

REINSURANCE (E) TASK FORCE

Reinsurance (E) Task Force Nov. 16, 2023, Minutes

Uniform Checklist for Reciprocal Jurisdiction Reinsurers (Attachment One)

Comment Letters Regarding Draft Revisions to the Uniform Checklist for Reciprocal Jurisdiction Reinsurers (Attachment Two)

Reinsurance (E) Task Force Referral to the Property and Casualty Risk-Based Capital (E) Working Group to Add New Disclosures for Catastrophe Reinsurance Programs for P/C RBC (Attachment Three)

Implementation of Model #787 (XXX/AXXX) *Term and Universal Life Insurance Reserve Financing Model Regulation*; Status as of Nov. 1, 2023 (Attachment Four)

[https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/rtf/2023fallnm/meeting/minutes/rtf 11.16.2023 contents.docx](https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member%20meetings/e%20cmte/rtf/2023fallnm/meeting/minutes/rtf%2011.16.2023%20contents.docx)

Draft Pending Adoption

Draft: 11/27/23

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2023 Fall National Meeting*)
November 16, 2023

The Reinsurance (E) Task Force met Nov. 16, 2023. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Adrienne A. Harris, Vice Chair, represented by John Finston and Michael Campanelli (NY); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler and Todrick Burks (AL); Ricardo Lara represented by Monica Macaluso (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Amy Waldhauer (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Patricia Coppel (GA); Michelle B. Santos represented by Alice Cruz (GU); Doug Ommen represented by Kim Cross (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Sarah Smith (KS); Sharon P. Clark represented by Russell Coy (KY); James J. Donelon represented by Tom Travis and Stewert Guerin (LA); Gary D. Anderson represented by Christopher Joyce (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker (MN); Troy Downing represented by Kari Leonard (MT); Mike Causey represented by Jessica Price (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Patrick Zeller (NM); Judith L. French represented by Dwight Radel and Tracy Snow (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Wise represented by Geoffrey Bonham (SC); Cassie Brown represented by Chris Miller (TX); Jon Pike represented by Malis Rasmussen (UT); Scott A. White represented by Stephen Thomas (VA); Kevin Gaffney and Sandra Bigglestone (VT); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Summer National Meeting Minutes

Macaluso made a motion, seconded by Executive Deputy Superintendent Finston, to adopt the Task Force's July 24 minutes (*see NAIC Proceedings – Summer 2023, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met Oct. 26 and Sept. 20 to approve several certified and reciprocal jurisdiction reinsurers for passporting. He noted that the Working Group plans to meet Nov. 27 and Dec. 20.

Kaumann stated that the Working Group has now approved 70 reciprocal jurisdiction reinsurers and 42 certified reinsurers for passporting and that 47 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Phifer, to adopt the report of the Reinsurance Financial Analysis (E) Working Group. The motion passed unanimously.

3. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Macaluso stated that the Working Group met Nov. 1, Oct. 11, and Sept. 21 in regulator-to-regulator session pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings.

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During its Nov. 1 meeting, the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. She noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems. She added that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

4. Adopted the Draft Revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*

Jake Stultz (NAIC) stated that during its Oct. 26 meeting, the Reinsurance Financial Analysis (E) Working Group adopted revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*, which add the alien number and a short question section to guide the users on what information is required to be provided based on the company's specific situation. He stated that the Task Force exposed the revisions on Oct. 27 and that the draft exposure document (Attachment One) and the comment letter received (Attachment Two) were included in the meeting materials.

Stultz noted that comments received supported the proposed revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* and included several suggestions on ways that the processes of both the Reinsurance Financial Analysis (E) Working Group and the states to review and approve reciprocal jurisdiction reinsurers could be enhanced to be more efficient for companies during these processes. Stultz suggested that the Task Force take these extra suggestions under advisement and direct NAIC staff to look at any changes that can be implemented. Stultz stated that the NAIC staff recommendation was to adopt the changes to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*.

Karalee Morrell (Reinsurance Association of America—RAA) stated that she agrees with adoption of the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* and recommended that NAIC staff review the processes that were noted in the RAA's comment letter to see if enhancements could be made.

Kaumann made a motion, seconded by Guerin, to adopt the revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*. The motion passed unanimously.

5. Adopted a Referral to the Property and Casualty Risk-Based Capital (E) Working Group to Add New Disclosures for Catastrophe Reinsurance Programs for P/C RBC

Stultz stated that with the recent catastrophe-related insolvencies in the market and increasing cost of catastrophe reinsurance coverage, state insurance regulators had identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program and any changes made from year to year. He noted that such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in property/casualty (P/C) risk-based capital (RBC), the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC blanks.

