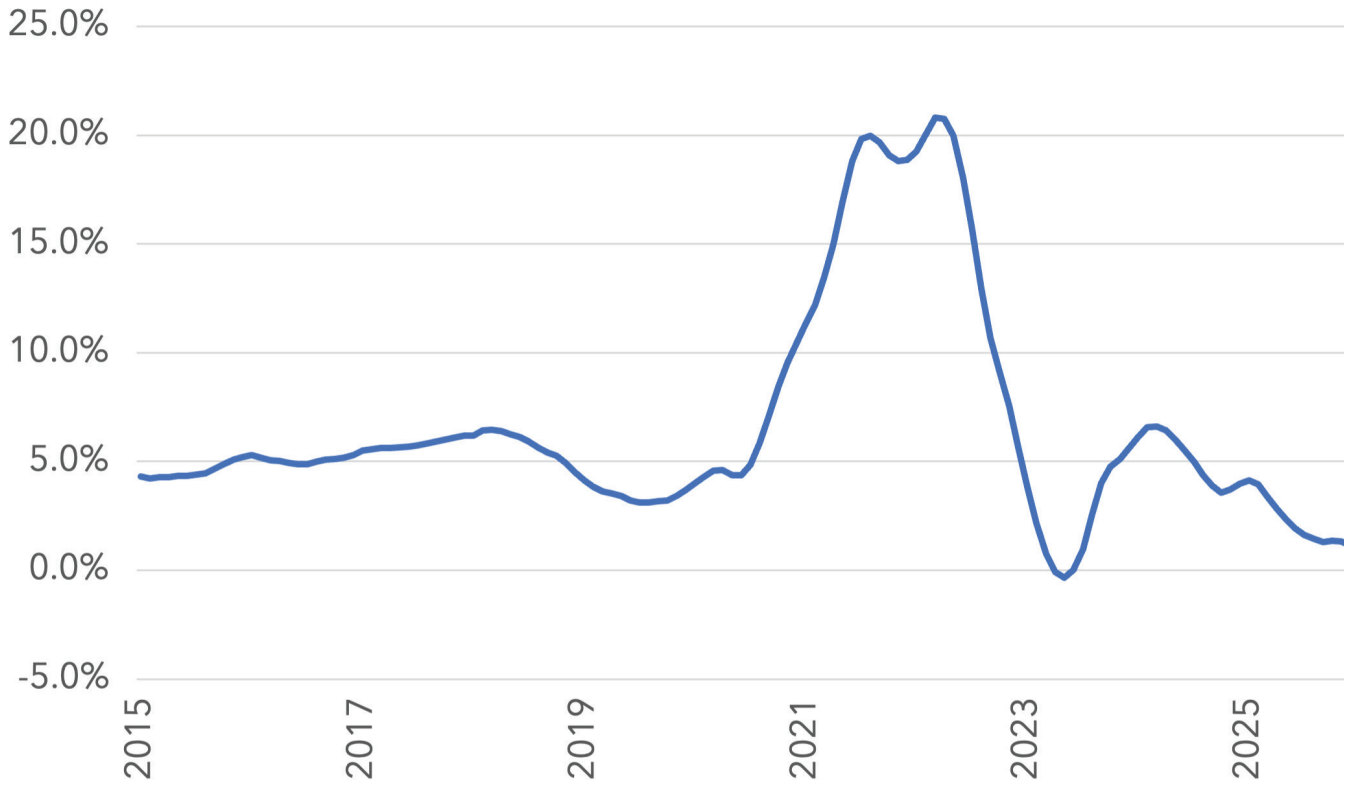
MACROECONOMIC: ASSET PRICES, INTEREST RATES, AND HOME PRICES

(continued)

FIGURE 4.

Percentage Change in S&P/Case-Shiller HPI

(Year Over-Year, Seasonally Adjusted)



Source: *S&P/Case-Shiller U.S. National Home Price Index*

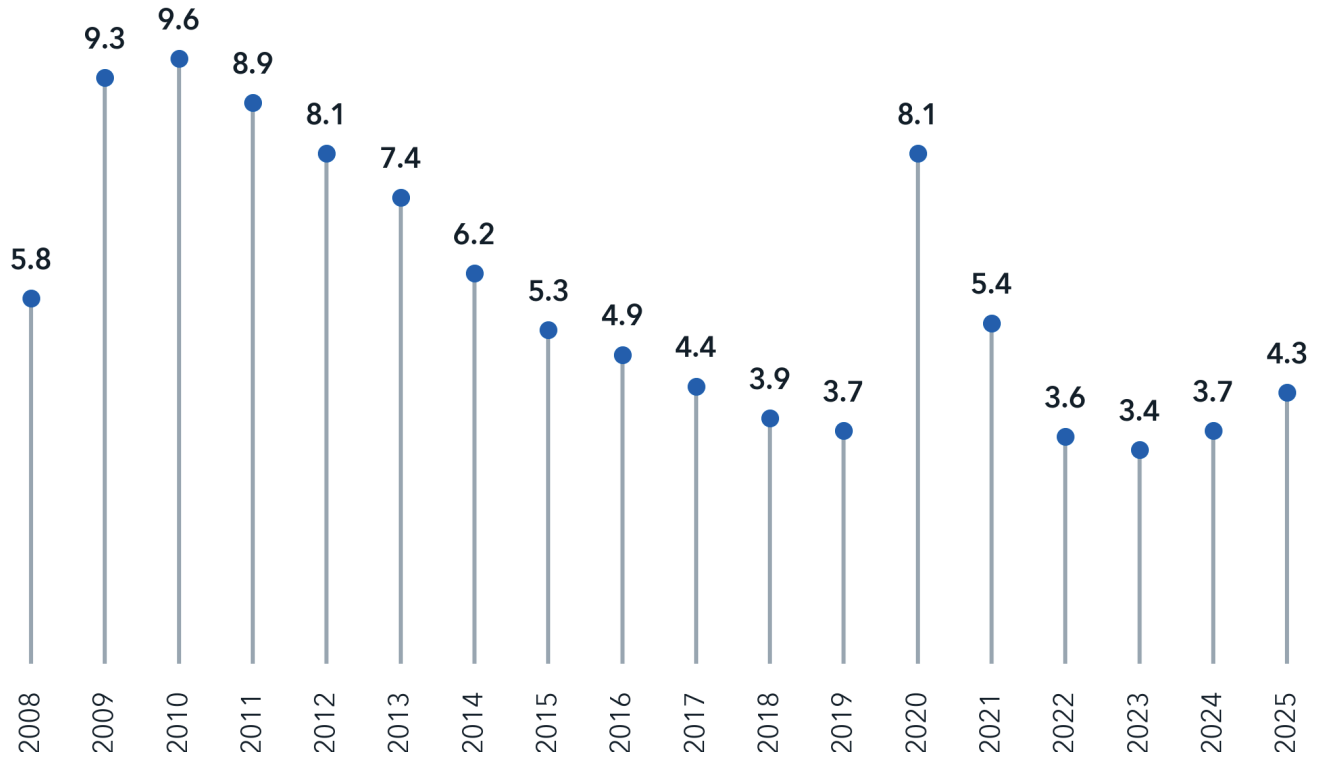
MACROECONOMIC: LABOR, TARIFFS, AND THE U.S. DOLLAR

Unemployment

One of the primary reasons the unemployment rate is used as a risk indicator is that workers' compensation insurance is tied to payrolls and unemployment levels. High unemployment and lower payrolls could reduce workers' compensation premium industry-wide.

FIGURE 5.

The U.S. National Annual Unemployment Rate



Source: *U.S. Bureau of Labor Statistics*

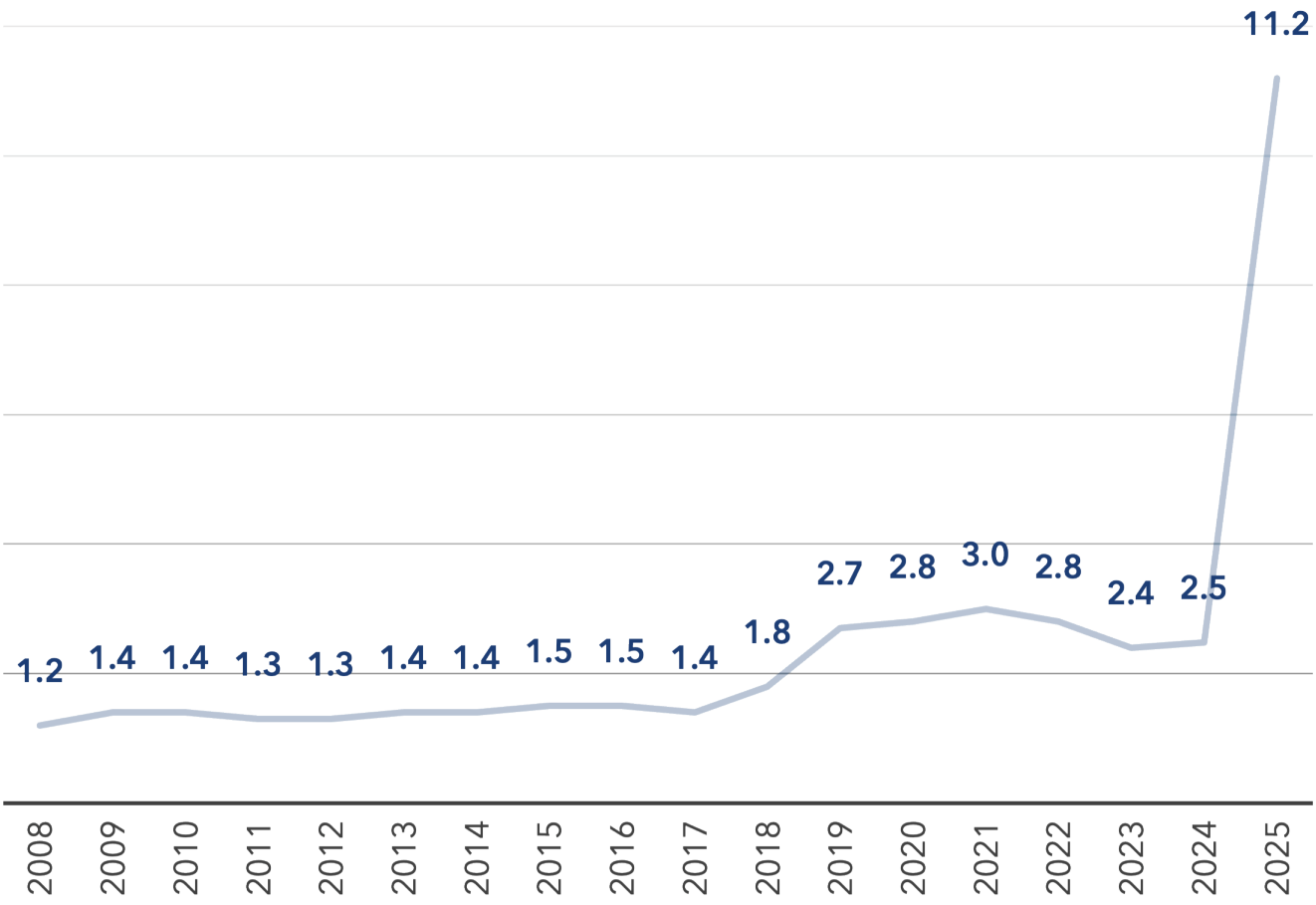
MACROECONOMIC: LABOR, TARIFFS, AND THE U.S. DOLLAR *(continued)*

Tariffs

Tariffs could have a significant impact on insurers, including increased costs of auto parts or building supplies that were not priced into policies at their inception. Significant increases in tariff rates and volatility in tariff policy were evident in 2025 but appear to have tempered in 2026.

FIGURE 6.

Average Tariff Rate on all Imports



MACROECONOMIC: LABOR, TARIFFS, AND THE U.S. DOLLAR *(continued)*

The US Dollar and Foreign Currency Exchange Rates

The value of the U.S. dollar declined by about 4.5% in 2025, the fourth-largest decline since 2006, using the FRED Nominal Broad U.S. Dollar Index. U.S. imports of foreign goods and services become relatively more expensive in the U.S. when the U.S. dollar depreciates. This results in less price competition or pressure to lower prices, leading to increased inflation for goods purchased in the U.S., including some property/casualty (P/C) claim costs for auto parts as an example. Insurers could incur higher expenses and pass them along to consumers through increased premiums when the U.S. dollar declines.

FIGURE 7.

Nominal Broad U.S. Dollar Index



Source: *Board of Governors of the Federal Reserve System (US) via FRED®*
Shaded areas indicate U.S. recessions.

Interconnectedness Risk: Summary

The rising levels of interconnection between the U.S. insurance industry and other financial sectors across the globe (e.g., banking, capital markets) drove the moderate-low assessment.

Additionally, increasing levels of cross-border reinsurance activity by private equity-owned insurers and investment management of insurers' investments by affiliated asset managers pose another point of interconnectedness.

ASSESSMENT LEVEL: **Moderate-Low**

TREND: **Increasing ↗**

When evaluating interconnectedness, state insurance regulators are mindful that risk can accumulate across activities and thus typically focus on significant counterparty exposure.

Highlights include:

Financial Institution Exposure

Investments in financial institutions, although significant, have been decreasing slightly. Insurer investments in financial institutions (e.g., banks, nonaffiliated insurers) across the stock and bond classes remained relatively stable from 2021 to 2025. As a percentage of cash and invested assets, insurer investments in financial institutions totaled 5.4% in 2025.

Derivatives are generally viewed as a risk-mitigation tool, as evidenced by 96% of derivative activity being held for hedging purposes. The connection to bank counterparties is the primary risk for this category. This is mitigated using well-capitalized banks that are highly rated by rating agencies.

Derivative Exposure

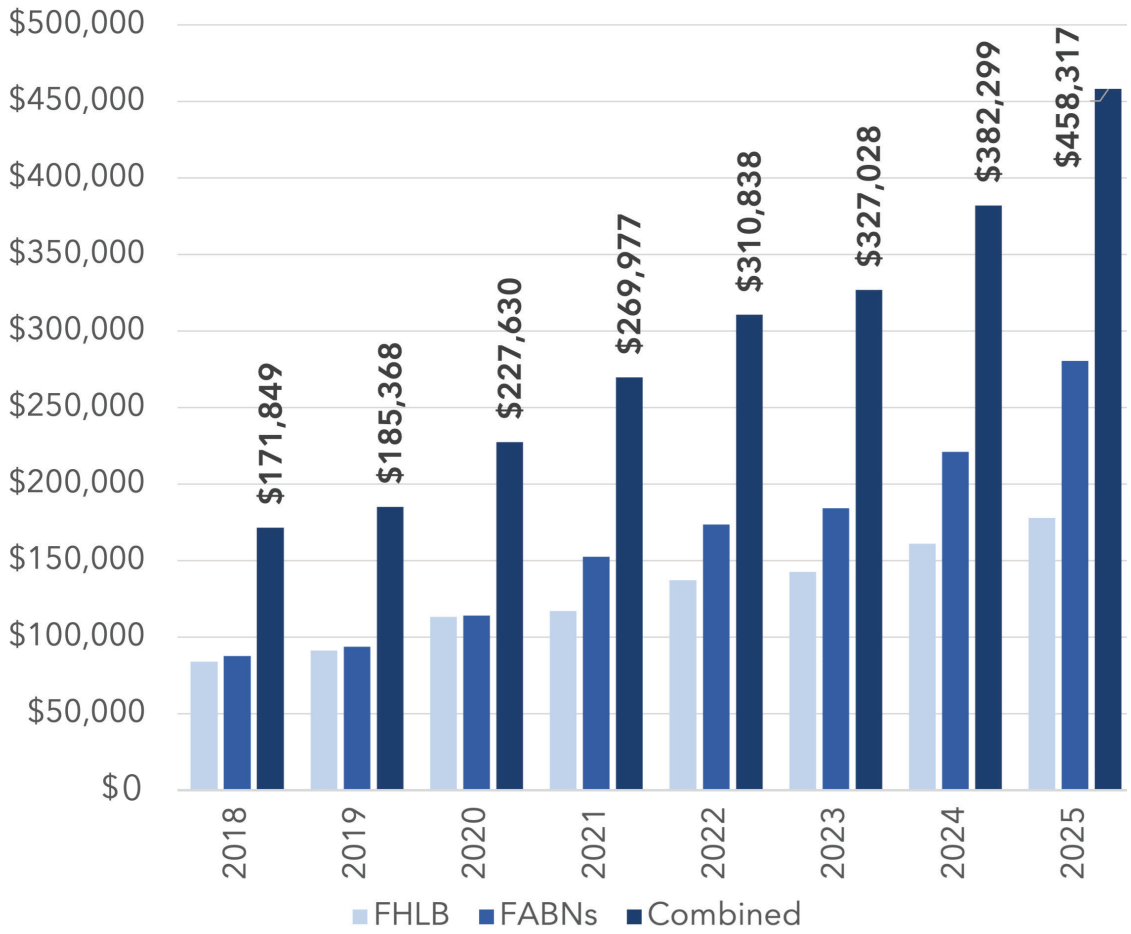
Ninety-six percent of derivatives are held for hedging purposes, which is consistent with prior year use of derivatives. Additional risks of derivatives are noted in the Market Risk section below. Hedges are mostly interest rate hedges, and the majority of market risk is the margin calls that may result if interest rates move against the insurer's position.

FHLB/FABN Exposure

Another connection or transmission channel to the banking system and capital markets is Federal Home Loan Bank (FHLB) loans and funding agreement-backed notes (FABNs). The issuance of funding agreements backing FABNs by the life industry has a clear connection to the fixed-income capital markets. That connection has strengthened as both FHLB and FABNs grew at a significant pace over the past few years. This exposure also represents significant operating leverage in nontraditional insurance products for the industry, which may also have liquidity implications. At year-end 2025, FABN exposure is approximately 5% of the invested assets of the life industry. The key risks associated with FABN programs are leverage, credit risk, and rollover/liquidity risk. These risks are typically mitigated by asset-liability management programs, predictability of these liabilities, and the absence of put features in FABNs.

FIGURE 8.

