

## **REINSURANCE (E) TASK FORCE**

Reinsurance (E) Task Force March 4, 2025, Minutes

Slides on CID Reinsurance Question Regarding the Application of Paragraph 2.e. of Appendix A-791  
(Attachment One)

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/RTF/2025SpringNM/Minutes/RTF%203.4.2025%20Contents.docx>

Reinsurance (E) Task Force  
Virtual Meeting  
March 4, 2025

The Reinsurance (E) Task Force met March 4, 2025. The following Task Force members participated: Ricardo Lara, Chair, represented by Monica Macaluso (CA); Scott Kipper, Vice Chair (NV); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Peter M. Fuimaono represented by Elizabeth Perri (AS); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Ainsley Hurley (FL); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker and Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Jon Godfread represented by Matt Fischer (ND); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Andrew R. Stolfi represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Cambria Shore (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Rehagen made a motion, seconded by Lloyd, to adopt the Task Force's Oct. 24, 2024, minutes (*see NAIC Proceedings—Fall 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Received a Status Report and Heard Comments on the Life Actuarial (A) Task Force's AAT Project

Macaluso stated that a project has been ongoing for the past two years at the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. She stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. She stated that this project had been discussed publicly during several Life Actuarial (A) Task Force meetings and noted that there were substantial discussions during those meetings.

Andersen stated that the Life Actuarial (A) Task Force met several times over the past months to discuss the AAT project. He stated that the regulatory focus of the project is on gaining insight into reserve adequacy when business is ceded, with a particular focus on U.S. policyholders. He noted that reinsurance may result in a lowering of transparency in terms of the amount of reserves held and the types and risks associated with the assets supporting reserves. He stated that there has been a high level of consensus between regulators and interested parties at this point in the process.

Andersen stated that the primary goals of this project are to provide U.S. state regulators with what is needed to review the reserves and solvency of U.S. life insurers, to steer clear of conflicts with reciprocal jurisdictions and covered agreement issues, and to prevent extra work by U.S. ceding companies where there is immaterial risk. He noted that the actuarial guideline will be disclosure only but noted that companies may view the results of the analysis and decide to post additional reserves and that domestic regulators will continue to have the right to

require additional analysis and reserves. He noted that after the first year of analysis, the Life Actuarial (A) Task Force may reopen discussion of the project if deemed to be necessary.

Andersen noted that the Life Actuarial (A) Task Force is currently focused on scope and materiality thresholds and noted that there is likely to be some flexibility in the way that this analysis is conducted. He noted that the Task Force is also looking at the appropriateness of alternative types and forms of analysis. Andersen provided an updated timeline on the project, noting that the group plans for the potential adoption of the new actuarial guideline in May 2025 at the Life Actuarial (A) Task Force, with adoption by the Life Insurance and Annuities (A) Committee in the summer.

Karalee Morell (Reinsurance Association of America—RAA) noted that the Life Actuarial (A) Task Force has not yet addressed issues related to 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) because the project is taking a disclosure-only approach.

Morell noted that the RAA and its members continue to be concerned about potential covered agreement implications, even if the adoption is disclosure only. She stated that as it is currently drafted, the most recent proposal would require duplicative regulatory disclosure for some of RAA’s members located in Europe, which is inconsistent with the principles of the EU and UK Covered Agreements, even if disclosure is all that is required. She urged the Reinsurance (E) Task Force and Life Actuarial (A) Task Force to allow a full discussion of these issues now, either through a dedicated exposure of that topic or through a dedicated Life Actuarial (A) Task Force or subgroup call on these issues or both. Resolution of these concerns is critical given the importance of maintaining the EU and UK Covered Agreements. Additionally, she noted that the European Insurance and Occupational Pensions Authority (EIOPA), the Bermuda Monetary Authority (BMA), and other regulators are actively considering regulatory action with respect to asset-intensive transactions and that the NAIC should take no action that might conflict with the EU and UK Covered Agreements or trigger parallel regulatory action inconsistent with the principles underlying those agreements. Jeff Altman (RAA) agreed with Morell’s statement.

Dan Schelp (NAIC) noted that there have not been specific discussions with the Federal Insurance Office (FIO), but they are monitoring this ongoing project.

Andersen asked if the RAA could provide any specific information related to their concerns about potential conflicts with the EU and UK Covered Agreements. Morell responded that she would provide some examples later.

Wake noted agreement with avoiding any duplicative and burdensome disclosures.

Jason Kehrberg (American Academy of Actuaries—Academy) stated that he supports the disclosure-only language and stated that it is reasonable for the appointed actuary to perform a mandatory run of cash flow testing where the starting asset amount equals the post-reinsurance result and alternative runs at the option of the appointed actuary that may use higher starting asset amounts. He also noted support for enhancing the examples further or adding additional examples. He noted that one comment on the scenarios that were required in the current guideline was the New York Seven scenarios that many companies used for their cash flow testing, which are required in New York, and suggested that in some situations, the appointed actuary be allowed to use other scenarios if they feel they can demonstrate they do a better job of stressing the risky aspects of the treaty.