Stultz stated that the Task Force exposed a draft of the new disclosure on Sept. 21 and that it received two comment letters (Attachment Three). Stultz noted that because of the comment letters received and discussions with interested parties, NAIC staff created a new working draft of the new disclosures, which reduced the information that was required to be disclosed while still providing valuable information to the state insurance regulators. He also said that the new working draft is included in the referral from the Task Force to the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Three).

Morrell, speaking on behalf of the RAA, the National Association of Mutual Insurance Companies (NAMIC), and the American Property Casualty Insurance Association (APCIA), stated that she appreciates the changes that have

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been made from the original draft to the new working draft. She stated that her remaining concerns include that the disclosures are not limited to material perils and that the proposal still does not fully include scoping of companies that are not a concern.

John Huff (Association of Bermuda Insurers and Reinsurers—ABIR) stated that he agrees with Morrell’s comments.

Snow stated that he had concerns with the RBC threshold that was recommended in the RAA comment letter and recommended that sensitivity analysis would be a better alternative.

Macaluso made a motion, seconded by Wolf, to approve the referral from the Task Force to the Property and Casualty Risk-Based Capital (E) Working Group with the updated working draft of the catastrophe reinsurance program disclosures. The motion passed unanimously.

6. Discussed Ongoing Projects at the NAIC that Affect Reinsurance

Stultz stated that the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies that they regulate. He noted that the worksheet will allow for more consistent and thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force’s policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook*. He said that the work completed using the reinsurance worksheet will remain confidential. He stated that the Macroprudential (E) Working Group adopted the reinsurance worksheet during its June 20 meeting and that the Financial Condition (E) Committee adopted it at the Summer National Meeting.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its first year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers asset adequacy testing (AAT) for life insurers, but he noted that the Task Force’s primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) or the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement). He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

6. Received a Status Report on the States’ Implementation of Model #787

Stultz stated that the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) became an accreditation standard on Sept. 1, 2022, with enforcement beginning on Jan. 1, 2023. He noted that as of Nov. 1, 34 jurisdictions have adopted Model #787. He noted that Model #787 mirrors *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) and that under the accreditation standards, a state may meet the requirements through an administrative practice, such as an actuarial guideline. Stultz stated that 12 states have advised NAIC staff that they will rely on AG 48, either through an insurance bulletin or through simple adoption of the NAIC’s *Accounting Practices and Procedures Manual* (AP&P Manual). He added that if a state adopts Model #787, it also will need to adopt Section 5B(4) of the *Credit for Reinsurance Model Law* (#785). He stated that the map showing the current adoption status for Model #787 was included in the meeting materials (Attachment Four).

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Dan Schelp (NAIC) noted that all accredited NAIC jurisdictions are in compliance with the new accreditation standard for Model #787.

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

SharePoint/NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2023FallNM/Meeting/Minutes/0 ReinsuranceTFmin 11.16.2023.docx

Uniform Checklist for Reciprocal Jurisdiction Reinsurers

Reciprocal Jurisdiction Reinsurer Information:

Alien Number:

Company Name:

Address:

Primary Contact:

Domiciliary Jurisdiction / Supervisory Authority:

Applicable Lines of Business:

I. Filing Requirements for “Lead State” of Reciprocal Jurisdiction Reinsurer

Check appropriate box:

Initial Filing

Annual Filing

The “Lead State” will uniformly require assuming insurers to provide the following documentation so that other states may rely upon the Lead State’s determination:

Citation to State Law / Regulation	<u>Requirements</u>	Y or N	<u>Reference and Supporting Documents</u>
Model #786 § 9A & B Model #785 §2F(1)(a)	<p>Status of Reciprocal Jurisdiction: The assuming insurer must be licensed to write reinsurance by, and has its head office or is domiciled in, a Reciprocal Jurisdiction that is listed on the <i>NAIC List of Reciprocal Jurisdictions</i>:</p> <ul style="list-style-type: none"> • A non-U.S. jurisdiction that is subject to an in-force Covered Agreement with the United States; • A U.S. jurisdiction that meets the requirements for accreditation under the NAIC Financial Standards and Accreditation Program; • A Qualified Jurisdiction that has been determined by the commissioner to meet all applicable requirements to be a Reciprocal Jurisdiction. 		The Reciprocal Jurisdiction Reinsurer should identify which type of jurisdiction it is domiciled in and provide any documentation to confirm this status if requested by the commissioner.
Model #786 § 9C(2)	<p>Minimum Capital and Surplus: The assuming insurer must have and maintain on an ongoing basis minimum capital and surplus, or its equivalent, calculated on at least an annual basis as of</p>		