FABNs and FHLB Combined *(Millions)*



Source: *FHLB Combined Financial Report and The Federal Reserve Bank of NY*

Reinsurance Interconnection

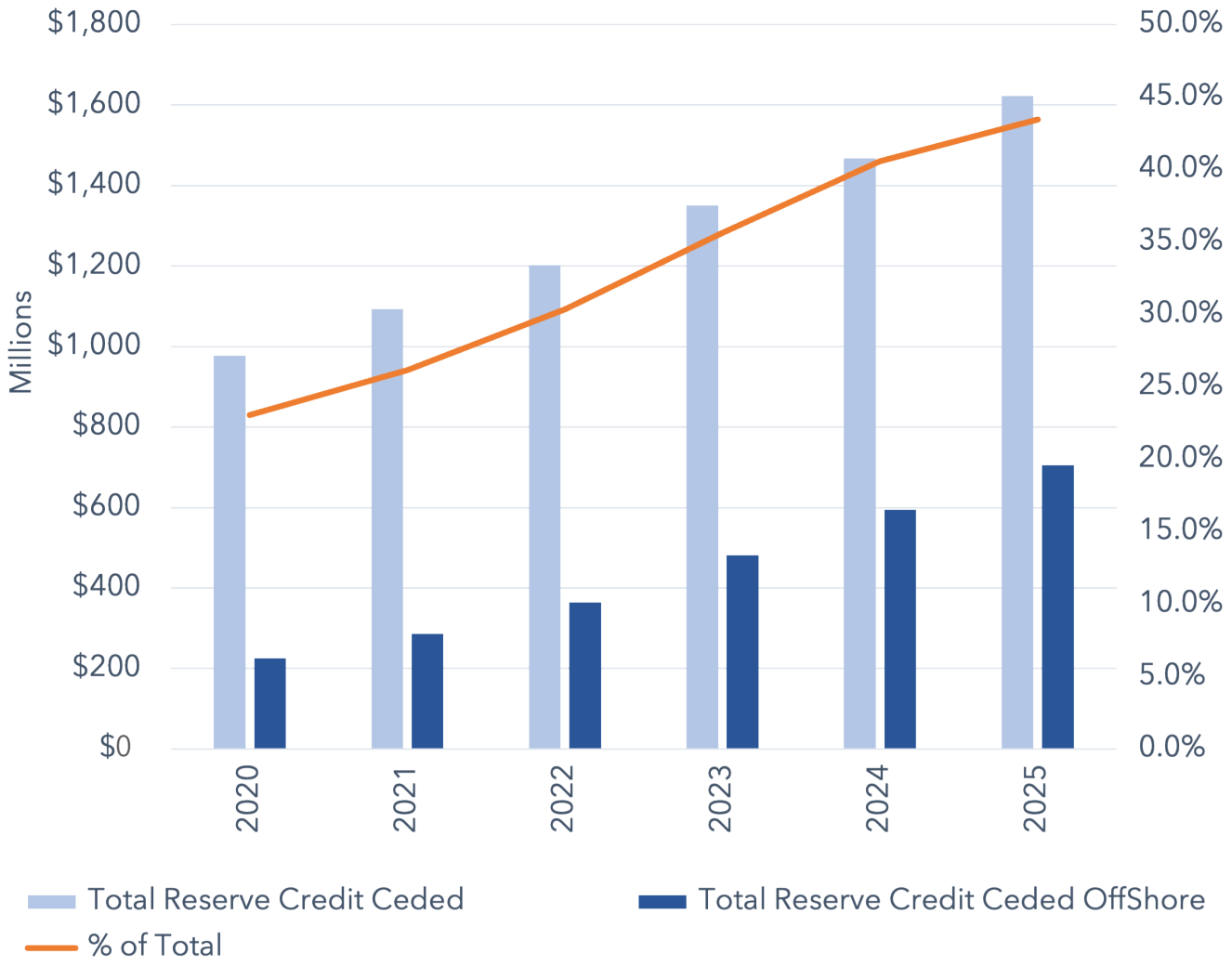
Reinsurance represents another significant interconnection to alien insurers and sovereign nations. Total ceded offshore reserves increased by 16% or $110 billion. Total ceded premium increased 32.8% ($143.4 billion). The annuities line of business increased 28.3% ($61.4 billion) to $278.1 billion, and the accident and health (A&H) insurance line of business increased 42.1% ($32.4 billion) to $109 billion. Life insurance ceded premium increased 32.2% ($39.5 billion) to $162.3 billion. Most of the change in ceded premium was concentrated among 13 companies, with increases or decreases exceeding $5 billion. Of the 719 companies that reported ceded premiums, 88 companies with more than $100 million in ceded premiums reported changes of more than 25% from 2024.

Offshore reinsurance sidecars and captives have been commonly used in the property/casualty (P/C) space to help mitigate risk, but they have become more prevalent in the life insurance industry in recent years. Captives and sidecars can provide additional risk capital, enhance earnings, increase underwriting capacity, and reduce risk exposure. Conversely, these reinsurance vehicles, if not adequately capitalized and supported, can increase counterparty credit risk, thereby increasing the risk of negatively affecting an insurer's financial stability if the sidecar performs poorly.

Reinsurance Interconnection (continued)

FIGURE 9.

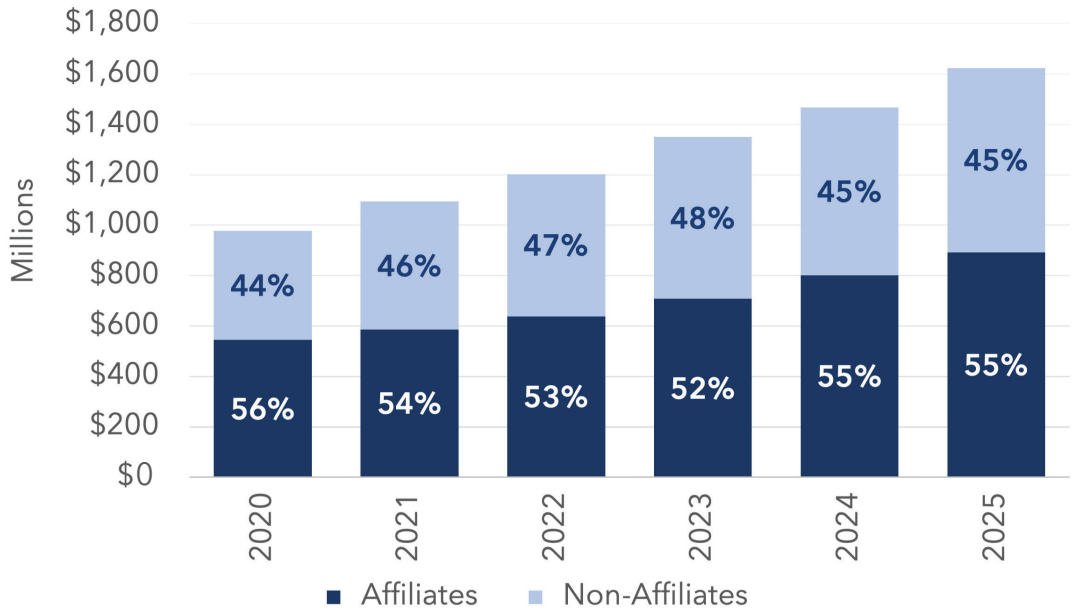
Total U.S. Life and Annuity Ceded vs. Offshore Reserve Credits



Reinsurance Interconnection (continued)

FIGURE 10.

Affiliated vs. Non-Affiliated Reserve Credit Taken



Private Equity Interconnections

State insurance regulators continue to closely monitor the activities of insurers owned by or affiliated with private equity firms and asset managers, due in part to the heightened potential for interconnection with capital markets and other (re)insurance companies and jurisdictions. Private equity-owned insurers' total cash and invested assets increased to approximately $704 billion at year-end 2025, up from $487 billion at year-end 2020.

At year-end 2025, the number of private equity-owned U.S. insurers identified by the NAIC Capital Markets Bureau was 231, an increase from 137 in 2024. Total cash and invested assets for the 137 private equity-owned insurers at year-end 2024 increased 16% based on year-end 2024 NAIC annual statement filings, totaling $704.3 billion, representing 7.8% of all U.S. life insurers' total cash and invested assets.

Private equity-owned insurers continue to invest more heavily in structured securities, private credit, and other nontraditional insurance assets.

Securities Lending and Repurchase Agreement Exposure

Other transmission channels to bank counterparties and the capital markets include securities lending and repurchase agreement activity. Securities lent for U.S. insurers remain consistent with historical averages, with life insurers continuing to account for the bulk of activity. Exposure to repos and reverse repos has traditionally been less than 1% of cash and invested assets, and this trend continues.

Underwriting and Profitability Risk: Summary

Although the insurance industry generally demonstrates resilience in underwriting and profitability, specific trends in long-term care insurance, natural catastrophe exposure, and health sector performance contributed to the overall moderate-low assessment. The risk is tempered by record performance in certain property/casualty (P/C) lines and strong performance in certain life segments.

ASSESSMENT LEVEL:

Moderate–Low

TREND:

Stable→

UNDERWRITING AND PROFITABILITY: LIFE SECTOR

The life insurance industry reported a 30.7% increase in overall profitability from year-end 2024 to $30.6 billion in 2025. The life industry reported a 6.0% ($86.2 billion) increase in total direct written premiums and deposits, bringing the total to $1.5 trillion in 2025. Total net written premiums and deposits increased 2.7% ($31.3 billion) to $1.2 trillion. On a net earned basis, the industry reported a 3.7% ($30.5 billion) decrease in net earned premiums to $792.9 billion. Total net annuity considerations increased 2.0% ($8.5 billion) to $442.9 billion for 2025. The increase was primarily driven by a 23.4% ($17.1 billion) increase in indexed annuities and a 4.8% ($5.3 billion) increase in fixed annuities, partially offset by a 31.3% ($16.7 billion) decrease in life contingent payout. Variable annuities with and without guarantees accounted for 39.1% of total annuity considerations.

The industry's net investment yield increased 0.1 percentage points to 4.5%. Following significant increases in 2023 and 2024, the Federal Reserve decreased the federal funds interest rate in 2025 as follows:

- Sept. 18—to 4.25% from 4.50%
- Oct. 30—to 4.00% from 4.25%
- Dec. 11—to 3.75% from 4.00%

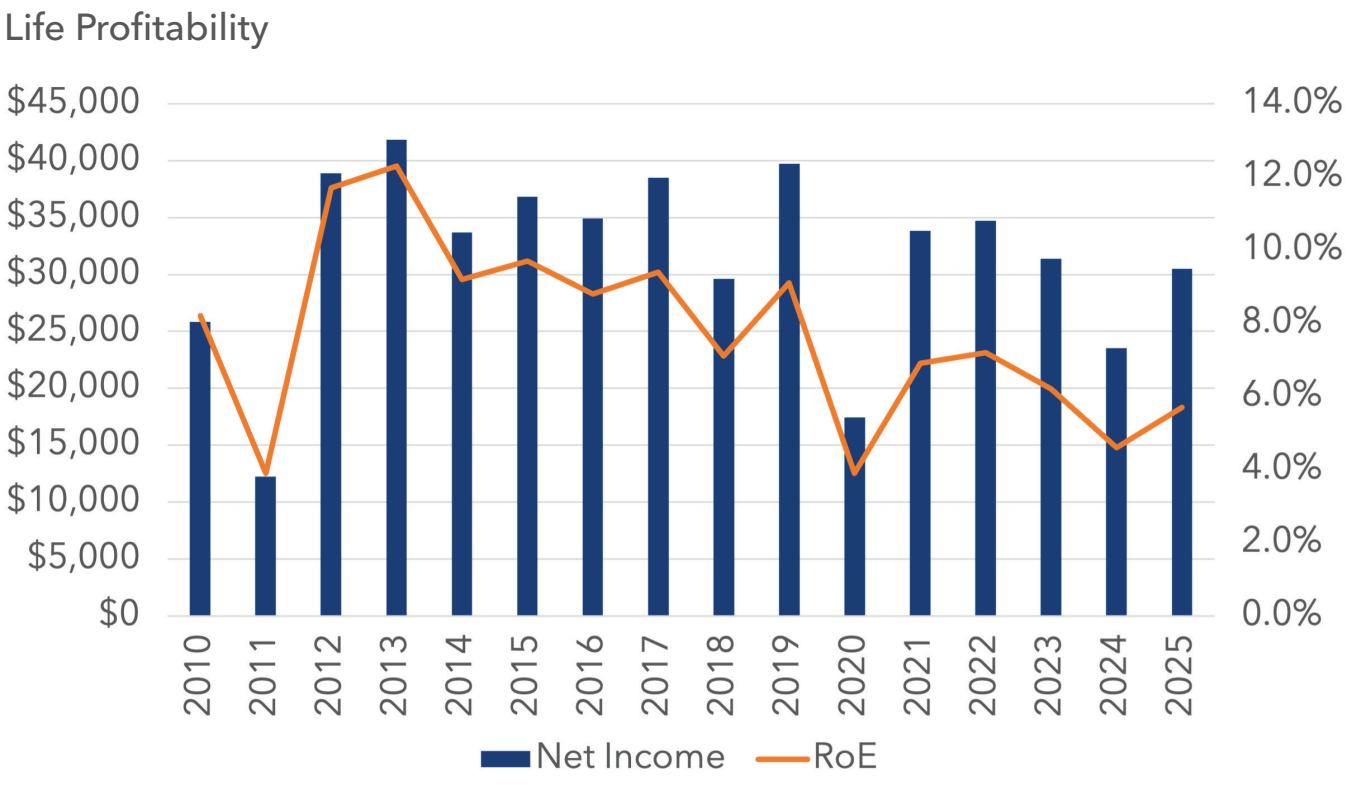
UNDERWRITING AND PROFITABILITY: LIFE SECTOR

(continued)

However, rates remain elevated above the historically low values experienced from 2008 to 2022, and demand for life and retirement products continues to be high, leading to solid underwriting performance for the life insurance industry overall.

Long-term care insurance (LTCI) continues to pose risks for many insurers, with most of the exposure concentrated within life insurers. The primary challenges for insurers and state insurance regulators in LTCI markets stem from older-issue-year policies. These policies were initially priced when LTCI experience used to calculate rates was not fully developed. As experience developed, it became apparent that the initial pricing assumptions regarding the number of policyholders qualifying for LTC benefits and the length of time claimants would remain on claim were understated. Additionally, actual policy lapse rates proved to be much lower than initially assumed, resulting in higher insurer exposure to claims payments. Misestimation of initial pricing assumptions has made it necessary for insurers to increase LTCI rates to ensure their future solvency and to incorporate expectations for approval of future rate increases into reserving assumptions.

FIGURE 11.



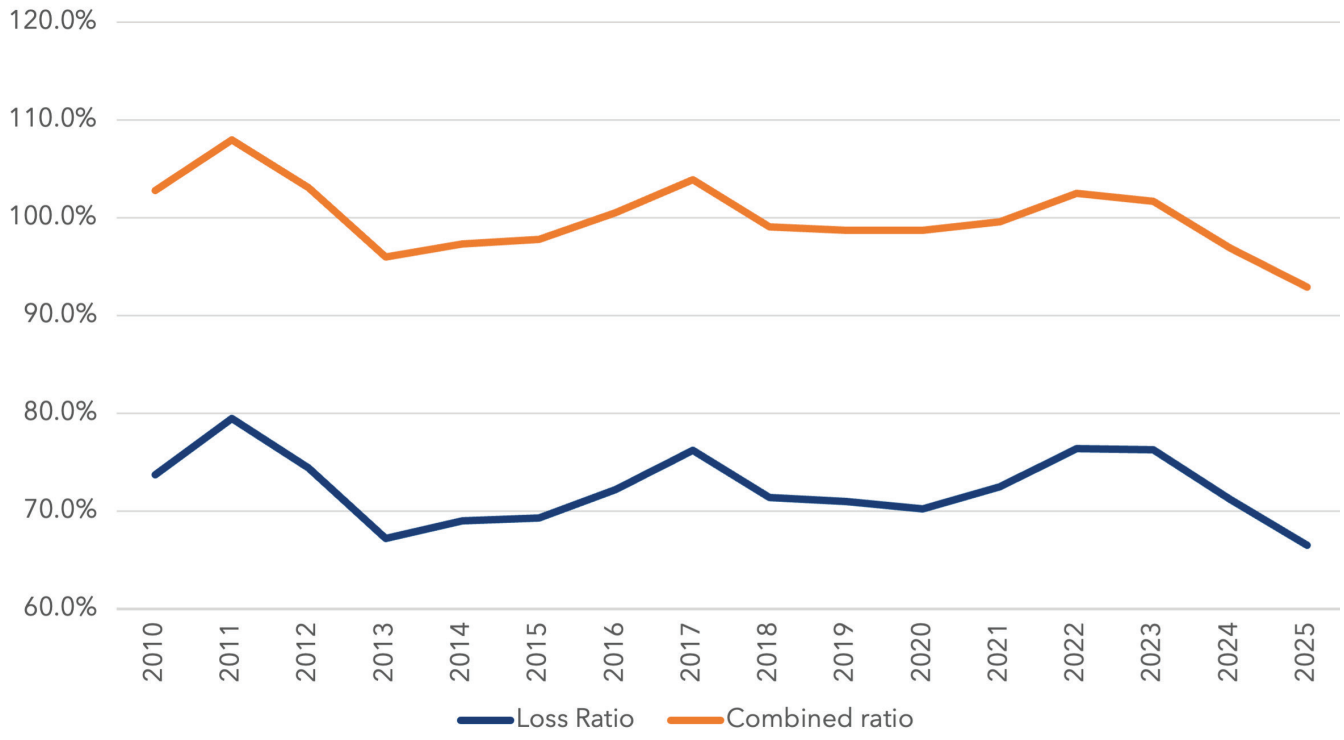
UNDERWRITING AND PROFITABILITY: P/C SECTOR

The U.S. property/casualty (P/C) industry's underwriting income jumped by over $40 billion in 2025 compared to 2024 due to a combination of strong premium growth and lower incurred losses, driven by a meaningful reduction in catastrophe losses, primarily in the second half of the year.

The underwriting gain was partially offset by lower investment income, driven by a significant drop in realized investment gains (generally attributed to large one-time transactions in 2024), resulting in a 10% decline in net income compared to last year. Net income and unrealized investment gains drove policyholders' surplus to a new high of $1.27 trillion at Dec. 31, 2025.

FIGURE 12.

P/C Trends



UNDERWRITING AND PROFITABILITY: P/C SECTOR

(continued)

The U.S. P/C industry posted its strongest underwriting performance in over two decades, driven by improved pricing and lower claims costs on property lines. Premiums grew 8–10% annually over the last four years, and while premiums increased at a lesser pace this year, lower insured losses from natural disasters and favorable prior-year reserve development helped boost underwriting profits. Overall, net premium earned increased 5.5% while net losses and LAE decreased 1.4%, the first decrease in well over a decade, leading to a 4.7-point improvement in the net loss ratio to 66.5%. The expense ratio remained nearly flat at 25.8% as the 4.1% increase in net premiums written was outpaced by a 6.4% increase in other underwriting expenses incurred. Overall, the combined ratio improved 4.0 points to 92.9%.

Despite the positive results in 2025, the industry faces several headwinds in 2026. Slower premium growth could begin to tighten profit margins, challenges with social inflation continue to impact reserve adequacy within commercial liability lines, and continued losses from severe convective storms remain a volatile challenge for property underwriters.

Social Inflation

In addition to the ongoing development of asbestos and environmental claims, new exposures are emerging with the potential to result in casualty catastrophes or latent catastrophes. Of particular concern in this area is "Social Inflation," which refers to the potential for rising insurance claim costs resulting from increased litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards.

