

REINSURANCE (E) TASK FORCE

Reinsurance (E) Task Force July 24, 2023, Minutes

Reinsurance (E) Task Force 2024 Proposed Charges (Attachment One)

Implementation of Model #787 (XXX/AXXX) *Term and Universal Life Insurance Reserve Financing Model Regulation*; Status as of June 27, 2023 (Attachment Two)

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Draft Pending Adoption

Draft: 8/1/23

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2023 Summer National Meeting*)
July 24, 2023

The Reinsurance (E) Task Force met July 24, 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 (NY); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Monica Macaluso (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Martin Sullivan (GA); Doug Ommen represented by Kim Cross (IA); Vicki Schmidt represented by Chut Tee (KS); Sharon P. Clark represented by Vicki Lloyd (KY); James J. Donelon represented by Tom Travis (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 Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); D.J. Bettencourt represented by Pat Gosselin (NH); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Patrick Zeller (NM); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by David Smith and Doug Stolte (VA); and Nathan Houdek (WI).

1. Adopted its Spring National Meeting Minutes

Finston made a motion, seconded by Macaluso, to adopt the Task Force's March 6 minutes (*see NAIC Proceedings – Spring 2023, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted its 2024 Proposed Charges

Rehagen noted that the Task Force's 2024 proposed charges included minor revisions from 2023 to reflect the current duties of the Task Force and the Reinsurance Financial Analysis (E) Working Group.

Obusek made a motion, seconded by Finston, to adopt the 2024 proposed charges of the Task Force and the Reinsurance Financial Analysis (E) Working Group (Attachment One). The motion passed unanimously.

3. 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 July 19 and May 2 to approve several certified and reciprocal jurisdiction reinsurers for passporting. He noted that the Working Group will meet several more times during 2023.

Kaumann stated that the Working Group has now approved 61 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting, and that 41 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 Gosselin, to adopt the Working Group's report (Attachment). The motion passed unanimously.

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

Wake stated that the Working Group last met on Nov. 7, 2022, to reapprove the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and to reapprove Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that this process will be completed again this fall.

Wake stated that on Feb. 24, the Bermuda Monetary Authority (BMA) issued a consultation paper on planned enhancements to its regulatory process. He added that the BMA will issue another draft later in August or September, with expected changes to its regulatory regime to be adopted in 2024. Wake noted that the UK is working on regulatory regime changes; it will move from Solvency II to a new Solvency UK, which is expected to be adopted by the UK Parliament by the end of 2024. Wake stated that Japan will also issue changes to its solvency regime, which is effective April 1, 2025. He stated that any changes to Bermuda, Japan, or the UK's regulatory practices will be evaluated during the annual re-review of their status as qualified and reciprocal jurisdictions.

5. Discussed Ongoing Projects at the NAIC that Affect Reinsurance

Jake Stultz (NAIC) stated that there are five ongoing projects at the NAIC that affect reinsurance. He noted that the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for 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 Examiner's 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 will consider it for adoption 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, which include 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.

Stultz stated that the Life Risk-Based Capital (E) Working Group had received a request to potentially modify the risk-based capital (RBC) instructions to allow comfort trusts or a similar form to be allowed as collateral for reinsurance, but only for RBC treatment purposes and for credit for reinsurance purposes. He stated that comfort trusts and custody control accounts are a design of trust that are common at financial institutions but do not meet the rigorous standards set in the *Credit for Reinsurance Model Law* (#785). He said that currently, the rules for trusts for RBC mirror the trust provisions of Model #785. Stultz noted that this proposal would then lower the standard for a trust that can be used for RBC purposes. He noted that NAIC staff from the Task Force have been in contact with staff support from the Life Risk-Based Capital (E) Working Group but that there had not been any formal communication. He stated that during the Life Risk-Based Capital (E) Working Group's June 22 meeting,

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this topic was discussed. However, it was put on hold pending further discussions and additional information to address Working Group concerns.