Uniform Checklist for Reciprocal Jurisdiction Reinsurers

Approved by the Reinsurance (E) Task Force on ~~May 16, 2022~~

Attachment One
Reinsurance (E) Task Force
11/16/23

Citation to State Law / Regulation	Requirements	Y or N	Reference and Supporting Documents
			information using Form CR-F (property/casualty) and/or Form CR-S (life and health), which ReFAWG considers sufficient to meet this requirement.
<p>Model #786 § 9C(6)</p> <p>Model #785 §2F(1)(f)</p>	<p>Prompt Payment of Claims: The assuming insurer must maintain a practice of prompt payment of claims under reinsurance agreements. The lack of prompt payment will be evidenced if any of the following criteria is met:</p> <ul style="list-style-type: none"> • More than fifteen percent (15%) of the reinsurance recoverables from the assuming insurer are overdue and in dispute as reported to the commissioner; • More than fifteen percent (15%) of the assuming insurer’s ceding insurers or reinsurers have overdue reinsurance recoverable on paid losses of 90 days or more which are not in dispute and which exceed for each ceding insurer \$100,000, or as otherwise specified in a Covered Agreement; or • The aggregate amount of reinsurance recoverable on paid losses which are not in dispute, but are overdue by 90 days or more, exceeds \$50,000,000, or as otherwise specified in a Covered Agreement. 		<p>The calculation for Prompt Payment of Claims is based upon the total global claims of the Reciprocal Jurisdiction Reinsurer, and not based solely on U.S. claims. NAIC staff will perform a slow-pay analysis based upon filings of Schedule F by U.S. domiciled ceding insurers with respect to property reinsurance. The level of detail required to perform a slow pay analysis does not exist in Schedule S with respect to life reinsurance. The Lead State should attempt to obtain this information directly from the Reciprocal Jurisdiction Reinsurer and/or its supervisor.</p>
	<p>Fee: [Insert \$ amount of the fee applicable in this state.]</p>		

II. Filing Requirements for “Passporting State” of Reciprocal Jurisdiction Reinsurer

In order to facilitate multi-state recognition of assuming insurers and to encourage uniformity among the states, the NAIC has initiated a process called “passporting” under which the commissioner has the discretion to defer to another state’s determination with respect to compliance with this section. Passporting is based upon individual state regulatory authority, and states are encouraged to act in a uniform manner in order to facilitate the passporting process. States are also encouraged to utilize the passporting process to reduce the amount of documentation filed with the states and reduce duplicate filings.

If an NAIC accredited jurisdiction has determined that the conditions set forth under the *Filing Requirements for Lead States* have been met, the commissioner has the discretion to defer to that jurisdiction’s determination, and add such assuming insurer to the list of assuming insurers to which cessions shall be granted credit. The commissioner may accept financial documentation filed with the Lead State or with the NAIC. The following application procedures should be considered and documentation must be filed with the Passporting State:

A. Has the applicant been approved by an NAIC accredited jurisdiction? (Yes or No) _____.

If A. is “No” proceed to the [Full Application section]

If A. is “Yes”:

B. Has the applicant been approved by ReFAWG? (Yes or No) _____.

If B. is “Yes,” proceed with this section

If B. is “No”:

C. Does [state] allow application submission before ReFAWG approval (see [state] specific instructions)? (Yes or No) _____.

If C. is “Yes,” proceed with this section

If C. is “No” – hold application for lead state confirmation that ReFAWG has approved.

Citation to State Law / Regulation	Requirements	Y or N	Reference and Supporting Documents
Model #786 § 9E(2) Model #785 §2F(3)	Form RJ-1: An assuming insurer must submit a properly executed Form RJ-1 and additional information as the commissioner may require, except to the extent that they conflict with a Covered Agreement.		Form RJ-1
Model #786 § 9E(1)	Lead State: If an NAIC accredited jurisdiction has determined that the required conditions have been met, the commissioner has the discretion to defer to that jurisdiction’s		The applicant must provide a copy of the approval letter or other documentation provided to the applicant by the NAIC accredited jurisdiction. The letter should include the state,

Uniform Checklist for Reciprocal Jurisdiction Reinsurers
 Approved by the Reinsurance (E) Task Force on ~~May 16, 2022~~

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 Reinsurance (E) Task Force
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Citation to State Law / Regulation	Requirements	Y or N	Reference and Supporting Documents
	determination. The commissioner may accept financial documentation filed with another NAIC accredited jurisdiction or with the NAIC in satisfaction of this requirement.		effective date, and lines of business. The applicant also should have been reviewed and recommended for passporting by ReFAWG.
	Fee: [Insert \$ amount of the fee applicable in this state.]		