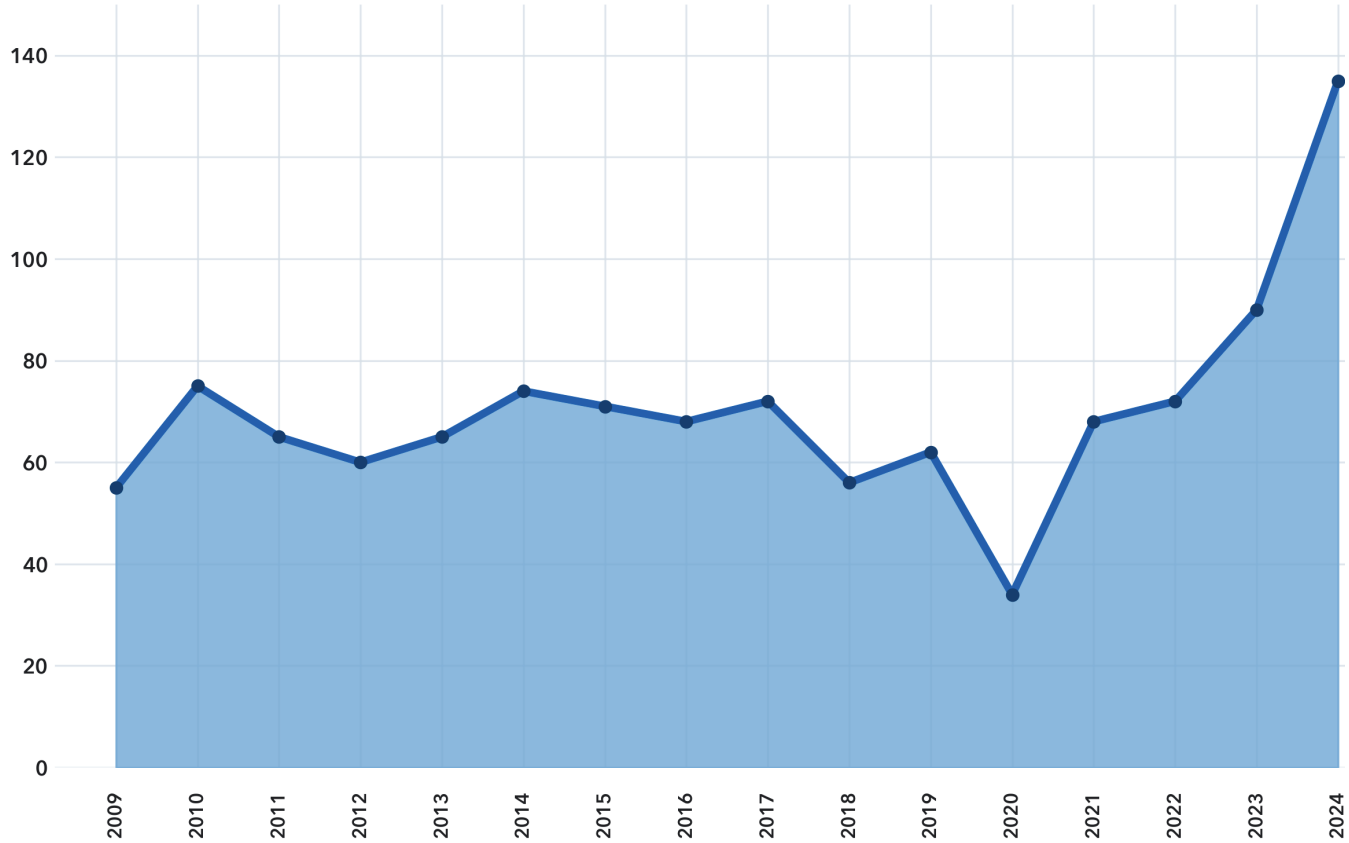
Over the past decade, such factors have accounted for 57% of the increase in liability claims in the U.S. Since 2020, the number of nuclear verdicts (defined as awards over $10 million) in the U.S. has more than quadrupled, while the median verdict value has more than doubled to $51 million. Due in part to higher litigation awards, U.S. liability lines exposed to bodily injury claims saw profitability deteriorate over the five years to 2024, with cumulative underwriting losses mounting to $43 billion. In 2024, the average award in cases against a corporate defendant in the U.S. rose to $65.7 million, up from $41.7 million in 2023, according to data from LexisNexis, as reported by the Financial Times.

Not only does social inflation impact losses for insurers, but it is also a driver of increased premiums and the high cost of insurance—auto in particular. Many states have implemented or are in the process of implementing tort reform measures to mitigate large verdicts.

Social Inflation (continued)

FIGURE 13.

Number of Corporate Nuclear Verdicts: 2009-2024

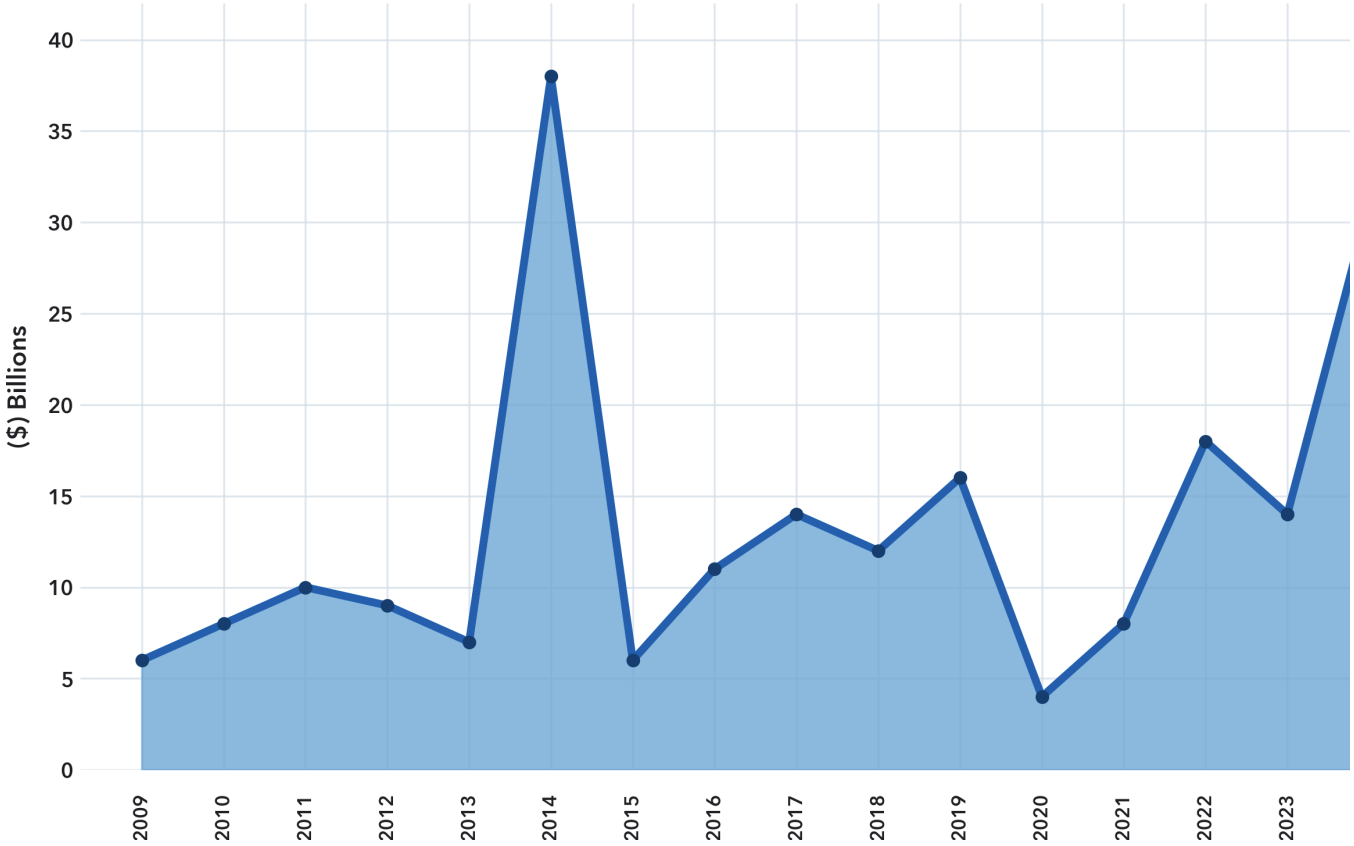


Source: *https://marathonstrategies.com/report/corporate-verdicts-go-thermonuclear-2025-edition/*

Social Inflation (continued)

FIGURE 14.

Sum of Corporate Nuclear Verdicts: 2009-2024



Source: *https://marathonstrategies.com/report/corporate-verdicts-go-thermonuclear-2025-edition/*

Natural Catastrophes

Insured losses from natural disasters in the U.S. amounted to roughly $100 billion in 2025, slightly lower than the prior year. Losses in 2025 differed from those in prior years in that they were driven by wildfires and severe storms rather than tropical cyclone activity, as no hurricanes made landfall in the U.S. The Palisades and Eaton wildfires in California, which occurred in the first quarter of 2025, were the costliest wildfires in world history and accounted for nearly half of all catastrophic losses incurred. Losses from severe convective storms totaled roughly $50 billion for the third year in a row, becoming the most common and destructive natural catastrophe in the U.S.

The overall assessment of natural catastrophe risk, primarily affecting property insurers, is moderate-high. Refer to the separate Natural Catastrophe Risk Dashboard report for further details. The results of the Natural Catastrophe Risk Dashboard feed into this Macroprudential Risk Assessment as part of overall U.S. Insurance Macroprudential Supervision.

There is a public version of the Natural Catastrophe Risk Dashboard report, which may be found here: **https://content.naic.org/sites/default/files/natural-catastrophe-risk-dashboard-report-final.pdf**

There is also a detailed Natural Catastrophe Risk Dashboard, which is regulator-only.

Reserves

Total loss and loss adjustment expenses (LAE) reserves increased 5.1% to $1.03 trillion and consisted of $869.2 billion unpaid losses and $162.9 billion unpaid LAE. Reserve leverage improved 4.8 points to 81.5% due to the increase in policyholders' surplus.

The industry benefited significantly from prior-year reserve releases. There was a one-year redundancy of $20.0 billion, and a two-year redundancy of $13.5 billion. This followed several years of declining prior-year reserve releases, primarily due to adverse development in the commercial liability lines, driven by economic and social inflation. Workers' compensation reserves continued to develop favorably; however, most of the turnaround was attributable to the personal lines of business, which together accounted for $15.9 billion in favorable development.

UNDERWRITING AND PROFITABILITY: HEALTH SECTOR

The health insurance industry's profitability declined considerably for the second year in a row, with net earnings dropping from $9.3 billion to $6 billion and a profit margin dropping from 0.8% to just 0.4%. The combined ratio increased to 100.6% in 2025, up from 100.1% in 2024. These negative trends led to a moderate-low underwriting risk assessment.

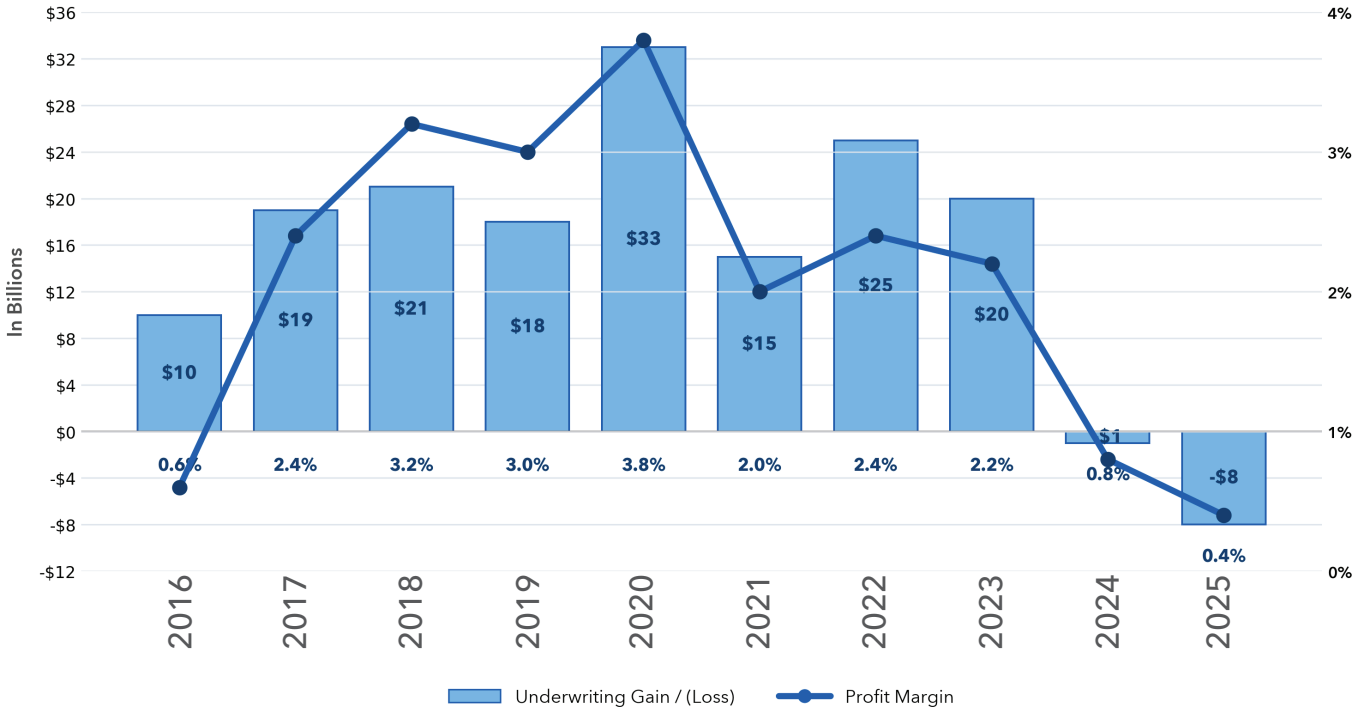
Despite declining performance, the industry remained profitable overall, as investment income of $14.8 billion (a 6.6% year-over-year increase) helped offset an $8.1 billion net underwriting loss (negative 526.7% year-over-year). Adjusted cash flow from operations was negative $3.4 billion, marking the lowest point in at least the past decade and the second year in a row of negative adjusted cash flow from operations.

The considerable decrease in cash flow is due primarily to continued high utilization with a 14.8% ($155 billion) increase in benefits and loss-related payments, while net earned premiums grew only by 13.2% ($153 billion).

UNDERWRITING AND PROFITABILITY: HEALTH SECTOR *(continued)*

FIGURE 15.

Health Underwriting Performance

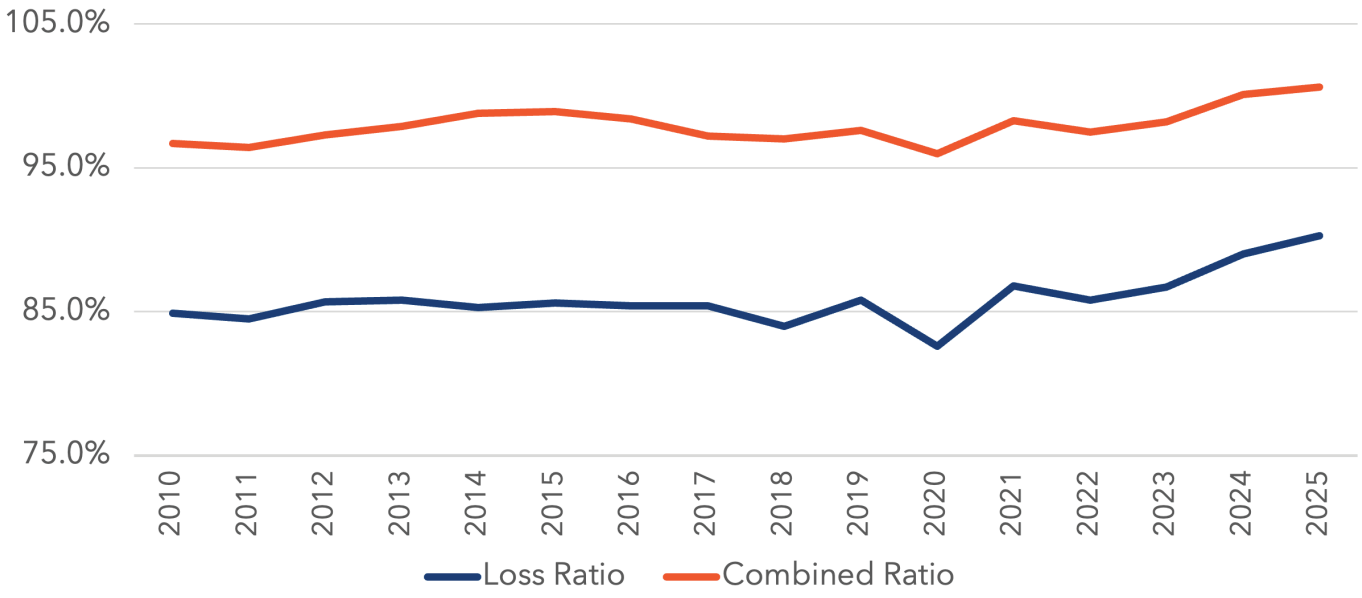


Note: *Aggregate results include only health entities that file annual statements with the NAIC. Figures reflect filings received as of April 6, 2026, and may change due to additional filings or amendments.*

UNDERWRITING AND PROFITABILITY: HEALTH SECTOR *(continued)*

FIGURE 16.

Health Trends



Market Risk: Summary

Significant common stock, Level 3 assets, Schedule BA assets, and derivative exposure were key drivers in determining the moderate-low assessment. Level 3 assets continued to grow and now represent a significant percentage of insurers' investments. Although equity markets continue to experience significant growth, the risk of an immediate downturn remains and could pose a significant risk to insurers, given their significant equity allocations.

ASSESSMENT LEVEL:

Moderate–Low

TREND:

Increasing ↗

MARKET RISK: COMMON STOCK EXPOSURE

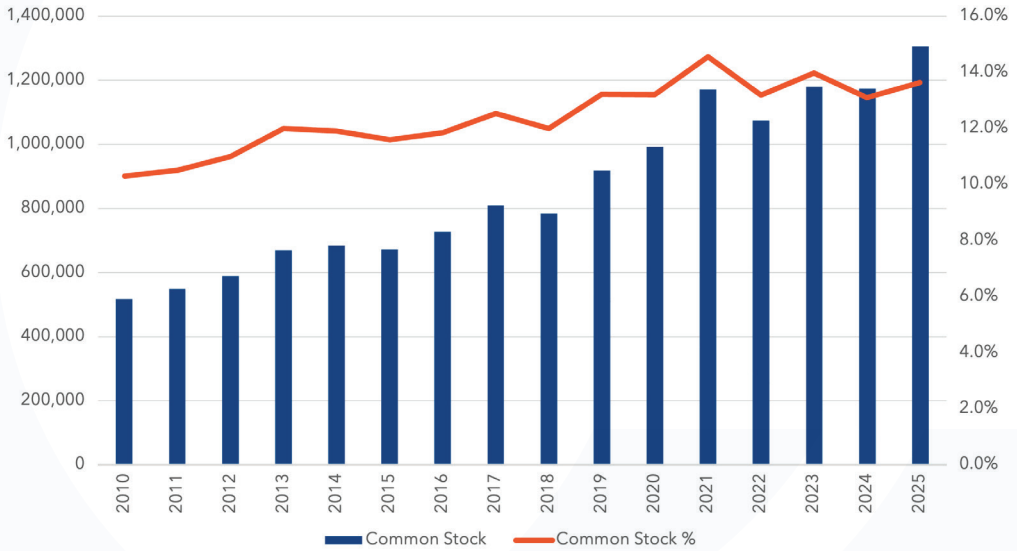
Common stocks remained the second-largest asset class in the U.S. insurance industry's portfolio, increasing by nearly 11% to $1.3 trillion at year-end 2025. Common stock as a percentage of total cash and invested assets increased by about 50 basis points to 13.6% from 13.1% in 2025.

The VIX index ended the year at 14.95, indicating lower-than-average equity volatility.

U.S. insurers' unaffiliated publicly traded common stock holdings experienced a weighted average 12% increase in value in 2025, slightly underperforming the Standard & Poor's 500 index's (S&P 500) 17% return over the same period.

FIGURE 17.

