

Draft date: 2/16/24

Virtual Meeting

(in lieu of meeting at the Spring National Meeting)

REINSURANCE (E) TASK FORCE

Monday, February 26, 2024

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 11:00 a.m. PT

ROLL CALL

Chlora Lindley-Myers, Chair	Missouri	Grace Arnold	Minnesota
Ricardo Lara, Vice Chair	California	Mike Chaney	Mississippi
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Peni Itula Sapini Teo	American Samoa	D.J. Bettencourt	New Hampshire
Alan McClain	Arkansas	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Alice T. Kane	New Mexico
Andrew N. Mais	Connecticut	Adrienne A. Harris	New York
Trinidad Navarro	Delaware	Mike Causey	North Carolina
Michael Yaworsky	Florida	Jon Godfread	North Dakota
John F. King	Georgia	Judith L. French	Ohio
Michelle B. Santos	Guam	Glen Mulready	Oklahoma
Gordon I. Ito	Hawaii	Andrew R. Stolfi	Oregon
Dana Popish Severinghaus	Illinois	Michael Humphreys	Pennsylvania
Amy L. Beard	Indiana	Alexander S. Adams Vega	Puerto Rico
Doug Ommen	Iowa	Michael Wise	South Carolina
Vicki Schmidt	Kansas	Cassie Brown	Texas
Sharon P. Clark	Kentucky	Tregenza A. Roach	U.S. Virgin Islands
Timothy J. Temple	Louisiana	Jon Pike	Utah
Timothy N. Schott	Maine	Scott A. White	Virginia
Gary D. Anderson	Massachusetts	Nathan Houdek	Wisconsin

NAIC Support Staff: Jake Stultz/Dan Schelp

AGENDA

1. Consider Adoption of its 2023 Fall National Meeting Minutes Attachment One
—*John Rehagen (MO)*
2. Consider Adoption of the Report of the Reinsurance Financial Analysis (E)
Working Group—*Rolf Kaumann (CO)*
3. Receive a Status Report on the Reinsurance Activities of the Mutual
Recognition of Jurisdictions (E) Working Group—*Robert Wake (ME)*



4. Discuss the Proposal to Require Asset Adequacy Analysis (AAA) to be Performed Using a Cash Flow Testing Methodology for Life and Annuity Reinsurance Transactions—*John Rehagen (MO)*

- A. Referral from the Life Actuarial (A) Task Force

Attachment Two
(Pending)

5. Discuss Ongoing Projects at the NAIC That Affect Reinsurance—*John Rehagen (MO)*

- A. Feb. 12 Notification of Valuation Analysis (E) Working Group Referrals to the Statutory Accounting Principles (E) Working Group Related to Life Reinsurance

Attachment Three

6. Discuss Any Other Matters Brought Before the Task Force—*John Rehagen (MO)*

7. Adjournment

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.

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

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).

Draft Pending Adoption

Attachment One

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

Attachment Two
(Pending)

Referral from the
Life Actuarial (A) Task Force

MEMORANDUM

TO: John Rehagen, Acting Chair of the Reinsurance (E) Task Force
Monica Macaluso, Acting Vice Chair of the Reinsurance (E) Task Force

FROM: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice-Chair of the Valuation Analysis (E) Working Group

DATE: February 12, 2024

RE: Notification of VAWG Referrals to SAPWG related to Life Reinsurance

The purpose of this memo is to notify the Reinsurance (E) Task Force (RTF) that the Valuation Analysis (E) Working Group (VAWG) has sent the Statutory Accounting Principles (E) Working Group (SAPWG) two referrals related to life reinsurance.

- a. Referral on Appendix A-791 Section 2.c Q&A – This referral recommends that SAPWG remove the first sentence from the answer to A-791 Section 2, paragraph c’s Q&A because it is unnecessary and is being misinterpreted.
- b. Referral on Reinsurance Risk Transfer and Reserve Credit – This item requests clarification on the evaluation of risk transfer on life reinsurance treaties.

SAPWG received the referrals during their meeting on Jan. 10. NAIC staff was directed to develop agenda items for discussion at future SAPWG meetings.

The intent of this memo is to notify the RTF of the referrals and to bring awareness that related discussions will be held at future SAPWG meetings to allow the Task Force the opportunity to monitor and provide input to the discussions.

Please contact NAIC staff Jennifer Frasier (jfrasier@naic.org), Jake Stultz (jstultz@naic.org), or Robin Marcotte (rmarcotte@naic.org) with questions.

Cc: Jennifer Frasier, Jake Stultz, Dan Schelp, Robin Marcotte

MEMORANDUM

TO: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

FROM: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice Chair of the Valuation Analysis (E) Working Group

DATE: December 18, 2023

RE: Referral on Appendix A-791 Section 2.c Q&A

The purpose of this referral is to ask the Statutory Accounting Principles (E) Working Group (SAPWG) to consider making a clarifying edit to *A-791, Life and Health Reinsurance Agreements*, Section 2.c Q&A.

The Valuation Analysis (E) Working Group (VAWG) recommends that SAPWG remove the first sentence from the answer to A-791 Section 2, paragraph c’s Q&A (shown as underlined and bolded text below):

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years’ losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?

A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner's Standard Ordinary (CSO) rates as a "safe harbor," at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

Cc: Jennifer Frasier, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

MEMORANDUM

TO: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group (SAPWG)

FROM: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice Chair of the Valuation Analysis (E) Working Group (VAWG)

DATE: December 18, 2023

RE: Referral on Reinsurance Risk Transfer and Reserve Credit

VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. The treaty as a whole is non-proportional. This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware. Individual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.

Generally, VAWG regulators observe that some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to 1) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate.

Cc: Jennifer Frasier, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

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