III. Interaction Between Certified Reinsurers and Reciprocal Jurisdiction Reinsurers

Under Section 8A(5) of the *Credit for Reinsurance Model Regulation* (#786), credit for reinsurance shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer with respect to Certified Reinsurers. Under Section 2F(7) of the *Credit for Reinsurance Model Law* (#785), credit shall be taken with respect to Reciprocal Jurisdiction Reinsurers only for reinsurance agreements entered into, amended, or renewed on or after the effective date of the statute adding this subsection, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements to be designated a Reciprocal Jurisdiction Reinsurer, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal.

It is expected that certain assuming insurers may be considered to be Certified Reinsurers for purposes of in-force business and Reciprocal Jurisdiction Reinsurers with respect to reinsurance agreements entered into, amended, or renewed on or after the effective date. In addition, these same reinsurers may also have certain blocks of business that are fully collateralized under the prior provisions of Model #785 and Model #786. The NAIC blanks will be amended to reflect the status of these reinsurers with respect to each type of insurance assumed.

<https://naiconline.sharepoint.com/:b:/r/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/RTF/2023FallNM/Meeting/Minutes/1%20Uniform%20Checklist%20for%20Reciprocal%20Reinsurers.pdf?csf=1&web=1&e=nAzFZF>



November 10, 2023

Chlora Lindley-Myers, Chair
John Rehagen, Acting Chair
Reinsurance (E) Task Force
National Association of Insurance Commissioners
c/o Jake Stultz and Dan Schelp
via email jstultz@naic.org and dschelp@naic.org

Re: RAA Comments Regarding Exposed Draft Revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*

Dear Director Lindley-Myers:

The Reinsurance Association of America (RAA) appreciates the opportunity to submit comments to the Reinsurance (E) Task Force regarding the exposed draft revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*. The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

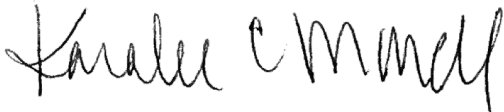
The RAA appreciates the Task Force's thoughtful engagement in updating the checklist, which should help to streamline the process. Adding subparagraphs (A), and (B) for passporting applicants will be helpful for reinsurers, but subparagraph (C) will only be helpful if states are abundantly clear on when they want passporting applications, which many have not been. The RAA believes some additional changes could further streamline and modernize the process. If possible, we recommend harmonizing timing requirements between approval by the Reinsurance Financial Analysis (E) Working Group (ReFAWG) and state processes. Specifically, more clarity on deadlines for the passporting applications, both for first time submissions and renewals, with coordinated changes to deadlines in state regulations and online information about passporting applications would help to standardize the process. For example, some states do not accept passporting applications before approval by the ReFAWG. The process should be changed to indicate that the passporting applications for reciprocal jurisdiction reinsurers are due within a certain number of days of receipt of REFAWG approval. Clarity on the timing and order of this process would be extremely helpful and should be made clear on the checklist.

Additional modernization of the process could be facilitated by allowing reciprocal jurisdiction reinsurers to use online payment methods or electronic transfers to pay the application fee.

Similarly, including versions of the checklist and RJ-1 forms on the state department of insurance webpages in formats that are easily downloaded, imported and completed by applicants would improve the process.

The RAA appreciates the opportunity to work with you on this important project and specifically to address the timing concerns. We look forward to further engagement on these issues.

Sincerely,



Karalee C. Morell
SVP and General Counsel
Reinsurance Association of America

<https://naiconline.sharepoint.com/:b:/r/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/RTF/2023FallNM/Meeting/Minutes/2%20RAA%20Comments.pdf?csf=1&web=1&e=fcJNtk>

TO: Tom Botsko, Chair of the Property and Casualty Risk-Based Capital (E) Working Group

FROM: John Rehagen, Acting Chair of the Reinsurance (E) Task Force

RE: Referral on Draft RBC Disclosures on CAT Reinsurance Coverage

DATE: November 16, 2023

Executive Summary & Recommendation

At the 2023 Summer National Meeting call of the Reinsurance (E) Task Force, it was noted that a project had been started by NAIC staff to create a new disclosure to collect more information of insurers catastrophe reinsurance programs. For background, with the recent catastrophe-related insolvencies in the market and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program and any changes from the prior year on an annual basis. As such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in Property/Casualty RBC, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC Blanks.