Common Stock Exposure *(billions)*



MARKET RISK: BOND EXPOSURE

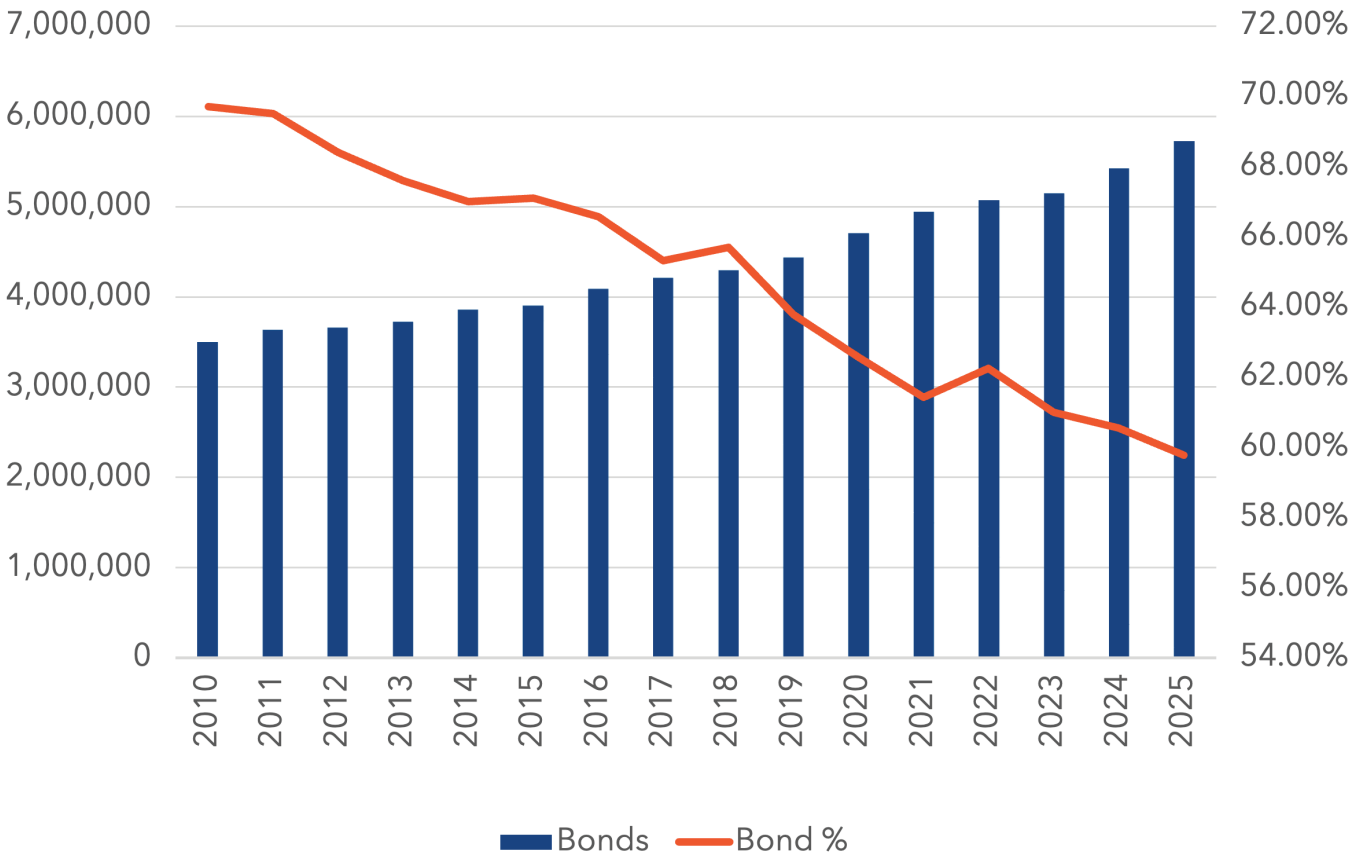
Bonds continued to represent the largest asset class of insurers, accounting for 60% of total cash and invested assets at year-end 2025, flat from year-end 2024. Over the longer term, insurers' bond allocations have gradually declined from around 70% at year-end 2010, most likely due to companies seeking higher returns in other asset classes amid a prolonged low-interest-rate environment at the time.

The YLDVOL index was approximately 64 at year-end, nearly half of its 2022 level, indicating lower-than-average expected rate volatility.

The U.S. insurance industry's exposure to bonds totaled $5.7 trillion as of year-end 2025, an increase of 5.6% compared to the prior year. Corporate bonds remained by far the largest bond type in U.S. insurer investment portfolios. The second- and third-largest bond types were asset-backed securities (ABS) and other structured securities and municipal bonds.

FIGURE 18.

Bond Exposure *(billions)*



MARKET RISK: DERIVATIVE AND OTHER ASSET EXPOSURES

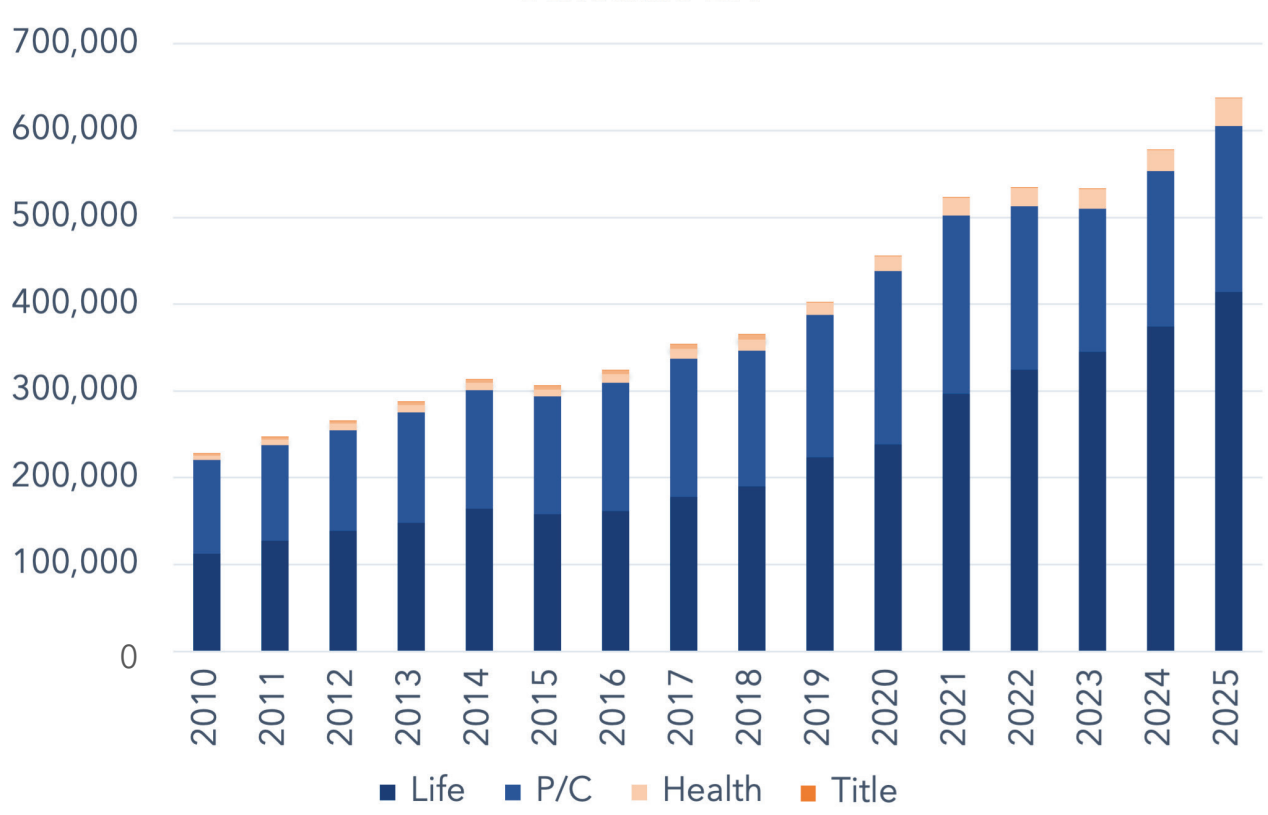
Ninety-six percent of derivatives are held for hedging purposes, which is consistent with prior year use of derivatives. Additional risks of derivatives are noted in the interconnectedness dashboard. Hedges are mostly interest rate hedges, and the majority of market risk is the margin calls that may result if interest rates move against insurers' position.

Schedule BA assets, or other long-term investments, accounted for the fourth-largest asset category within the U.S. insurance industry's investment portfolio, comprising 7.1% of total cash and invested assets as of year-end 2025. Insurers held $642 billion in Schedule BA assets, a significant 10.4% increase from the prior year. Valuation and volatility in private equity and hedge fund investments were key drivers of the market risk moderate-low assessment.

The NAIC's implementation of the principles-based bond definition on Jan. 1, 2025, possibly contributed to some of this growth, as certain investments that no longer met the revised bond criteria may have been reclassified to be reported in Schedule BA instead of Schedule D. Life insurers were the largest holders of Schedule BA assets at year-end 2025, accounting for 65% of the industry's exposure.

FIGURE 19.

Schedule BA

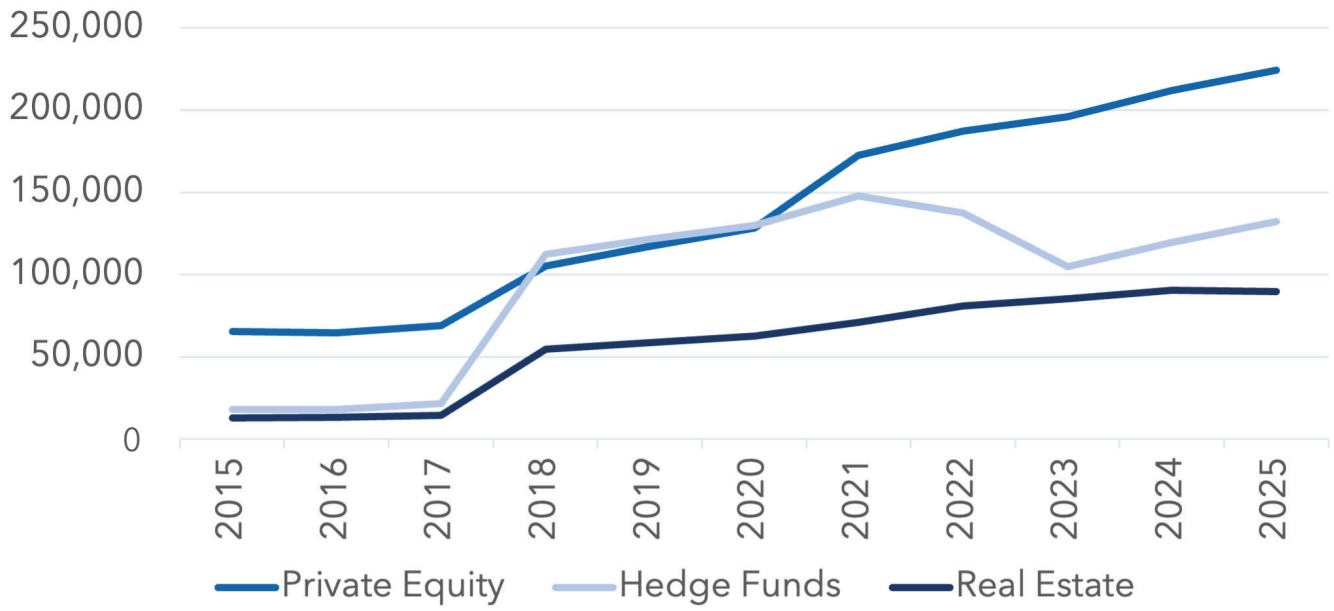


MARKET RISK: DERIVATIVE AND OTHER ASSET EXPOSURES

(continued)

FIGURE 20.

Private Equity, Hedge Fund, and Real Estate Holdings



Level 3 Assets

Level 3 asset exposure continues modest growth, currently at 17% of cash and invested assets, which is significant. Level 3 concentration may contribute to valuation and liquidity risk. This is a new risk indicator in the market risk category, and the exposure will continue to be monitored. The Invested Assets (E) Task Force has this topic on its agenda to analyze and research the exposure later in 2026.

Credit Risk: Summary

Overall bond credit quality remains high with an average credit rating of A+.
The significant allocation to private credit, structured securities, and mortgages drove the moderate-high risk assessment, along with increased exposure to reinsurance credit risk. This was tempered by the overall high-credit-quality bond portfolio and decreasing allocation to structured securities.

ASSESSMENT LEVEL:
Moderate–High

TREND:
Increasing ↗

CREDIT: BOND CREDIT QUALITY

The share of bonds in the U.S. insurance industry's investment portfolio was flat at approximately 60% at year-end 2025.
Private credit is the most significant credit risk, given its exposure size and the increasing trend. However, defining and measuring the exposure remains a challenge. Using private letter ratings (PLRs) as a proxy for the exposure results in an allocation of approximately 8% of bonds being supported by PLRs.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other loan-backed and structured securities (LBASS) decreased in exposure from 16.5% to 14.6% of bonds in 2025. Collateralized loan obligations (CLOs) were flat at approximately 5% of bonds.

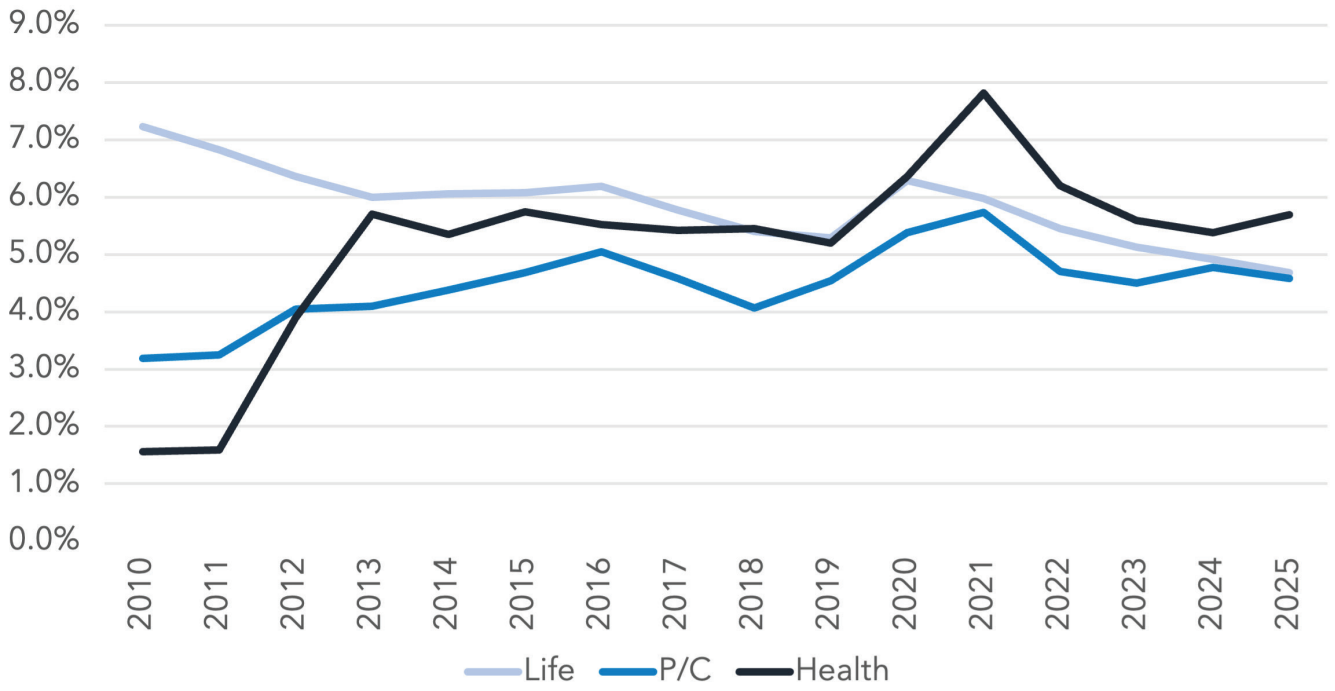
Allocation to mortgages remained flat at about 9% of cash and invested assets. However, the allocation to residential mortgages increased.

Below-investment-grade bonds, or those with reported NAIC 3-6 designations, declined to 4.7% of total bond exposure, down from a peak of 6.1% in 2020, representing a positive development in credit risk.

CREDIT: BOND CREDIT QUALITY *(continued)*

FIGURE 21.

Below Investment Grade Bond Exposure



PRIVATE CREDIT MARKET

Private credit funds have experienced substantial growth in recent years, with assets under management (AUM) now comparable in size to U.S. high-yield corporate bond and leveraged loan markets. Insurers have significant exposure to private credit. However, lending to private credit funds is difficult to accurately measure due to limited data availability, although there have been recent efforts to improve insurers' reporting. Competition between direct lenders and broadly syndicated leveraged loans (BSLs) was observed in 2025, resulting in tighter spreads. With strong investor demand and rapid growth of private credit, there have been concerns that increased competition for deals could spur managers to offer more relaxed structural terms, including covenant-lite loans, or choose riskier deals.

Starting in the third quarter of 2025, many private credit funds, of which insurers are investors, have experienced significant redemption requests. Many of the requests exceeded the 5% redemption limit on the funds. This caused some concern in the private credit fund market and the overall private credit market.

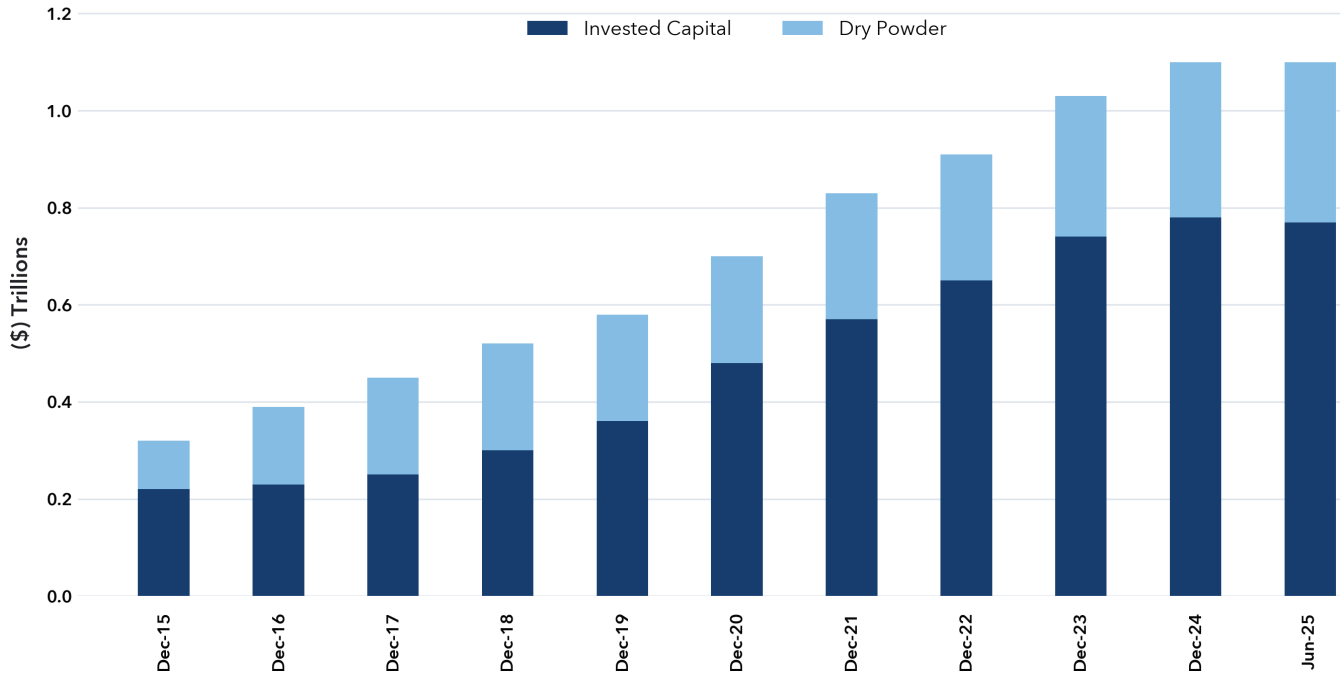
The chart below is the estimated size of the total private credit funds market in North America. Dry powder represents investors' unfunded or contingent commitments to make additional investments into the private credit funds. Insurers do report contingent commitments in the annual statement; however, commitments to fund private credit investments are not separately identified.

PRIVATE CREDIT MARKET

(continued)

FIGURE 22.