Stultz stated that a new project had been started by NAIC staff to get better information on catastrophe reinsurance programs of property/casualty (P/C) insurers. He stated that this project began because of the recent catastrophe-related insolvencies and the increasing cost of catastrophe reinsurance coverage, where state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance programs on an annual basis. This project is intended to enhance the disclosures for catastrophe reinsurance programs and will include several new interrogatories that will be added to the P/C RBC Instructions. He noted that the reason this is planned to be done through RBC is that the reinsurance program structure relates to the existing RCAT charge in RBC. This is based on modeled probable maximum loss amounts that take reinsurance program structure into account, recognizing that some insurers view detailed information about their reinsurance program structure as proprietary. Including it in the RBC filing provides confidentiality protections. He noted that no formal referrals or discussions have been held and that the details of the process to get these revisions adopted have not yet been finalized.

Stultz stated that earlier this year, several banks had failed, which affected reinsurance since these were approved on the *List of Qualified U.S. Financial Institutions* (QUSFI). He noted that Model #785, Section 3 allows a letter of credit (LOC) to be used as collateral if the issuing bank meets the criteria of Section 4, which details the process for a bank to be reviewed and approved to be added to the QUSFI list and added that a drafting note in Model #785 clarifies situations when a financial institution loses its status as a QUSFI. Stultz stated that the Valuation of Securities (E) Task Force adopted a revision to the *Purposes and Procedures Manual* (P&P Manual) that will help it streamline the process of removing troubled financial institutions from the QUSFI list in the future.

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 June 27, 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 Model #785. He stated that the map showing the current adoption status for Model #787 was included in the meeting materials (Attachment Two).

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

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Reinsurance (E) Task Force 2024 Proposed Charges

The mission of the Reinsurance (E) Task Force is to monitor and coordinate activities and areas of interest that overlap to some extent the charges of other NAIC groups—specifically, the International Insurance Relations (G) Committee.

The **Reinsurance (E) Task Force** will:

1. Provide a forum for the consideration of reinsurance-related issues of public policy.
2. Oversee the activities of the Reinsurance Financial Analysis (E) Working Group.
- ~~3. Monitor the implementation of the 2011, 2016, and 2019 revisions to the *Credit for Reinsurance Model Law* (#785); and the 2011 and 2019 revisions to the *Credit for Reinsurance Model Regulation* (#786) and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).~~
- ~~4.~~3. Communicate and coordinate with the Federal Insurance Office (FIO), other federal authorities, and international regulators and authorities on matters pertaining to reinsurance.
- ~~5.~~4. Consider any other issues related to the revised Model #785, Model #786, and Model #787.
- ~~6.~~5. Monitor the development of international principles, standards, and guidance with respect to reinsurance. This includes, but is not limited to, monitoring the activities of various groups within the International Association of Insurance Supervisors (IAIS), including the Reinsurance and Other Forms of Risk Transfer Subcommittee, the Reinsurance Mutual Recognition Subgroup, and the Reinsurance Transparency Group.
- ~~7.~~6. Consider the impact of reinsurance-related federal legislation, including, but not limited to, the federal Nonadmitted and Reinsurance Reform Act (NRRRA) and the Federal Insurance Office Act, and coordinate any appropriate NAIC action.
- ~~8.~~7. Continue to monitor the impact of reinsurance-related international agreements, including the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement).

The **Reinsurance Financial Analysis (E) Working Group** will:

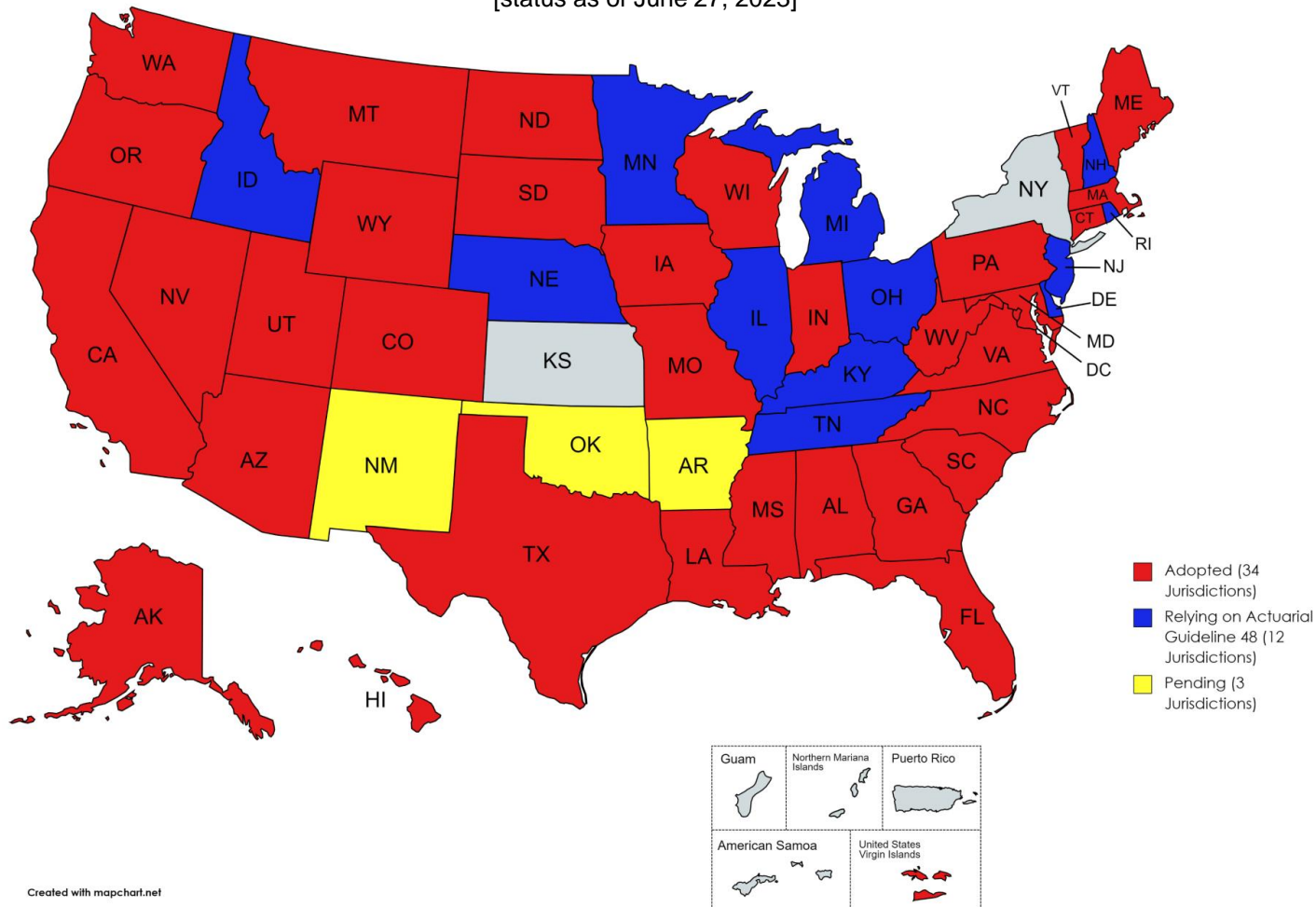
1. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings and operate in open session when discussing certified reinsurance topics and policy issues, such as amendments to the Uniform Application for ~~c~~Certified or reciprocal Reinsurers.
2. Provide advisory support and assistance to states in the review of reinsurance collateral reduction applications. Such a process with respect to the review of applications for reinsurance collateral reduction and qualified jurisdictions should strengthen state regulation and prevent regulatory arbitrage.
3. Provide a forum for discussion among NAIC jurisdictions of reinsurance issues related to specific companies, entities or individuals.
4. Support, encourage, promote and coordinate multistate efforts in addressing issues related to certified reinsurers, including, but not limited to, multistate recognition of certified reinsurers.
5. Provide analytical expertise and support to the states with respect to certified or reciprocal reinsurers and applicants ~~for certification~~.
6. Provide advisory support with respect to issues related to the determination of qualified jurisdictions.
7. Ensure the public passporting website remains current.

~~8. For reinsurers domiciled in Reciprocal Jurisdictions, determine the best and most effective approaches for the financial solvency surveillance to assist the states in their work to protect the interests of policyholders.~~

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member_meetings/e_cmte/rtf/2023summernm/meeting/minutes/1_2024_proposed_charges_with_updates.docx

Implementation of Model #787 (XXX/AXXX)
 Term and Universal Life Insurance Reserve Financing Model Regulation
 [status as of June 27, 2023]

Attachment Two
 Reinsurance (E) Task Force
 7/24/23



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Disclaimer: This map represents state action or pending state action regarding NAIC amendments to the model(s). This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of NAIC amendments to the model(s) or whether a state meets any applicable accreditation standards.