The first draft of the proposed new disclosure was exposed for comments on Sept. 21, and two comment letters were received. As a result of the comment letters, NAIC staff made changes to their draft document, which is included in this referral. The Task Force reviewed these changes on its call on Nov. 16, and agreed with NAIC staff's changes and recommend that the Property and Casualty Risk-Based Capital (E) Working Group use that as their working document going forward. All these documents are included as attachments to this referral.

We recommend that the Property and Casualty Risk-Based Capital (E) Working Group expose the updated working copy of the proposal at its during the Fall National Meeting. Reinsurance (E) Task Force members and staff support will be available to assist with any questions during this process.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493

Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175

New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207

www.naic.org

**Capital Adequacy (E) Task Force
RBC Proposal Form**

Attachment Three
Reinsurance (E) Task Force
11/16/23

- | | | |
|---|---|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input checked="" type="checkbox"/> Catastrophe Risk (E) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p align="right">DATE: <u>September 20, 2023</u></p> <p>CONTACT PERSON: <u>Jake Stultz</u></p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: <u>jstultz@naic.org</u></p> <p>ON BEHALF OF: <u>Reinsurance (E) Task Force</u></p> <p>NAME: <u>John Rehagen (Chair)</u></p> <p>TITLE: <u>Director, Insurance Company Regulation</u></p> <p>AFFILIATION: <u>Missouri DCI</u></p> <p>ADDRESS: <u>P.O. Box 690</u> <u>Jefferson City, MO 65102</u></p>	<p align="center">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2023-13-CR</u> Year <u>2024</u></p> <p align="center">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|--|--|
| <input type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Given the recent catastrophe-related insolvencies and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program on an annual basis. As such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in Property/Casualty RBC, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC Blanks.

Additional Staff Comments:

The RBC Blanks proposal has been developed, exposed for public comment and discussed in detail through the meetings of the Reinsurance (E) Task Force to ensure that it meets regulatory needs and is fit for purpose.

**** This section must be completed on all forms.**

Revised 2-2023

INTERROGATORY ON CATASTROPHE RISK REINSURANCE PROGRAM PR027 (This interrogatory is for all natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire.)

- (1) Provide a narrative description of the natural catastrophe reinsurance program in place at the insurer, by peril where appropriate, including but not limited to:
- (1a) Traditional reinsurance coverage in place (e.g., aggregate excess of loss, aggregate stop loss) and layers thereof, attachment points, participating reinsurers (affiliated/not affiliated), exhaustion limits, capacity for each category of risk transfer, information on existing quota share and related attachment points, reinstatement provisions, etc.

[Redacted]

- (1b) Non-traditional alternatives to reinsurance (e.g., catastrophe bonds and other insurance-linked securities, sidecars, parametric coverage, weather derivatives, etc.)

[Redacted]

- (2) Provide a graphical representation of the catastrophe reinsurance program (i.e., structure chart or reinsurance tower) in place at the insurer, by peril where appropriate. Please include any relevant data that is requested in Question (1a) above.

[Redacted]

(3)
Y/N

- (3) Have there been any significant changes in the reinsurance program structure from the prior year (Y/N)

[Redacted]

- (3a) Describe any significant changes from the prior year:

[Redacted]

- (4) Provide the annual program renewal date(s):

	(4a) Reinsurance Treaty	(4b) Begin Date	(4c) End Date
0000001			
0000002			
0000003			
0000004			
0000005			
0000006			
0000007			
0000008			
0000009			
0000010			
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November 7, 2023

John Rehagen, Chair
Reinsurance (E) Task Force
National Association of Insurance Commissioners
c/o Jake Stultz and Dan Schelp
Via email: jstultz@naic.org and dschelp@naic.org

Re: Joint Trades Comments Regarding RBC Reinsurance Program Interrogatory

Dear Mr. Rehagen:

Thank you for the opportunity to comment on the proposed P&C Risk-Based Capital Interrogatory (the proposal), which is intended to collect additional detail from insurers on the structure of their natural catastrophe reinsurance program, including any changes from the prior year. This letter is submitted on behalf of the American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA).

APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions – protecting families, communities, and businesses in the U.S. and across the globe.

NAMIC consists of more than 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write \$357 billion in annual premiums and represent 69 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

The RBC proposal form provided the following justification for the proposal:

Given the recent catastrophe-related insolvencies and increasing cost of CAT reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program on an annual basis.