AUM of North America Private Debt Funds



Source: *Preqin*

CREDIT: FOREIGN BOND EXPOSURES

Other assets are also subject to credit risk monitoring by state insurance regulators, including the subset of bonds issued by sovereign or foreign entities. Additional observations include:

Sovereign/foreign bond exposure and risk remain low, comprising only 2.3% of cash and invested assets (C&IA). Nonetheless, it continues to be tracked and monitored.

REINSURER CREDIT RISK

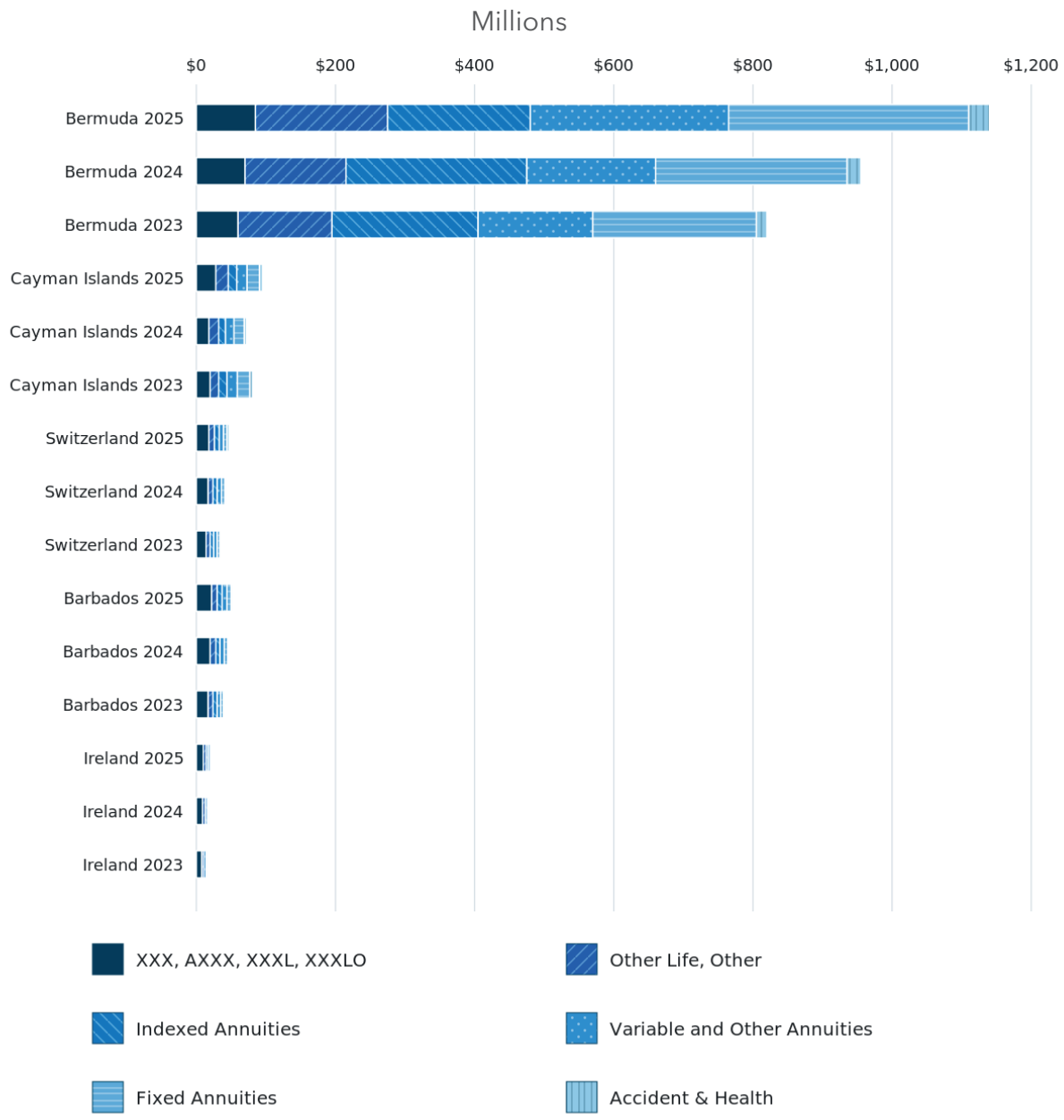
One measure of reinsurer credit risk is to assess the exposure to reinsurers located in a sovereign nation. In 2025, life insurers, including separate accounts, ceded 48.6% offshore and 51.4% onshore. Approximately 46% of reserve credit was ceded to Bermuda. Bermuda's sovereign rating is A+-LT, stable by S&P, and A2, stable by Moody's. The second-highest national reserve credit was ceded to the Cayman Islands, which has an Aa3, stable sovereign rating by Moody's. Fourth is Barbados, which has a B+ sovereign rating by S&P and a B2 from Moody's. The risk was assessed as moderate-low due to these ratings.

REINSURER CREDIT RISK *(continued)*

FIGURE 23.

Top 5 Offshore Jurisdictions - Life and Annuity Ceded

(Reserve Credit + Macro Reserve)



Property/casualty (P/C) insurers ceded approximately 44% of all reinsurance premiums in 2025 to sovereign nations but are more diversified in the amounts and the number of countries, leading to a low risk assessment.

Liquidity Risk: Summary

While industry holdings of less-liquid, private, and complex assets continue to increase, as discussed above, overall industry allocation to cash and short-term investments is the highest it has been in the last five years at 6.6% of total industry cash and invested assets. Industry allocation to U.S. government securities is also the highest it has been in the last five years, at 4.4% of total industry cash and invested assets.

Property and life liquidity and cash flow ratios are also at their highest (favorable) levels in years. These favorable risk indicators drove the low risk assessment.

However, the health industry indicators are not as favorable, as discussed in the health section below.

ASSESSMENT LEVEL: **Low**

TREND: **Stable →**

LIQUIDITY: P/C SECTOR

Net cash provided by operating activities increased 16.8% to $189.2 billion. Operating cash inflows increased by 4.0% due to a 4.3% increase in premiums collected net of reinsurance to $972.4 billion, and a 3.4% increase in net investment income (adjusted for affiliates) to $87.2 billion. Partially offsetting the increase in cash inflows was a 1.4% increase in cash outflows driven by a 6.3% increase in commissions and expenses paid, and a 0.4% increase in benefit and loss payments.

The industry liquidity ratio and the cash flow ratio both improved by more than 5 percentage points to 132% and 19%, respectively. Liquid assets increased 7.7% due to growth in cash and invested assets, driven by a 7.0%, or $98.5 billion, increase in bond holdings and an 11.3%, or $101.2 billion, increase in common stocks. Adjusted liabilities grew at a lesser pace of 3.3%.

FIGURE 24.

P/C Liquidity Ratio



Note: *Some regulatory tools may present this formula with the numerator and denominator reversed.*

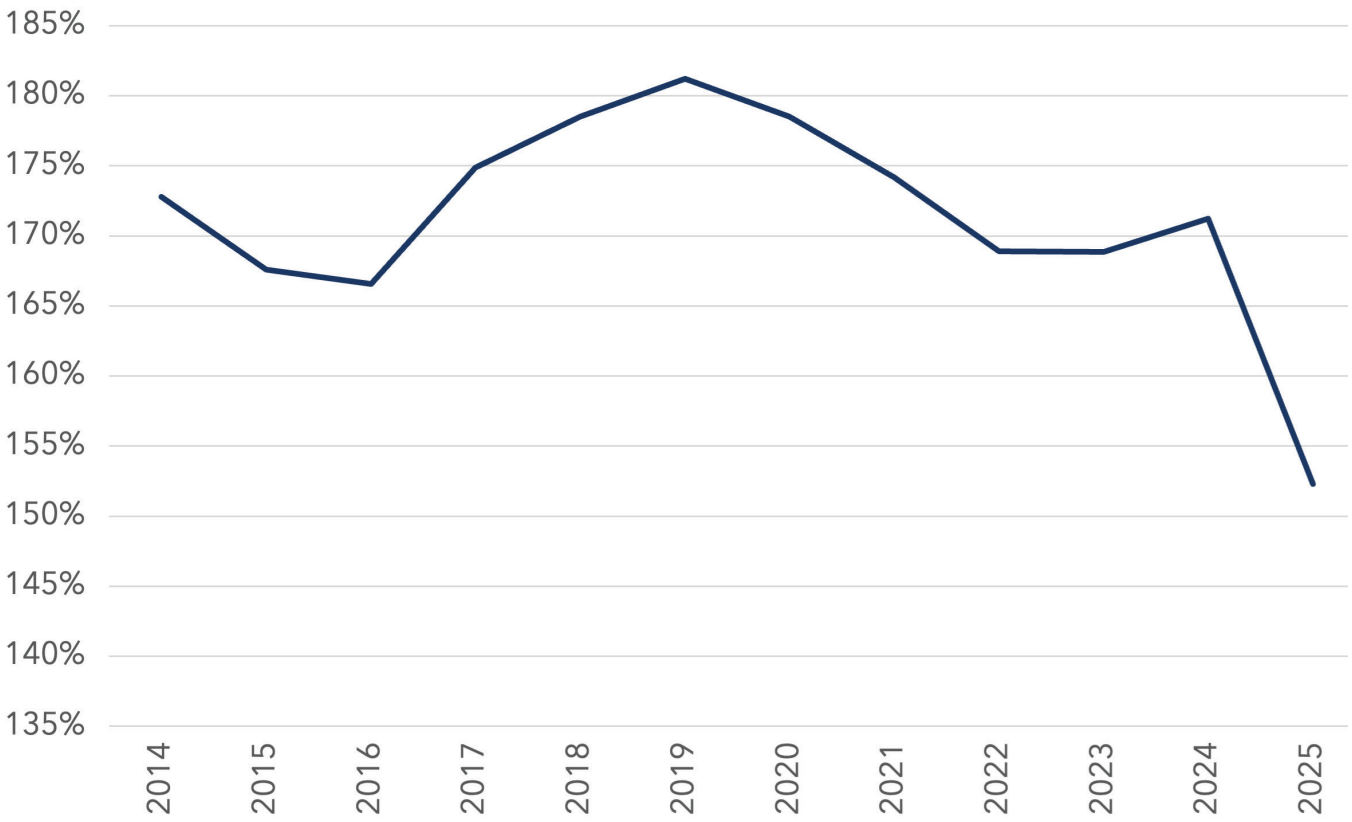
LIQUIDITY: HEALTH SECTOR

The health insurance industry experienced back-to-back years of negative operating cash flow, with a 57.6% ($1.2 billion) decrease to -$3.4 billion, following -$1.4 billion in 2024 and $27.4 billion in 2023. The considerable decrease in cash flow is due primarily to continued high utilization, with a 14.8% ($155 billion) increase in benefits and loss-related payments, while net earned premiums only grew by 13.2% ($153 billion).

Liquid assets and receivables increased from $442.6 billion in 2024 to $477.6 billion on Dec. 31, 2025. This was offset by a 5.6% ($14.4 billion) increase in current liabilities to $272.8 billion from $258.4 billion. This resulted in an unfavorable decrease in the ratio of liquid assets and receivables to current liabilities to 152% from 171%, the lowest recorded level of this ratio since at least 2009. Additionally, the cash flow to capital and surplus ratio was at an all-time low at -2%.

FIGURE 25.

Health Liquidity Ratio



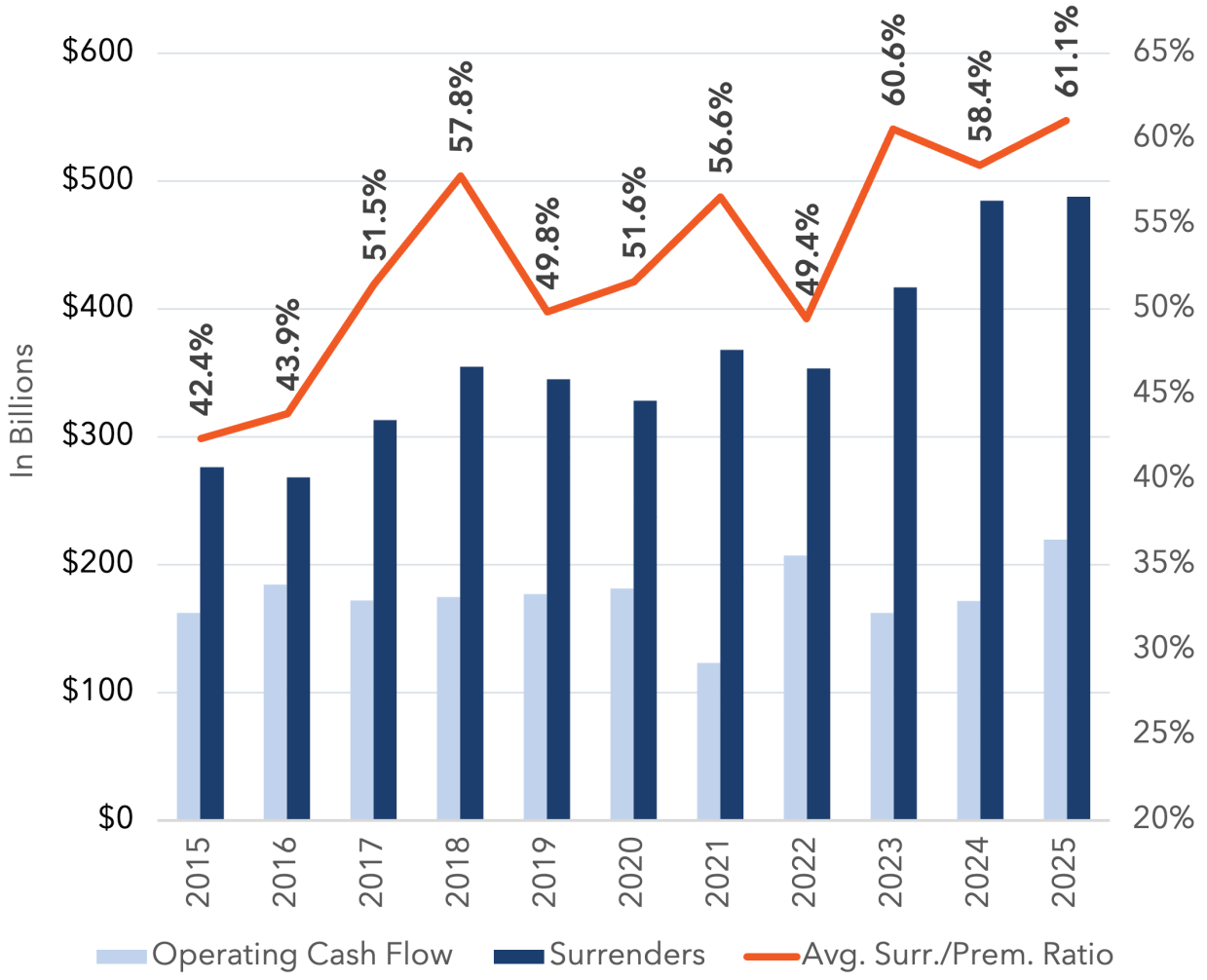
LIQUIDITY: LIFE SECTOR

The life industry reported operating cash flow of $219.2 billion in 2025, up 28.4% ($48.5 billion) from $170.6 billion in the prior year. The increase was driven primarily by a 3.6% ($29.4 billion) increase in net premium and a 7.8% ($17.9 billion) increase in net investment income. Transfers to separate accounts were $(123.1) billion, compared with $(119.6) billion in 2024, while increases in benefits and loss payments of 0.9% ($7.7 billion) and commissions of 4.5% ($9.2 billion) partially offset the improvement in operating cash flow.

The industry experienced a modest 0.7% ($3.1 billion) increase in surrender benefits to $487.6 billion. The average surrenders-to-premiums ratio increased 2.7 points to 61.1%, compared with 58.4% in 2024.

FIGURE 26.

Life Liquidity Indicators



LIQUIDITY: ADDITIONAL INDICATORS

Liquidity Stress Testing Results

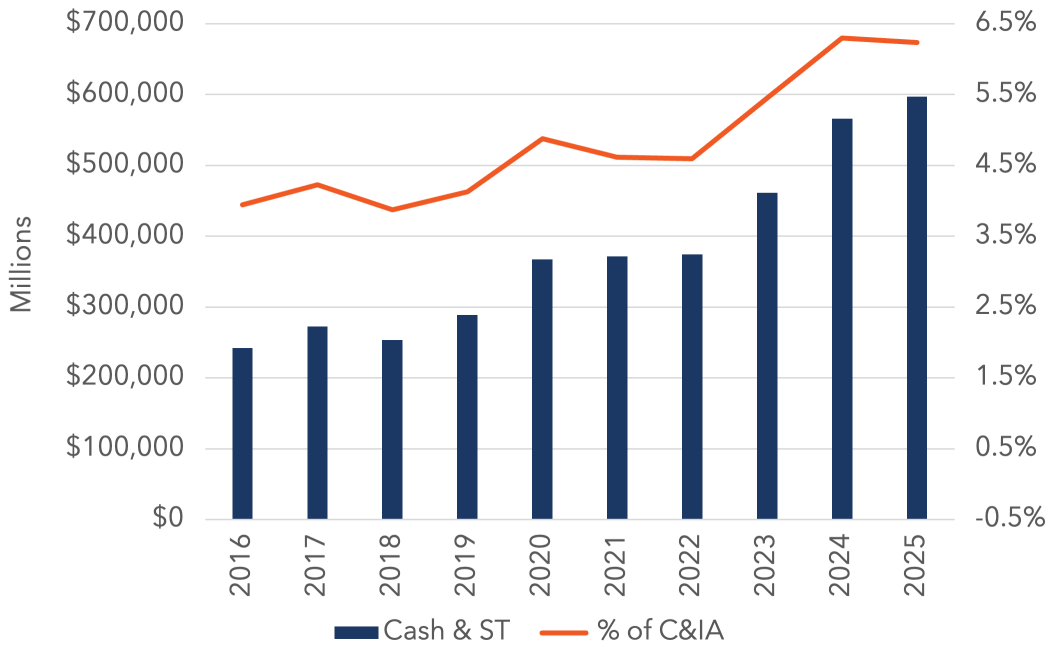
The liquidity stress test (LST) is a regulatory tool intended to help regulators identify amounts of asset sales by insurers that could impact the markets under stressed environments, while also providing regulators with insights into the liquidity position of insurers subject to the filing requirement. Per the most recent filings reviewed, the impact of modeled aggregate asset sales in the most severe stress scenario for the 26 large life insurers subject to the LST on the capital markets is not significant. Most insurers were able to absorb modeled cash-flow deficits in stressed scenarios with cash on hand. In extreme stresses where modeled asset sales were required to satisfy cash flow deficits, the industry's aggregate corporate investment-grade bond sales needed to satisfy deficits were only 3.1% of average daily trading volume (ADTV) and 0.04% of investment-grade corporate bonds outstanding. Additionally, aggregate government bond sales to satisfy deficits were only 0.6% of ADTV and 0.07% of Treasuries outstanding.

Industry-Wide Cash and Short-Term Investments

The industry has a significant allocation to cash, short-term investments, and U.S. government securities as sources of liquidity. Additionally, many insurers maintain a line of credit with the Federal Home Loan Bank (FHLB) and lines of credit/revolvers with commercial banks.

FIGURE 27.