We fully appreciate and support insurance regulators' need to understand insurers' natural catastrophe risk exposure and the reinsurance programs designed to mitigate these risks. We also appreciate that the proposal is designed as an RBC interrogatory to ensure its confidentiality. After reviewing the proposal and discussing it with our members, we had a number of questions about the purpose of the proposal, its scope, and whether its proposed format would provide useful information to state regulators. To address these questions and ensure our comments are fully informed and useful, we held conversations with a member of the Task Force and several NAIC staff. Following is a brief summary of a few of the questions and the answers provided by the NAIC:

Q1 Have there in fact been many recent catastrophe related insolvencies? 2022 P&C RBC Aggregate Report indicates continued improvement in the number of insurers at various RBC action levels.

A1 Yes, there have been several recent insolvencies in certain catastrophe prone states, but there have also been recent insolvencies and impairments in other states, particularly those exposed to secondary perils such as convective storms. Some smaller insurers are reporting challenges in affording sufficient reinsurance coverage and are retaining more catastrophe risk.

Q2 Current RBC RCat requires reporting catastrophe risk, net of reinsurance, for Hurricane, EQ and Windstorm (information only) at the 50, 100, 250 and 500 return periods. The change RCat values from prior periods would provide directional and quantitative information about net catastrophe exposure. Do the states really need the high level of detail in the proposal for all insurers subject to RCat reporting?

A2 Yes. Several states have been requesting this information annually from many of their domestic insurers, and while the reinsurance program is considered in detail on financial examinations, that process is too infrequent. An annual requirement would provide all states with this information for each of their domestic insurers.

Q3 Has the NAIC considered that most insurance groups purchase insurance at the group level? The disclosures in the proposal would have to be allocated to individual RBC reporting entities and is unlikely to provide consistent and useful information.

A3 The Task Force might consider allowing group reporting.

Q4 Would the NAIC consider limiting the scope of the proposal? RBC aggregate data shows nearly 1400 reporting entities with greater than a 1000% RBC ratio. Large groups are required to report similar information in their ORSA, Annual Registration Statement and in public reporting to the SEC.

A4 The Task Force might consider limiting the scope of the proposal if industry suggested thresholds would not exclude insurers that lack sufficient reinsurance programs for natural catastrophe perils.

Q5 The narrative description in the proposal is quite detailed, requiring a description of the natural catastrophe reinsurance program by peril, and separately providing granular program details (including type of coverage, layers, attachment points, limits, reinstatement provisions, etc.) for traditional and non-traditional reinsurance, and a graphical representation of the reinsurance program. This level of detailed reporting would be a significant compliance burden for many insurers and is often not available on a legal entity basis.

A5 The proposal was designed based on public company disclosures. Regulators expect that insurers also report at this level of detail to their management and board of directors.

We appreciate the dialogue with the NAIC about the purpose of the proposal and the rationale for its current design. We agree with the NAIC that state regulators should expect insurers to have robust processes and controls in place to manage natural catastrophe risk through an effective reinsurance program and through other means. We request that you consider the following suggestions for improvement to the proposal.

Group Reporting Option:

Public company financial reporting is reported on a consolidated basis, with details provided only for material amounts and risks. Based on the trades review of several large insurance groups' 10K filings, none report the level of detail requested in the proposal and none provide a reinsurance coverage tower graphic. Because catastrophe risk is managed, and reinsurance is purchased at the group level, the legal entity detail requested in the proposal will be challenging to complete and is unlikely to provide useful information to state regulators. Purchasing reinsurance protection at the group level, provides coverage for multiple catastrophe perils, provides administrative efficiency, and provides more effective coverage, since it covers several potential natural catastrophe losses in the group and is not sub-limited to specific legal entities. Multiple cedant reinsurance contracts require allocation agreements that allocate premiums and recoveries, but many elements of the proposal, such as coverage limits, attachments points, etc. cannot be allocated to individual entities. If these elements were allocated to individual entities, they would not provide useful information.

Example: An insurance group has a multiple cedant reinsurance contract that pays \$5 million XS of \$5 million and is spread among 5 entities in the group that write equal premiums. These entities might report \$1 million of limit each. If company A has a \$2 million loss from a covered event, but none of its affiliates have a loss from that event, a reader of this interrogatory might assume that company A has reinsurance protection, but because the reinsurance contract attaches at \$5 million, there would be no recovery.

We request that the Task Force consider modifying the proposal to allow group reporting rather than entity level reporting. Group level reporting is consistent with how insurance groups manage their catastrophe risks and artificial entity level allocations will not provide meaningful or comparable information to state regulators. We recommend that the interrogatory be prepared on a group level, include a list of the legal entities included in the group and perhaps also provide a summary of the allocation agreement. Identical filings could be included in each individual entity's RBC Interrogatory.

Material Perils:

Based on our review of several public filings, no reporting entities that we observed report the requested level of detail in the proposal for material natural catastrophe perils. Often this is broken out separately for hurricane and earthquake and frequently for only two major geographic areas (e.g., U.S. and Canada or U.S. and non-U.S.) Sometimes this information is only provided on an all perils basis world-wide. Providing this level of detail for immaterial risks will be time consuming, is inconsistent with financial reporting requirements for GAAP and Statutory Accounting and is unlikely to provide useful information to state insurance regulators.

Reinsurance Tower Graphic:

None of the public companies we observed provided a graphical presentation of the reinsurance program in their public filings. This is likely because they have overlapping reinsurance coverage for multiple perils, purchase reinsurance using a variety of different programs covering several geographic regions, use multiple, varying reinsurance structures for the same or similar risks and use facultative reinsurance cover for individual policies for program business. As a result, such graphical presentations would be very difficult to prepare and are unlikely to yield useful information. Preparing the requested graphics by peril will be costly and will unlikely provide useful information to state regulators.

We suggest the Task Force consider requiring separate reinsurance tower graphics for the top two or three perils that are material to the reporting entity's catastrophe reinsurance program. Based on our discussions with reinsurance intermediaries, most smaller insurers typically have only one major reinsured catastrophe peril, and do prepare a reinsurance tower graphic or receive it from their broker.

Redefining the Scope:

According to NAIC staff, approximately 870 RBC reporting entities are subject to RCat currently. This group is likely to grow if and when wildfire risk, convective storm risk and other catastrophe perils are eventually included in the RCat requirement. Basing the proposal only on insurers subject to RCat may in fact miss many insurers that are exposed to catastrophe risks other than hurricane and earthquake. For those insurers, a separate request of the insurer, as part of the annual financial analysis process, may be the best way for state insurance regulators to obtain information about catastrophe exposed insurers' reinsurance programs.

In order to better direct this requirement toward insurers facing increased solvency risk, the Task Force should consider narrowing the scope to focus on insurers with a higher risk of financial impairment or a higher risk of triggering an RBC action level as a consequence of their natural catastrophe risk and reinsurance program. A more focused scope should include insurers with significant catastrophe risk net of reinsurance, a high reliance on reinsurance to manage their catastrophe risk and perhaps include RBC ratios as an additional filter. Based on our analysis of annual statement data and review of several public company 10K filings, we suggest the following potential scope thresholds for consideration by the Task Force.

Proposed Scope Thresholds:

The following scope thresholds would be more effective identifying insurers that have significant net catastrophe exposure and that should be subject to the proposed RBC interrogatory and increased supervisory attention.

1. RBC Ratio below 1000% AND Reinsurance Utilization Rate greater than 30% (instead of reinsurance utilization, the Task Force could use a ratio derived from Schedule F, Part 6 “Restatement of Balance Sheet to Identify Net Credit for Reinsurance” at perhaps >50% of surplus)

OR

2. Probable Maximum Loss (PML) net of reinsurance as a percentage of Surplus of 25% or more

An RBC ratio greater than 1000% should in most cases indicate that the risk of insolvency in the near future is remote. However, RBC alone might not identify insurers that are heavily reliant on reinsurance if their net retention is low or if the catastrophe exposure is not a peril included in RCat. As a result, we propose pairing RBC with a reinsurance utilization rate threshold. Reinsurance utilization is typically measured as ceded reinsurance premium divided by gross written premiums and is a measure of the reliance on reinsurance. Industry aggregate data show that the industry aggregate reinsurance utilization ratio fluctuates in a very narrow band around 18%, so 30% may be a reasonable threshold. Based on our analysis of NAIC Annual Statement data these two criteria would result in 524 legal entities in scope for the proposed interrogatory.

Alternatively, the Task force might consider using a ratio of the effect of reinsurance on the balance sheet as a percentage of surplus, which can be derived easily from data in Schedule F, Part 6. We have not performed an analysis of this alternative using Annual Statement data, but a reasonable threshold might be a net benefit of reinsurance of 50% or more of an insurer’s surplus.

We are proposing net PML as a percentage of surplus as an additional threshold. This information is available in the RCat filings and the Annual Statement, so should be easily verifiable for any insurer currently subject to RCat. We believe that this threshold is more likely to focus regulators’ attention on the types of insurers that prompted this proposal. Since this data is confidential, we do not have the information to make an informed recommendation on the threshold but based on public company reporting and other public information, perhaps net PML of 25% of surplus at the 1-in-250 return period would be a good starting point. The Task force might want to consider

adding a change in PML to surplus ratios as an additional criterion. Finally, while the current scope of the proposal only includes insurers subject to RCat, using the net PML criteria could form the basis for separate state requests for similar information from other insurers that may have significant natural catastrophe risk other than hurricane and earthquake risk.