Cash and ST Investments



Capital Adequacy Risk: Summary

The assessment is driven by historically high capital levels even in the face of industry challenges, with property/casualty (P/C) at an all-time high authorized control level (ACL) ratio, and a low number of companies in receivership/liquidation proceedings:

ASSESSMENT LEVEL: **Low**

TREND: **Stable →**

CAPITAL ADEQUACY: LIFE SECTOR

The life industry's total capital and surplus increased 5.7% to $540.7 billion. The increase was driven primarily by $46.4 billion in net income, $13.6 billion in paid-in capital, and $14.3 billion in unrealized capital gains, partially offset by $35.8 billion in stockholder dividends. Additional observations include:

- Current aggregate risk-based capital (RBC) of 886% ACL continues to be well above the low point of the 2008 financial crisis (758%), and the industry continues to be very well capitalized overall, as indicated by the historically low number of companies in RBC action levels (1.26%) and aggregate premium/reserve leverage positions.
- The industry-wide capital levels are relatively consistent with rating agency upgrade/downgrade activity, as well as industry outlooks, which generally assigned the life insurance sector a stable outlook at the end of 2025.
- RBC is a regulatory minimum capital requirement and may not reflect economic required capital risk for all activities, including significant shifts of cross-border reinsurance discussed in the credit risk section.

FIGURE 28.

Life % at Action Level

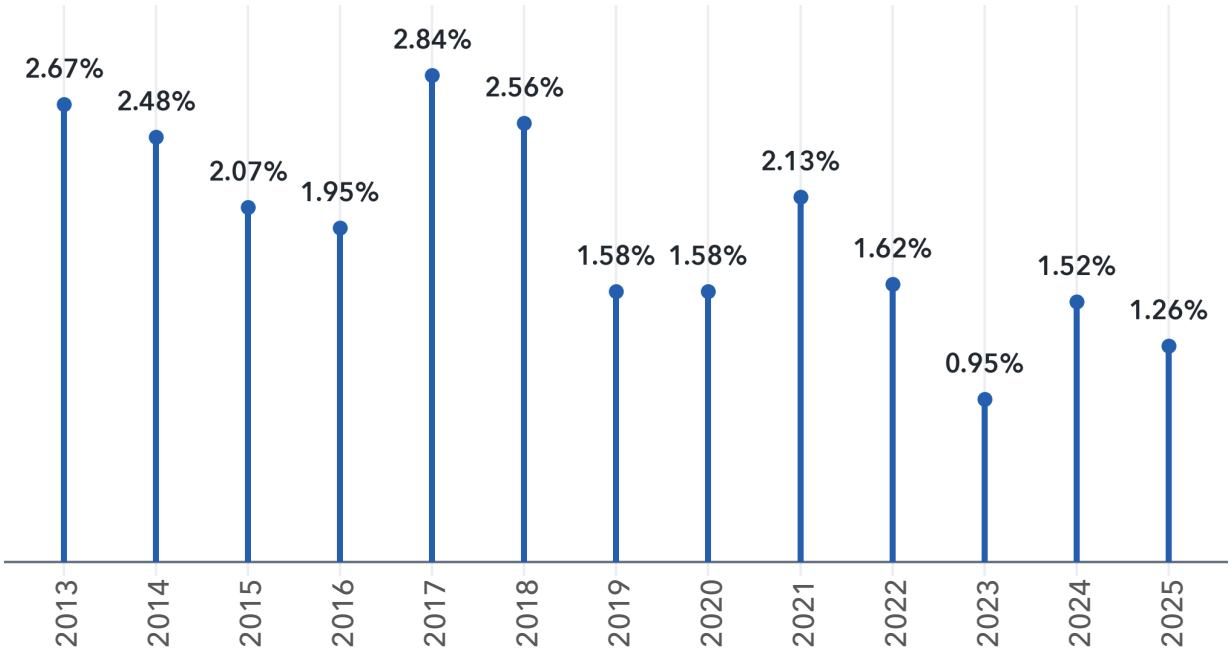
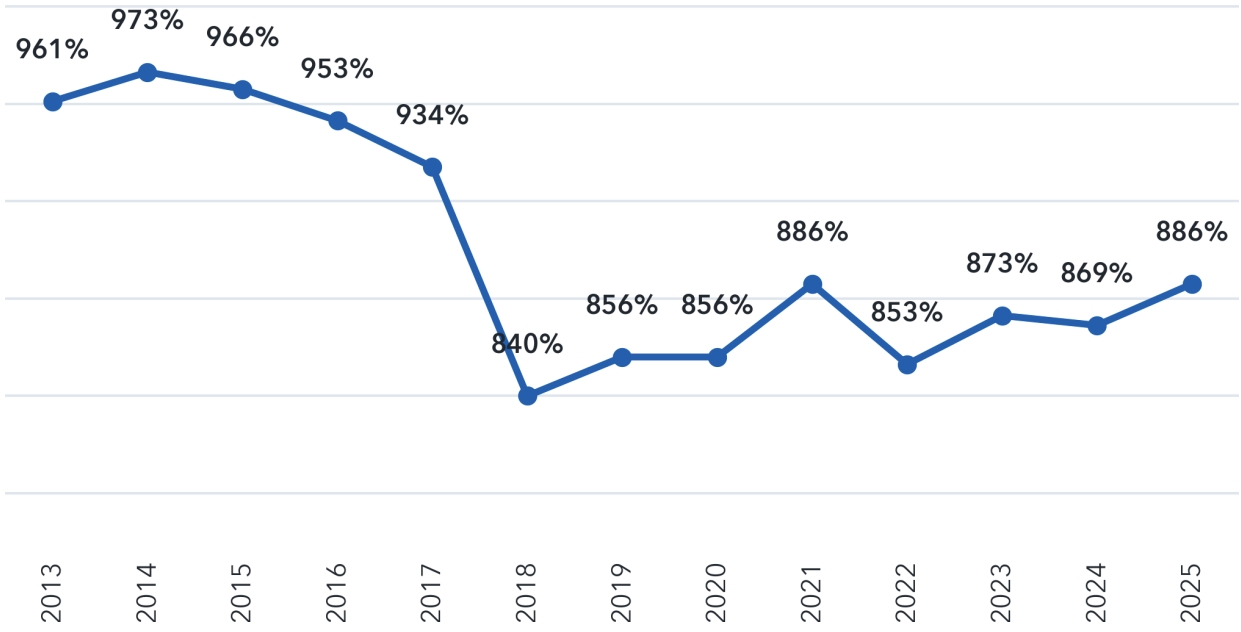


FIGURE 29.

Industry Wide Life RBC (ACL Ratio (%)



CAPITAL ADEQUACY: P/C SECTOR

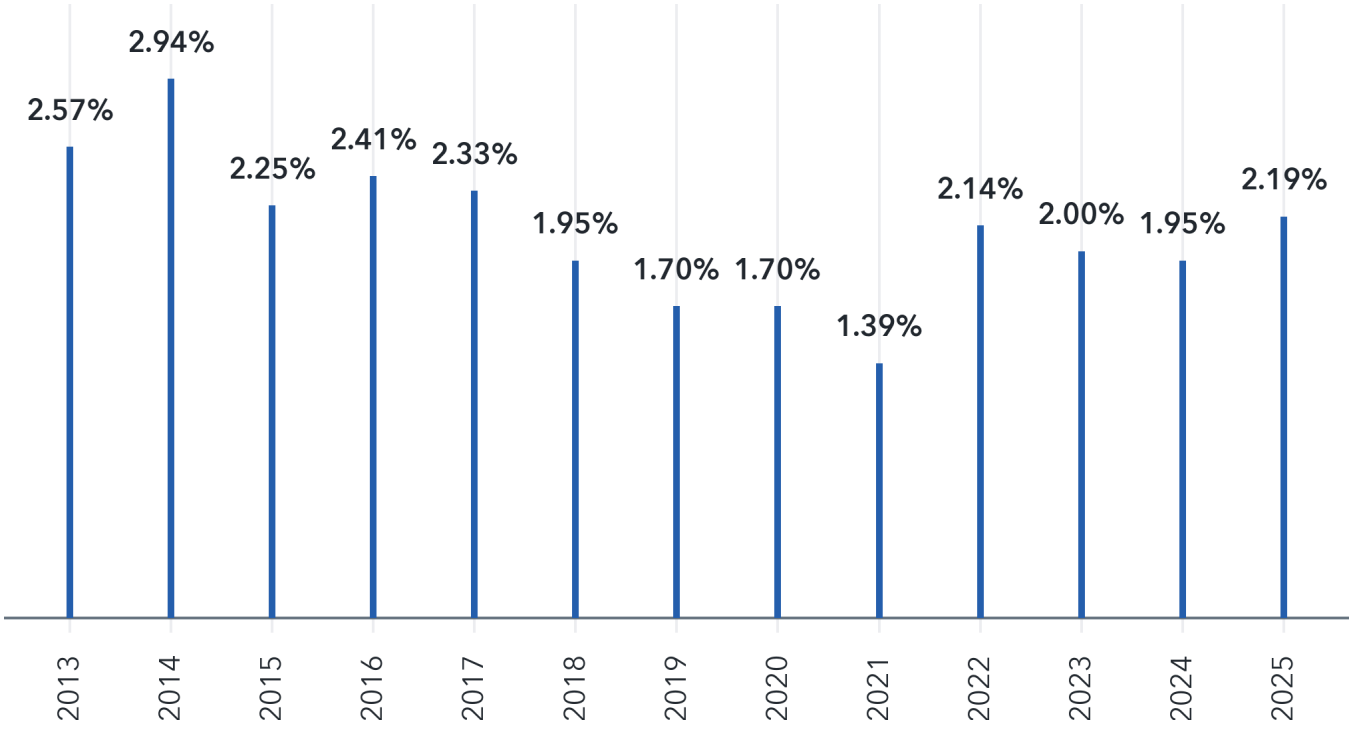
Industry aggregated policyholders' surplus (adjusted to eliminate stacking) increased 11.9% from the prior year-end to a new all-time high of $1.27 trillion at Dec. 31, 2025. The net profits of $150.6 billion and $47.5 billion in unrealized investment gains were partially offset by $5.7 billion in policyholder dividends. While P/C insurers are well positioned for future growth, 2025 continued to present challenges from inflation/tariffs, natural disasters, and social inflation that warrant increased capital adequacy.

Additional observations include:

- Current aggregate RBC of 643% ACL remains above the low point of 2023 (578%). The industry-wide capital levels are relatively consistent with rating agency upgrade/downgrade activity as well as industry outlooks, which generally assigned the P/C insurance sector a stable outlook at the end of 2025.

FIGURE 30.

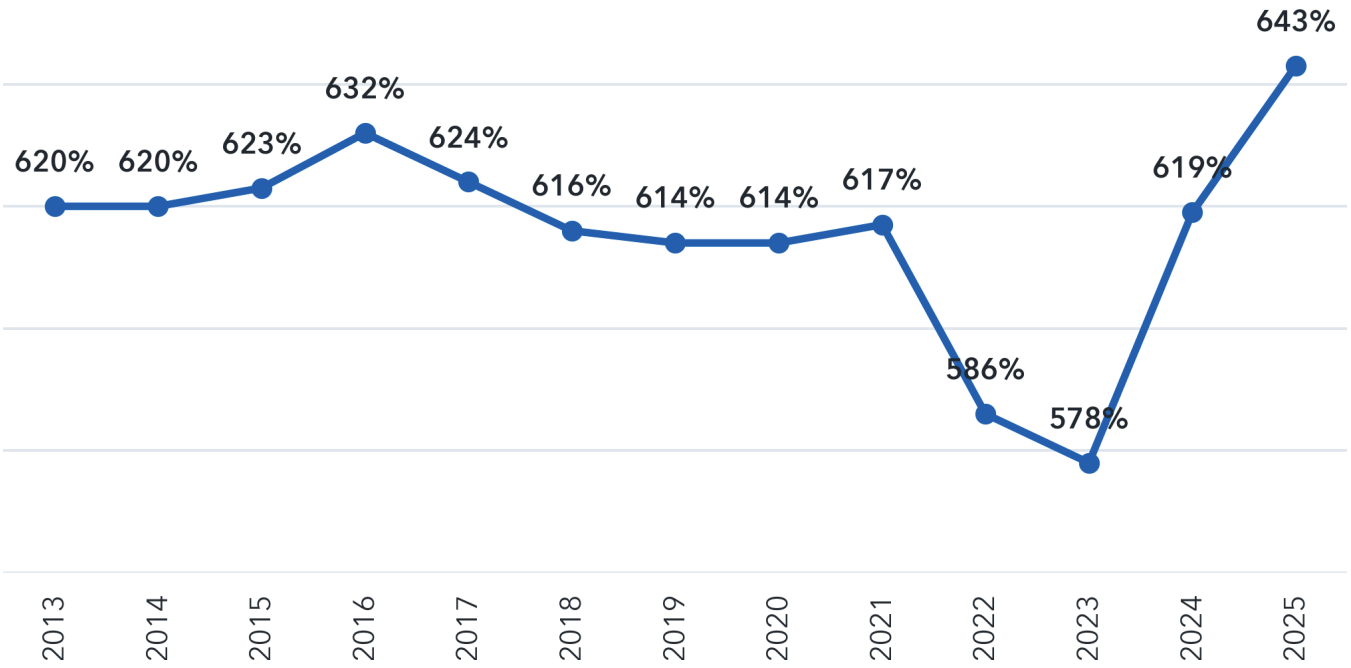
P/C % at Action Level



CAPITAL ADEQUACY: P/C SECTOR *(continued)*

FIGURE 31.

Industry Wide P/C RBC (ACL Ratio (%)



CAPITAL ADEQUACY: HEALTH SECTOR

Health entities reported a 4.9% ($10.5 billion) increase in capital and surplus (excluding affiliated amounts) from $213.4 billion in 2024 to $223.9 billion in 2025. At first glance, the high capital levels appear inconsistent with underwriting risk and performance highlighted earlier. This is due to capital contributions from parent companies and decreased dividends. Capital adequacy maintenance is due primarily to a large decline in dividends paid, from $19.3 billion in 2024 to $11.2 billion in 2025, and a 21.3% increase in paid-in surplus of $15.3 billion.

Additional observations include:

- Aggregate RBC was flat in 2025 at 589% ACL
- As of September 2025, the health insurance sector has a negative outlook by S&P

FIGURE 32.

Health % at Action Level

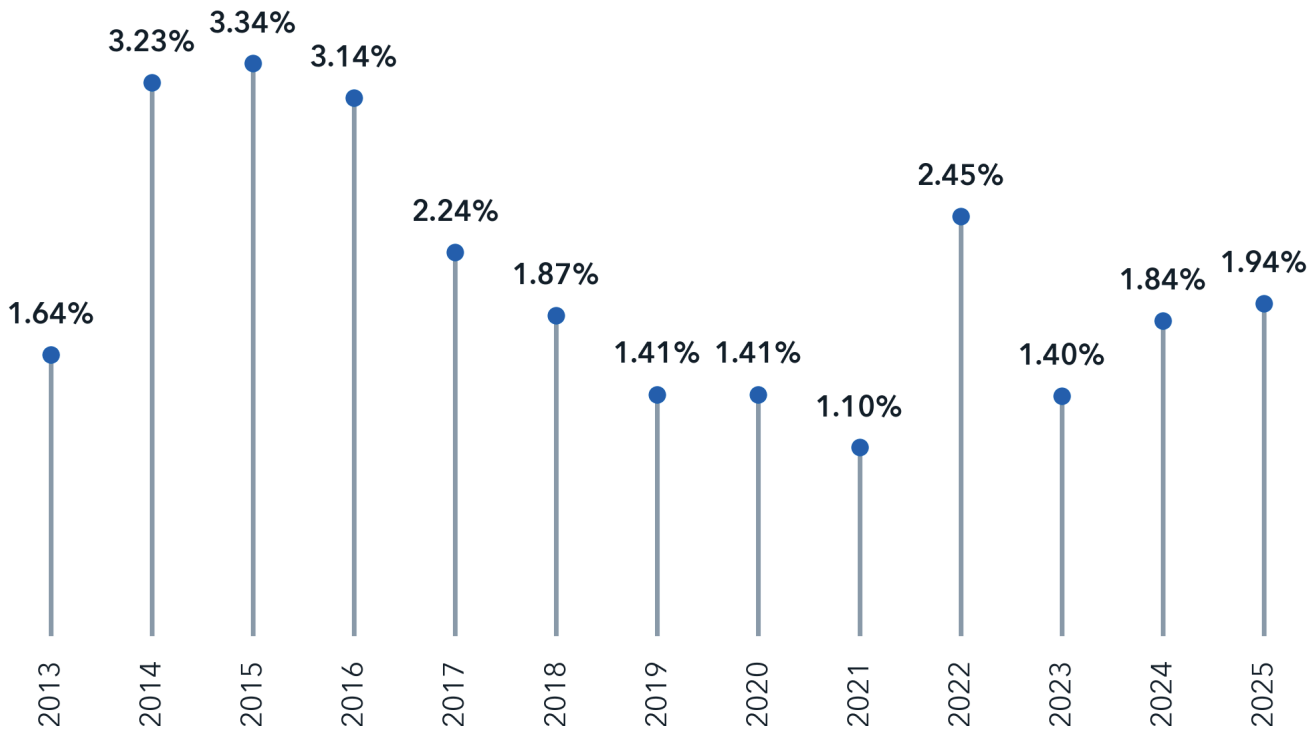
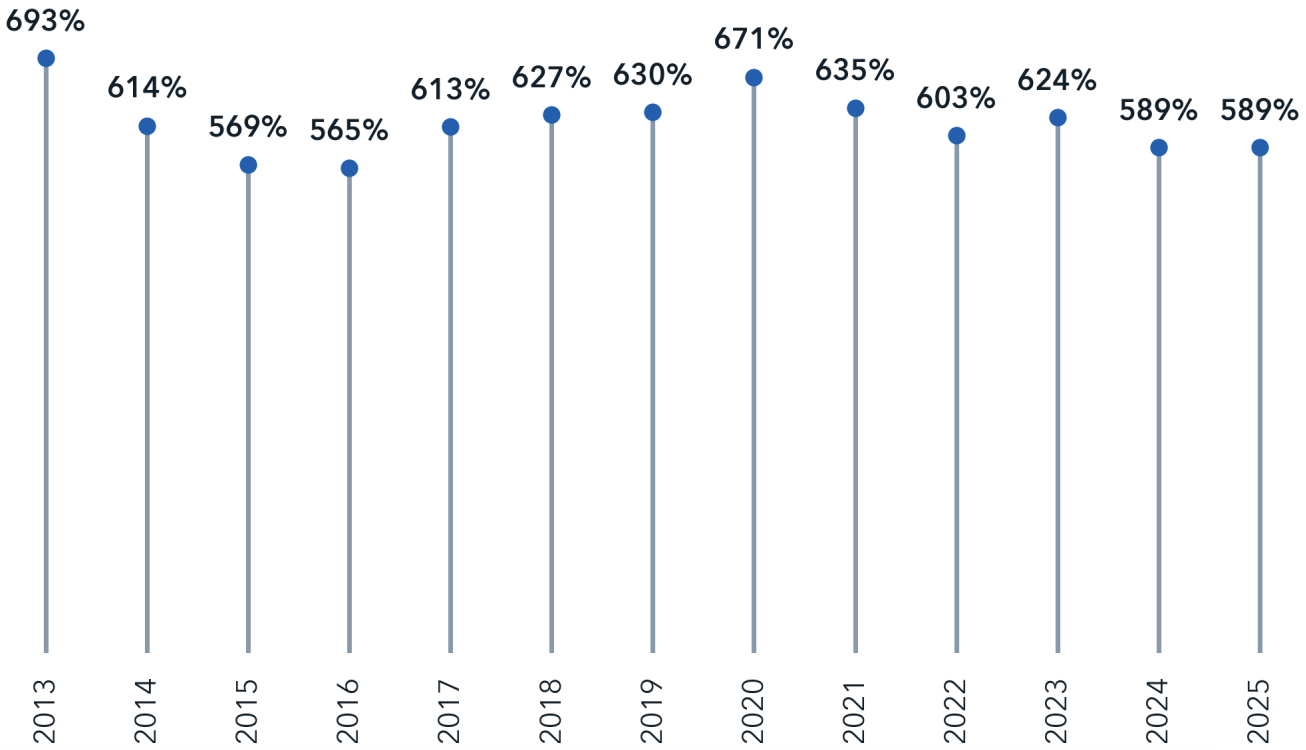


FIGURE 33.

Industry Wide Health RBC (ACL) Ratio (%)



Emerging/Other Risk

ASSESSMENT LEVEL:
Moderate–Low

TREND:
Increasing ↗

The emerging risk category of the dashboard contains broad overarching risks, some of which may be covered in part by other risk categories.

These risks may not lend themselves to specific risk indicators, do not cleanly or fully fit within another category, and are generally challenging to quantify. Therefore, the assessment of risks in this area may be more subjective. Additionally, data or tools may not be in place to measure the risk. However, these risks are believed to be prevalent and warrant additional ongoing monitoring.

The following risk categories are included in the Emerging/Other Risk Category:

- Private credit (refer to the Credit Risk section)
- Offshore reinsurance (refer to the Interconnectedness and Credit Risk sections)
- Artificial intelligence
- Cybersecurity risk
- Mortality risk

Many of these risks have been covered in part in other sections of this report and in the detailed risk dashboard. Additionally, many of these risks have associated response initiatives by state regulators via various NAIC task forces and working groups.

Artificial Intelligence

Artificial intelligence (AI) risks can manifest in many ways for insurers, for example in underwriting, claims, and investments. The AI software sector, in which insurers invest, has grown to more than 15% of the leveraged loan and private credit sectors and has recently come under pressure amid concerns about AI models. Deepfakes enabling insurance fraud and discriminatory underwriting practices are some other indicators to monitor.

Cybersecurity Risk

Demand for and writings of cyber insurance seem to have leveled off, as evidenced by the steady direct premiums written over the last three years. Product coverage terms aimed at improving underwriting performance remain a focus for insurers and appear to have led to lower loss ratios since 2021. Additionally, insurers' operations remain vulnerable to cyberattacks that could disrupt their ongoing operations.

Mortality/Aging risk

Mortality and aging may affect both the life and health sectors, and their impact depends on the line of business. U.S. life expectancy for 2026 is 79.54, a 0.18% increase from 2025. U.S. life expectancy for 2025 was 79.40, a 0.18% increase from 2024. Additionally, the demographic shift toward an older population, declining birth rates, rising health care costs, and GLP-1 drug impacts are key factors in this category.

Appendix A:
Risk Assessment Scale

RISK ASSESSMENT SCALE

Assessment levels are documented on a four-tier scale: high, moderate-high, moderate-low, or low. Assessments are based on current and historical risk indicators and expert judgment.



TREND SCALE

The trend is historical and is indicative of the level of risk. Trend levels are documented on a five-tier scale: significant increase, increasing, stable, decreasing, or significant decrease. Trends are based on the changes in risk indicators and expert judgment.



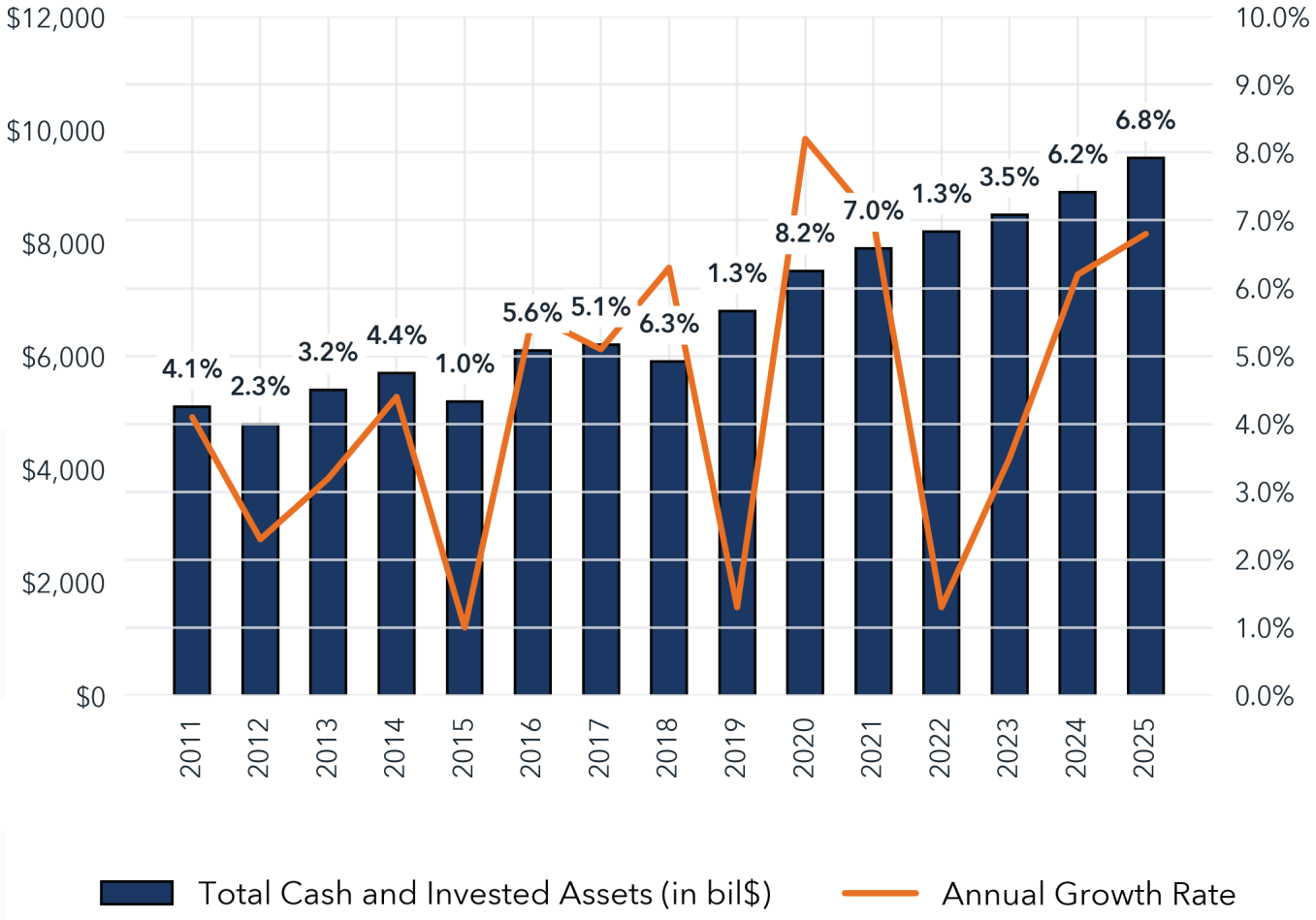
Significant Increase | Increase | Stable | Decrease | Significant Decrease

Appendix B:
Insurance Industry by the Numbers

Select industry data:

FIGURE 34.

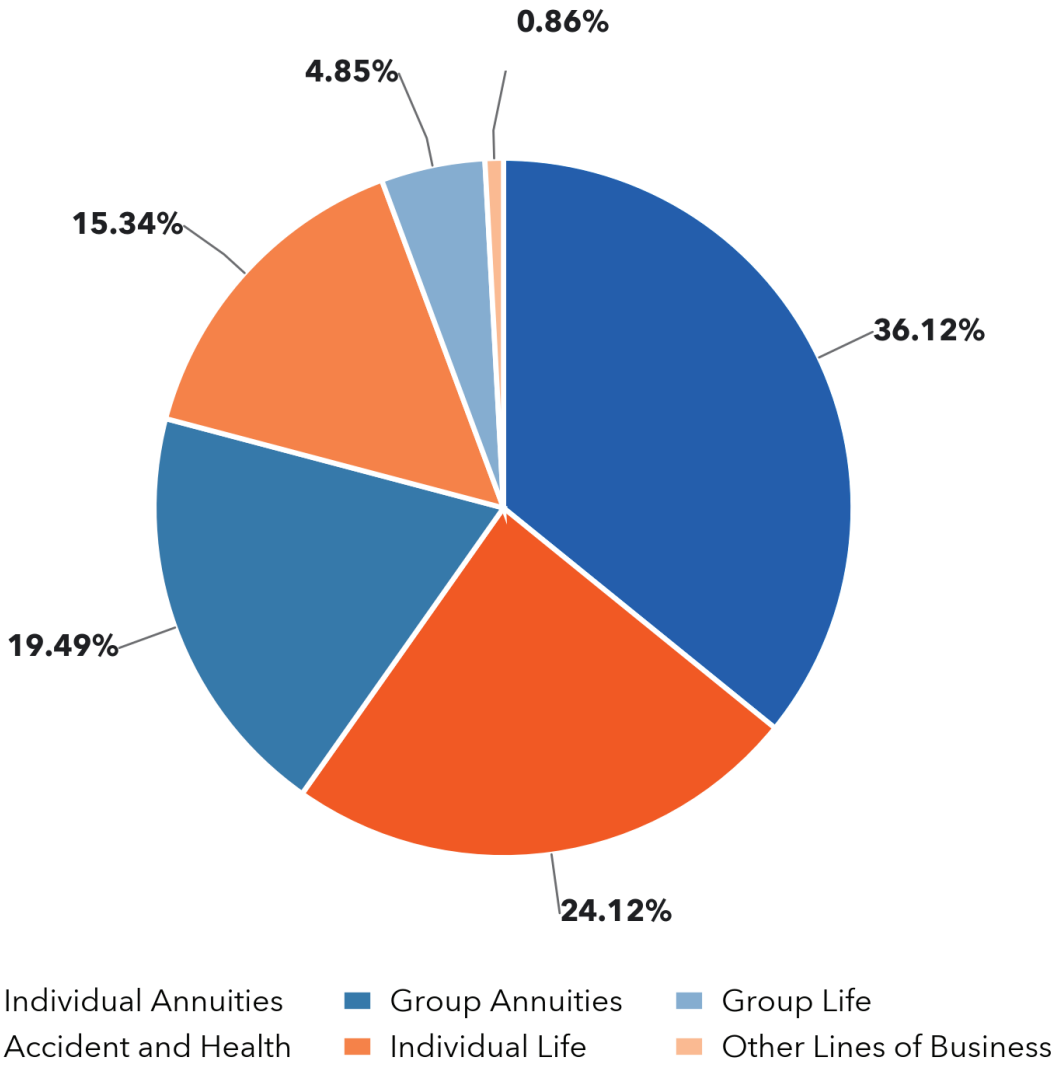
Insurance Industry Cash and Investments



LIFE INDUSTRY

FIGURE 35.

2025 Life and A&H Net Premiums Written by Type



Source: *S&P Market Intelligence*

LIFE INDUSTRY

TABLE 1.

Net Premiums by Line of Business

($ in Billions)

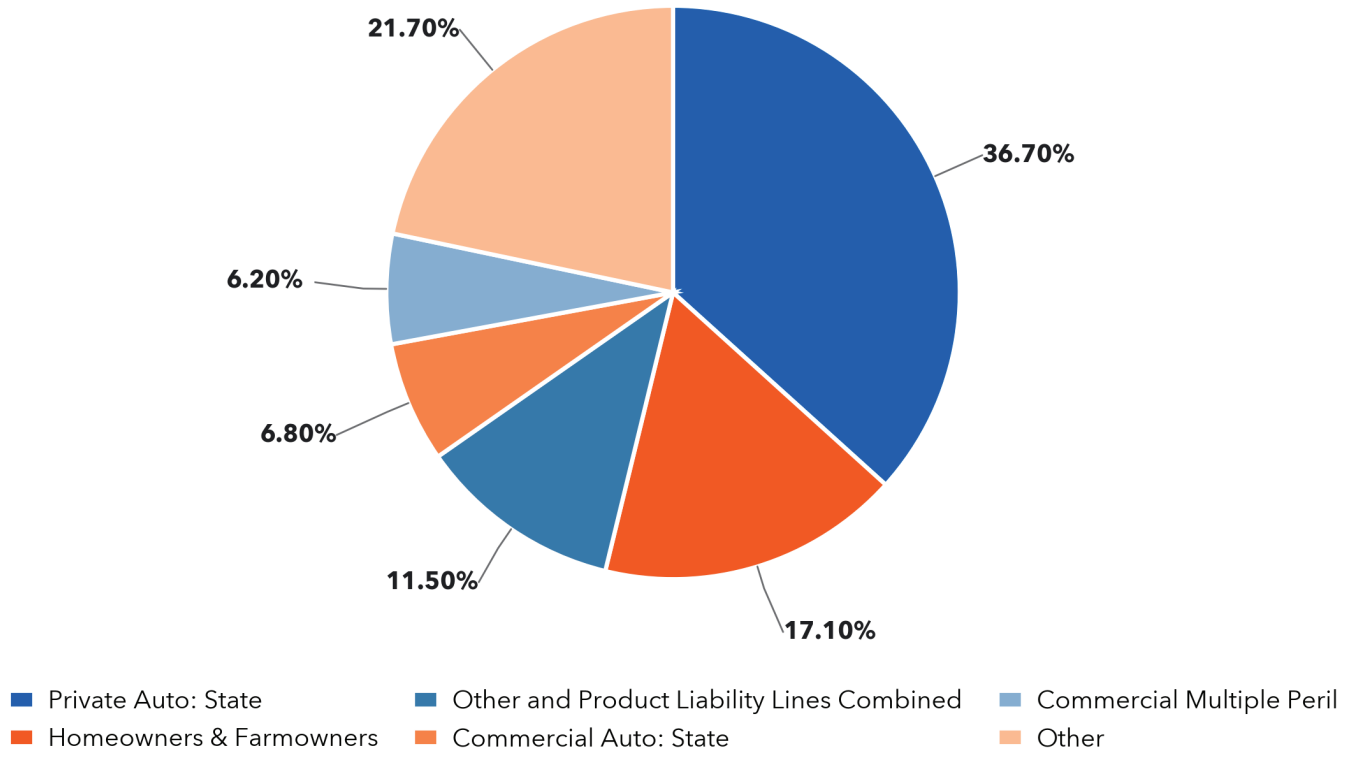
Line of Business	% Chg.	$ Chg.	2025	2024
Annuities				
Other Annuities	9.8%	$2.6	$29.0	$26.4
Life Contingent Payout	(31.3%)	($16.7)	$36.6	$53.2
Variable Annuities w/out Guar	(4.5%)	($2.9)	$63.2	$66.1
Indexed Annuities	23.4%	$17.1	$89.9	$72.8
Variable Annuities w/ Guar	3.0%	$3.2	$109.8	$106.6
Fixed Annuities	4.8%	$5.3	$114.5	$109.2
Total Annuities	**2.0%**	**$8.5**	**$442.9**	**$434.4**
Life Insurance				
Universal Life with Secondary Guar	(115.2%)	($9.4)	($1.2)	$8.2
Other Individual Life	(183.2%)	($2.7)	($1.2)	$1.5
Industrial Life	8.1%	$0.0	$0.1	$0.1
Credit Life	1.7%	$0.0	$0.5	$0.5
Other Group Life	47.8%	$0.6	$1.7	$1.2
Universal Life	(1.0%)	($0.0)	$1.7	$1.7
Variable Life	(11.1%)	($0.8)	$6.1	$6.9
YRT Mortality Risk Only	(1.3%)	($0.1)	$6.8	$6.9
Variable Universal Life	(24.2%)	($4.3)	$13.3	$17.6
Indexed Life	8.3%	$1.5	$20.2	$18.6
Term Life	(1.3%)	($0.5)	$40.4	$41.0
Whole Life	5.0%	$3.3	$69.8	$66.4
Total Life Insurance	**(7.2%)**	**($12.3)**	**$158.2**	**$170.5**
Accident & Health				
Credit A&H	4.3%	$0.0	$0.6	$0.6
Vision Only	(0.2%)	($0.0)	$2.0	$2.0
Federal Employees Health Ben	6.3%	$0.1	$2.2	$2.0
Individual Comprehensive	(40.2%)	($2.6)	$3.8	$6.4
Title XIX Medicaid	17.0%	$0.9	$6.2	$5.3
Long-Term Care	(36.5%)	($4.2)	$7.3	$11.5
Dental Only	(15.1%)	($2.3)	$13.1	$15.4
Group Comprehensive	(48.1%)	($21.7)	$23.5	$45.2
Medicare Supplement	5.2%	$1.2	$23.8	$22.6
Disability Income	5.4%	$1.6	$31.0	$29.4
Title XVIII Medicare	11.9%	$4.1	$38.1	$34.0
Other Health	(8.6%)	($3.8)	$40.3	$44.1
Total A&H	**(12.2%)**	**($26.7)**	**$191.7**	**$218.5**

Source: *NAIC Financial Regulatory Services Unit, 2025 Annual Life Industry Commentary*

P/C INDUSTRY

FIGURE 36.

2025 Net Premiums Written by Type

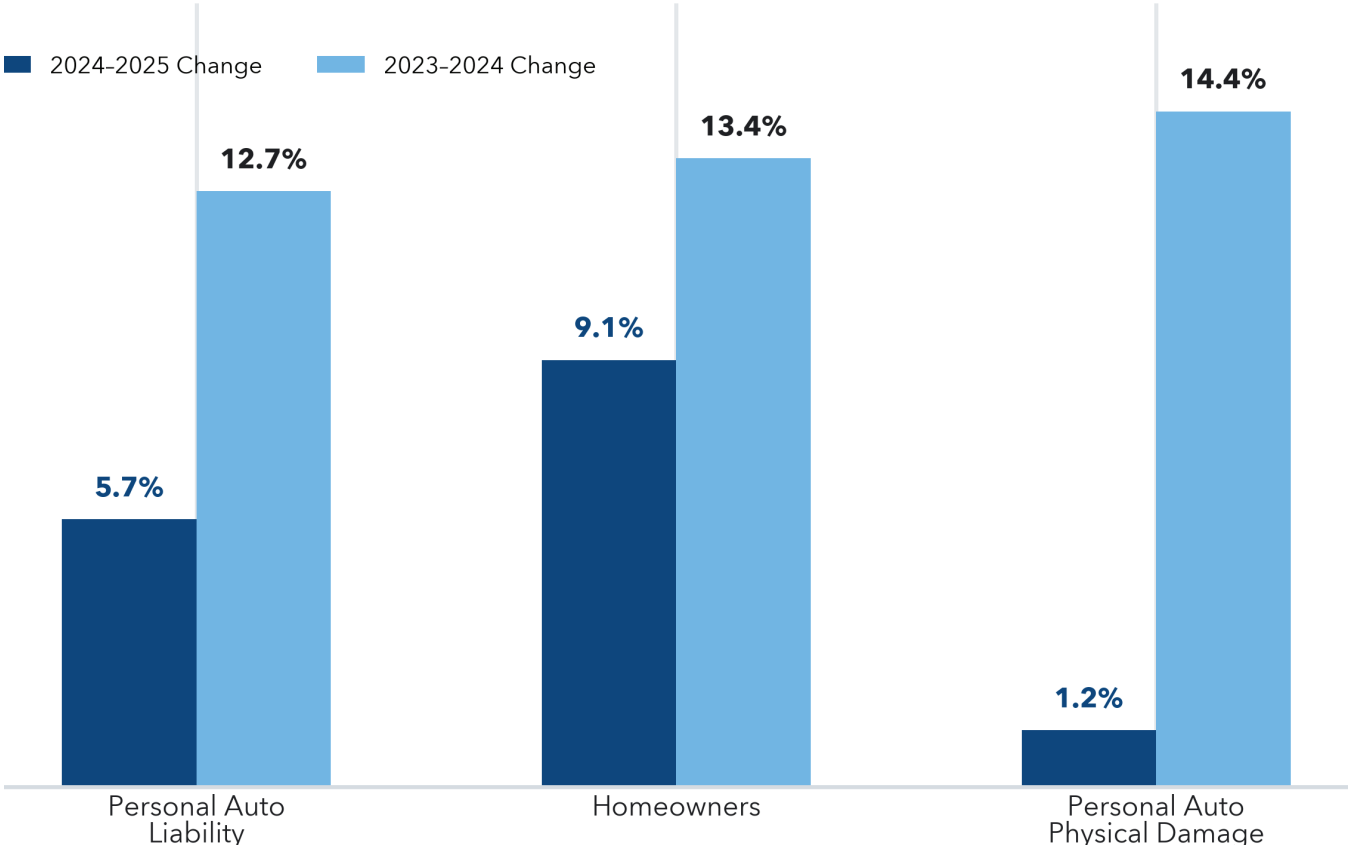


Source: *S&P Market Intelligence*

P/C INDUSTRY *(continued)*

FIGURE 37.