Thank you again for the opportunity to provide comments. We look forward to further engagement on these issues.

Sincerely,

Joseph B. Sieverling, SVP and Director of Financial Services
Reinsurance Association of America

Matthew Vece, Director, Financial & Tax Counsel
American Property and Casualty Insurance Association

Colleen W. Scheele, Public Policy Counsel and Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

cc: Tom Botsko, Chair Property Casualty RBC (E) Working Group
Wanchin Chou, Chair, Catastrophe Risk (E) Subgroup



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Director Chlora Lindley-Myers (MO), Chair
c/o John Rehagen
Reinsurance (E) Task Force
National Association of Insurance Commissioners

NAIC staff: jstultz@naic.org; dschelp@naic.org

RE: Proposed New Disclosures for Catastrophe Reinsurance Programs for P&C RBC

On behalf of the 31 members of The Association of Bermuda Insurers and Reinsurers ("ABIR"), we kindly thank the National Association of Insurance Commissioners ("NAIC") for the opportunity to comment on its consultation of the proposed new disclosures for catastrophe reinsurance programs for P&C RBS ("Disclosures"), which is currently exposed until November 7, 2023.

ABIR represents the public policy interests of Bermuda's leading insurers and reinsurers. ABIR members operate from more than 150 countries around the world. ABIR members employ over 37,000 Americans in the U.S. and for over three decades have protected consumers around the world by providing affordable and accessible insurance protection and peace of mind.

The Bermuda market makes up about 35% of the global reinsurance market based on property & casualty net premiums earned. ABIR members at year end 2022 wrote global group gross written premiums of \$145 billion and net premium written of US\$111.8 billion. Since 1997, Bermuda insurers & reinsurers have paid nearly half a trillion USD in claim payments to American consumers and business, predominantly for natcat, specialty and financial risk recovery.

As a jurisdiction, Bermuda earned the designation as one of the inaugural, NAIC reciprocal jurisdictions effective January 1, 2020. The Bermuda market is proud of its leadership role in providing risk-diversifying capital through international reinsurance.

The Disclosures

We understand the catalyst for this development of this proposed annual disclosure is recent catastrophe-related insurer insolvencies and the increasing cost of catastrophe reinsurance coverage. We recognize and appreciate the NAIC's desire to ensure that regulated insurers are adequately reinsured for catastrophes, and we encourage the development of catastrophe reinsurance market. We acknowledge that the Disclosures may results in the identification of gaps in a cedants reinsurance program and therefore could possibly have a positive impact to reinsurers.


Recommendations

We believe that proposed approach which requires each insurer, by individual program, to provide detailed disclosures that could lead to violations of confidentiality provisions and discourage certain reinsurers from providing capacity in some situations. Further, we believe that such detailed disclosures could jeopardize the development of reinsurance structures for future catastrophe protection. While we recognize that the state regulators must have oversight into regulated insurers' catastrophe risk protection, we would suggest that the required disclosures be limited to providing the aggregate protection from traditional and non-traditional catastrophe reinsurance programs along with a narrative describing such programs.

ABIR and its member companies stand ready to provide additional information to the NAIC and state insurance regulators as may be required during this consultative process.

If you have any questions in the meantime, please do not hesitate to contact Suzanne Williams-Charles on 441-705-4422 or at suzanne.williams-charles@abir.bm.

Sincerely,



John Huff
President and CEO



Suzanne Williams-Charles
Director of Policy and Regulation, Corporate Secretary
And Data Privacy Officer

INTERROGATORY ON CATASTROPHE RISK REINSURANCE PROGRAM PR027

NOTE: This interrogatory is intended for completion by all property and casualty RBC filers that are exposed to natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire and the associated RCAT exemptions. Insurance entities that participate in group reinsurance programs may respond to the interrogatory at a group level.

- (1) Provide an overall narrative description of the natural catastrophe reinsurance program in place at the insurer/group, by peril where appropriate, including elements such as the types of reinsurance coverage in place, attachment points/retention levels, exhaustion limits, reinstatement provisions, etc. When possible and relevant, provide a graphical reinsurance tower as an attachment.

[Redacted]

(2)
Y/N

- (2) Have there been any significant changes in the reinsurance program structure from the prior year (i.e., change in cost, level of coverage) (Y/N)

[Redacted]

- (2a) If yes, describe any significant changes from the prior year:

[Redacted]

(3)
MM/DD/YYYY

- (3) Provide the primary program renewal date (i.e., 1/1/XX or 7/1/XX):

[Redacted]

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