% Change in DPW by LOB - Personal Lines

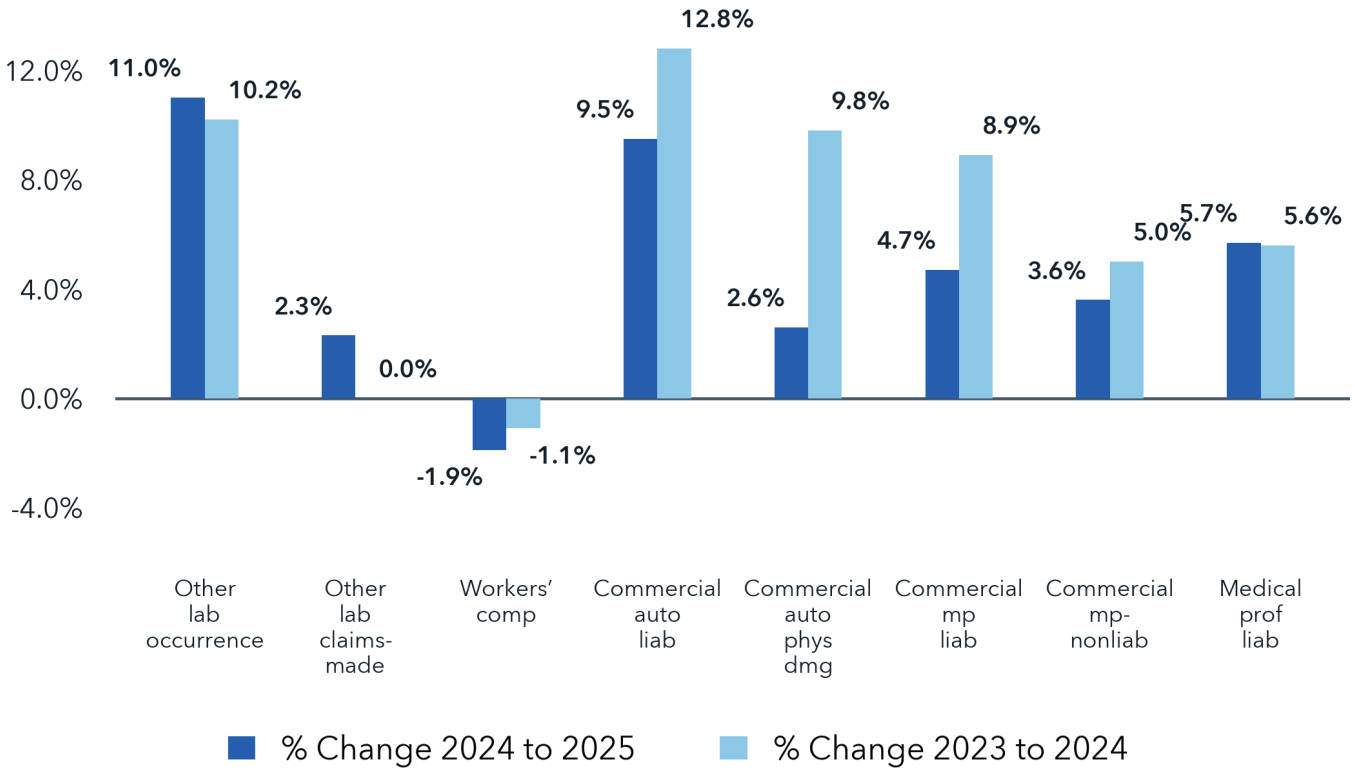


Source: *NAIC Financial Regulatory Services Unit*

P/C INDUSTRY *(continued)*

FIGURE 38.

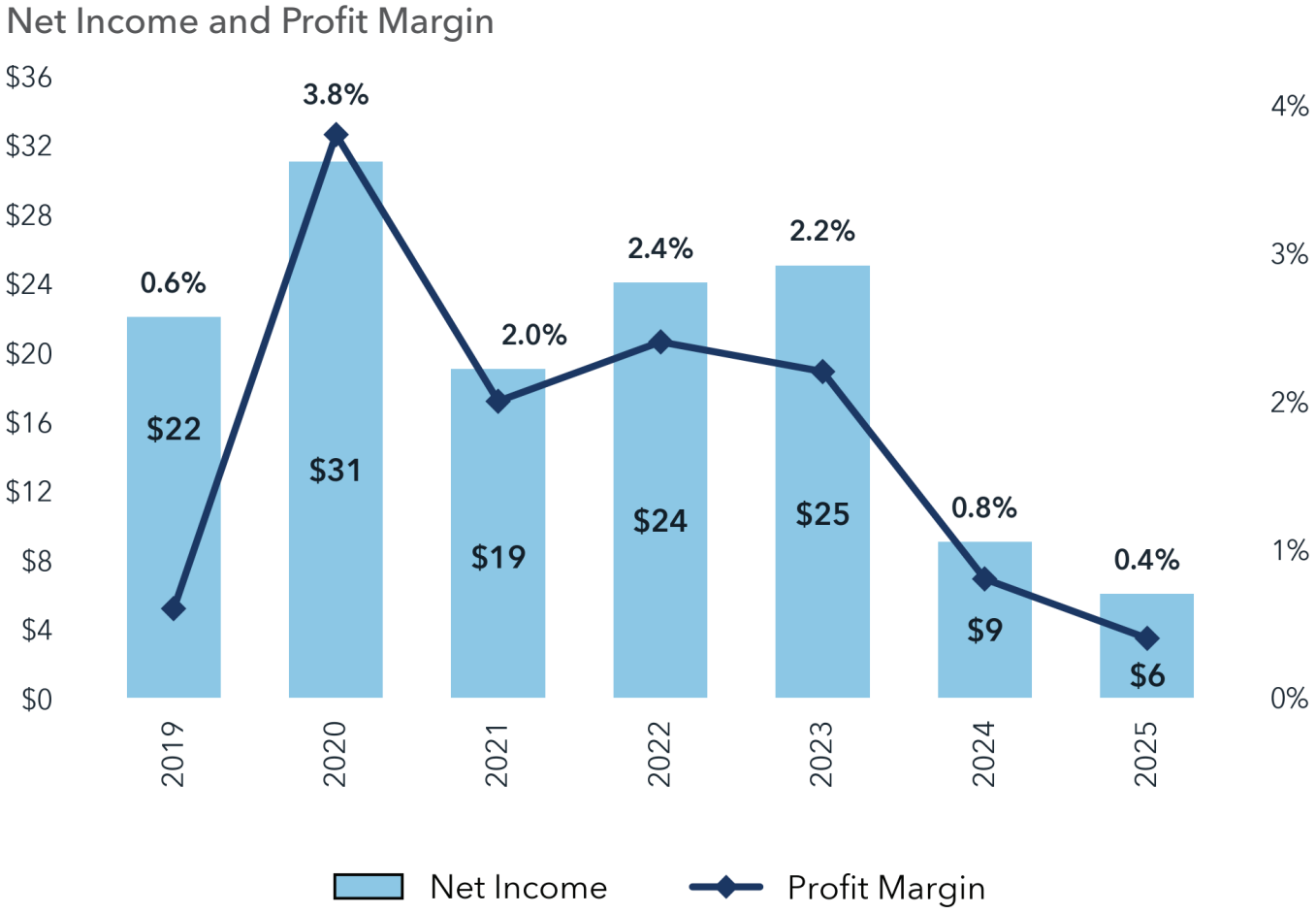
% Change in DPW by LOB - Commercial Lines



Source: *NAIC Financial Regulatory Services Unit*

HEALTH INDUSTRY

FIGURE 39.

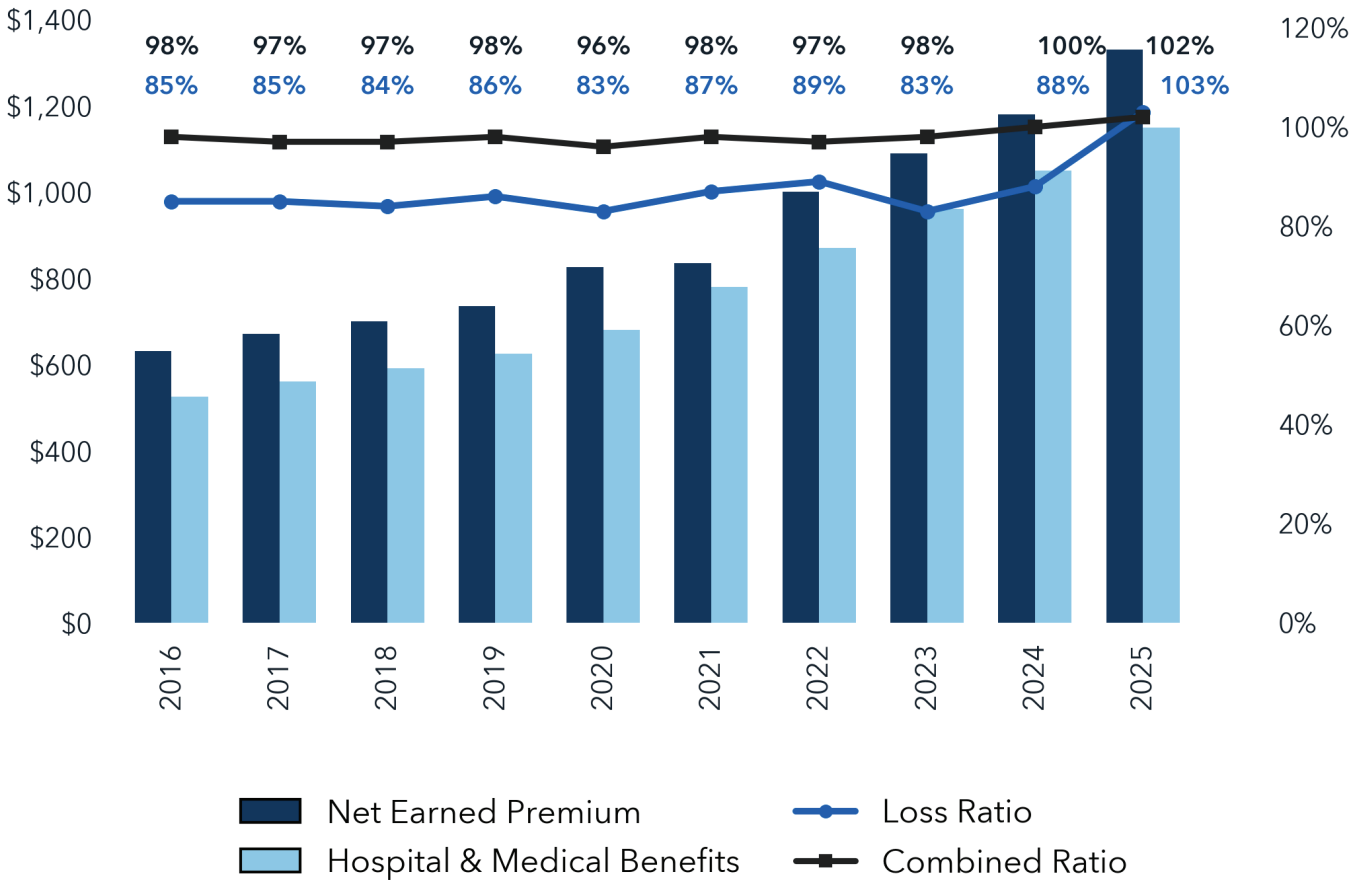


Source: *NAIC Financial Regulatory Services Unit*

HEALTH INDUSTRY *(continued)*

FIGURE 40.

Earned Premium vs. Hospital and Medical Benefits, Loss Ratio and Combined Ratio



Source: *NAIC Financial Regulatory Services Unit*


NAIC

ACLI Comment Letter on Macroprudential Risk Dashboard Summary Report

To: Bob Kasinow, Chair, NAIC Macroprudential Working Group
CC: Tim Nauheimer, NAIC

Re: NAIC Macroprudential Risk Dashboard Summary Report

Dear Members of the Financial Stability (E) Task Force and Macroprudential (E) Working Group:

Thank you for the opportunity to comment on the draft U.S. Insurance Industry Macroprudential Risk Assessment Summary Report. We appreciate the significant work reflected in the report and support the NAIC's continued efforts to identify, monitor, and better understand emerging risks across the U.S. insurance sector.

The report provides a valuable, comprehensive view of the financial condition of the industry and the changing environment in which insurers operate. We recognize the importance of the continued regulatory attention to developments identified in the report for monitoring and analysis. One of the strengths of the assessment is its recognition that the U.S. insurance industry remains financially strong overall.

At the same time, we encourage the Task Force and Working Group to provide additional context around the report's conclusions or labels regarding increasing risk; particularly where the underlying discussion does not yet establish that changes in exposure, structure, or activity have resulted in a corresponding increase in financial stability risk. We believe the report would benefit from a clearer explanation of how observed trends contribute to the conclusions in the report.

Distinguishing Increased Exposure from Increased Risk

The Executive Summary notes that aggregate capital levels continue to increase and provide a significant buffer above regulatory capital requirements. The report also assesses overall liquidity risk as "low," noting historically strong levels of cash, short-term investments, and U.S. government securities.

These findings provide important context for the discussion of emerging and increasing risks throughout the report.

We agree that monitoring emerging trends such as growth in private credit, cross-border reinsurance activity, evolving funding structures, and increasing interconnectedness are appropriate areas for continued macroprudential analysis. In several areas, however, the report appears to discuss evidence of increased activity or exposure and then discusses a

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

conclusion around risk without always demonstrating the connection between the two. Growth in an activity can certainly warrant additional regulatory attention, but growth alone does not necessarily establish that the activity presents greater financial stability risk.

In addition, the report identifies significant mitigating factors. For example, it notes that most derivative activity is used for hedging, financial institution exposures have been relatively stable or declining, and certain funding-related risks are mitigated through asset-liability management practices and the predictable nature of the underlying liabilities.

Private Credit

One example, identified in the report is the substantial growth in private credit as an area warranting continued regulatory monitoring. However, growth in private credit exposure and evidence of increased financial stability risk are distinct concepts and should not be treated interchangeably. Growth in an asset class, standing alone, does not necessarily demonstrate a corresponding increase in macroprudential risk, particularly where defining and measuring the exposure remains challenging.

Life insurers maintain long-duration liabilities and generally invest with a buy-and-hold strategy designed to align asset cash flows with long-term obligations. ACLI has consistently emphasized that evaluating asset risk in isolation can produce an incomplete picture and that risk assessments should consider both the characteristics of the assets and the liabilities they support. Accordingly, ACLI recommends that the summary avoid categorical statements suggesting that private credit, as a whole, presents distinct or elevated risk unless those statements are tied to clearly identified data or risk indicators. We recommend revising or removing the following sentences:

- “No matter how you define it, it appears to be a significant risk for the insurance industry.”
- “Private Credit remains at the forefront of the most significant credit risk.”

We believe additional insight and discussion around how growth in private credit corresponds to the risk indicator and conclusions in this section would enhance the report.

Funding Agreement Backed Notes (FABNs)

We also encourage additional consideration of how FABNs are categorized within the assessment's interconnectedness discussion. While FHLB loans create exposure of the Federal Home Loan Banks to the insurance industry, FABNs provide institutional investors, including public and private pension funds, asset managers, state and local government

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 275 member companies represent 94 percent of industry assets in the United States.

entities, and sovereign wealth funds, with access to high-quality fixed-income investments collateralized by funding agreements. To promote consistency in the classification of these activities, the Task Force and Working Group may wish to reconsider whether exposure associated with FABNs and FHLB borrowings is best characterized as interconnectedness risk or whether it may be more appropriately reflected within the report's liquidity risk framework. As the assessment notes, these funding structures are typically supported by asset-liability management programs, the predictable nature of the underlying liabilities, and, in the case of FABNs, the absence of put features.

Summary

We believe additional clarity and discussion would help ensure that the report's treatment of interconnectedness and emerging trends appropriately reflects both the nature of the counterparties involved and the mitigating characteristics identified elsewhere in the assessment.

Greater Transparency Around "Increasing" Risk Determinations

We also support the use of the dashboard and trend indicators as a practical means of communicating complex information. However, because terms such as "Increasing" and "Moderate-High" can carry significant weight, we believe the report would benefit from greater transparency regarding how those conclusions are reached.

The methodology explains that assessments are based on current and historical risk indicators and expert judgment. Expert judgment is an appropriate and necessary component of macroprudential supervision, particularly in emerging areas where data are incomplete. Nevertheless, where expert judgment plays a substantial role because the available data cannot reliably quantify the exposure or its consequences, we believe the report should make that limitation particularly clear.

This is especially important for the Emerging/Other Risk category. The report itself acknowledges that these risks may not lend themselves to specific indicators, may be difficult to quantify, and may involve areas where data or measurement tools are not yet available. Where the report concludes that risk is increasing, it should clearly identify the indicators, trends, assumptions, and judgment supporting that conclusion.

We encourage the Task Force and Working Group to consider providing additional explanation for each "Increasing" trend identifying the specific indicators that changed, the extent of the change, and how those changes support the ultimate risk conclusion.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

Where the evidence primarily demonstrates growth, complexity, uncertainty, or a need for additional information, the report could say so explicitly.

Maintaining Balance

We appreciate that a macroprudential assessment is intended to identify potential vulnerabilities before they result in financial stress. Regulators should not have to wait for losses to materialize before examining developing risks. Our comments are therefore not intended to suggest that the NAIC should reduce its attention to private credit, offshore reinsurance, interconnectedness, or other emerging areas.

Rather, we believe the report will be stronger if it maintains a clear distinction between *monitoring potential risk and concluding that risk has increased*.

That distinction is particularly important given the substantial evidence of resilience contained elsewhere in the assessment. The report identifies strong aggregate capitalization, favorable liquidity indicators, high overall bond credit quality, strong performance in significant portions of the life sector and a relatively small percentage of insurers at regulatory action levels. Those findings should be fully integrated into the discussion of emerging vulnerabilities so that the overall assessment reflects both sides of the risk picture.

Where indicators point in different directions, the report should explain how they were weighed and where data limitations prevent a firm conclusion; acknowledging that uncertainty would enhance rather than diminish the usefulness of the assessment.

Conclusion

ACLI supports the NAIC's continued development of the Macroprudential Dashboard and appreciate the thoughtful analysis reflected in this draft.

We support the Task Force and Working Group efforts to continue monitoring the areas identified in the report as emerging trends and to pursue an understanding of evolving industry practices. At the same time, we recommend enhancing transparency or explanation in the report by providing additional information regarding the indicators, assumptions, methodologies and judgement supporting risk trend assessments. Doing so would enhance stakeholder understanding of the assessment, strengthen confidence in the resulting conclusion and further support the dashboard's role as an important macroprudential monitoring tool.

Thank you for your consideration of these comments.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

Sincerely,



David Leifer
Vice President & Senior Associate General Counsel



Madison Ward
Senior Counsel

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.