Peter Gould (Retired) stated that he is a retiree and end user of insurance products. He said he depends on annuity income for a substantial portion of his retirement income. He recommended regulations that can be used proactively and effectively to prevent the impairment of solvency so the contractual obligations to policy owners

are paid. He noted concern with the limited scope of this project at this point and suggested some sort of asset adequacy grading system that would be added to the consumer information search financial disclosures.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He agreed with the comments from the RAA. He noted that the ACLI is proposing a simplified version of this guideline that still meets the spirit of this effort with a focus on mandating that the appointed actuary provide a suitable assessment of the reinsurance-related exposures and risks associated with the transactions that they are entering. Specifically, this assessment should address the identified risks and what mitigating factors are in place and then allow for alternative forms of analysis or submissions. He agreed with Andersen's comment about including flexibility in the first year. He suggested that the appointed actuary should have flexibility around this analysis, as should the domestic regulator. He requested that the scope be limited to 2020 and later policies. He noted the technical issues with the introduction of the concept of an associated party, which is similar to the existing known statutory concept of an affiliate party but would potentially go further at a lower ownership control level.

Greg Mitchell (Cayman International Reinsurance Companies Association—CIRCA) noted that Cayman reinsurers are unauthorized and required to be fully collateralized under the *Credit for Reinsurance Model Law* (#785), adding that there is often a level of over-collateralization in these arrangements that will further protect the ceding insurers. He stated that the collateral and not the reinsurer's reserve should serve as the starting point of any kind of AAT.

Patricia Matson (Risk & Regulatory Consulting—RRC) stated that the driver of this project was a small number of transactions where the invested assets declined dramatically pre- and post-transaction, so there is less to protect the consumer. She agrees with a risk-focused approach. She noted that disclosure alone will not necessarily protect consumers, so a long-term solution that focuses on protecting consumers should be put in place.

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

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met Nov. 29, 2024, and Dec. 19, 2024, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 97 reciprocal jurisdiction reinsurers and 40 certified reinsurers for passporting and that 49 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 Eft, to adopt the report of the Working Group. The motion passed unanimously.

### 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 Oct. 24, 2024, in regulator-to-regulator session pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where 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. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

## 5. Discussed Ongoing Projects at the NAIC Affecting Reinsurance

Jake Stultz (NAIC) stated that in 2023, 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 they regulate. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group. Stultz noted that the Macroprudential (E) Working Group will also continue to focus on its 13 considerations and that a major focus of their work will be on cross-border reinsurance.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its second 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 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 EU Covered Agreement and the 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.

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force. The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals are being addressed by the Statutory Accounting Principles (E) Working Group.

Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Spring National Meeting. Additionally, the Statutory Accounting Principles (E) Working Group received a referral from the Financial Analysis (E) Working Group that recommended a project that focuses on investment concentrations with affiliated and related parties and that a new agenda item is planned for the Spring National Meeting.

## 6. Heard Discussion of a Reinsurance Contract Question

Chou noted that he had received some questions regarding a reinsurance transaction where Appendix A-791 of the *Accounting Practices and Procedures Manual* (AP&P) is not being applied consistently.

Sheldon Summers (Claire Thinking Inc.) introduced slides (Attachment One) and provided background information and discussion on the transactions and the implications of the various outcomes where Appendix A-791, Section 2.e., is applied inconsistently, noting that Appendix A-791 covers life and health reinsurance risk transfer requirements and specifies conditions which would result in disallowance of reinsurance credit under a reinsurance agreement. He noted that the question is about situations where the reinsurance agreement involves a possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies, and whether it is improper for a ceding insurer to pay reinsurance premiums or other fees or charges to a reinsurer that are greater than the direct premiums collected by the ceding insurer.

Chou requested that any regulators or interested parties who have thoughts on this subject contact him after the Task Force meeting.

Alton asked if this topic should be discussed at the Statutory Accounting Principles (E) Working Group. Stultz stated that since this was a reinsurance topic, this Task Force was an appropriate place to discuss this topic since it is an open forum but that it could be discussed at the Statutory Accounting Principles (E) Working Group as needed.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2025SpringNM/Minutes/0 ReinsuranceTFmin 03.04.2025.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/RTF/2025SpringNM/Minutes/0%20ReinsuranceTFmin%2003.04.2025.docx)

# CID Reinsurance Question

## ACCOUNTING REQUIREMENT 2.e OF APPENDIX A-791

Appendix A-791 identifies the following condition in a reinsurance agreement as non-compliant:

*“The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the **reinsured policies**. For example, it is **improper** for a ceding company to pay **reinsurance premiums**, or other fees or charges to a reinsurer which are **greater than** the **direct premiums collected** by the ceding company.”*

# CID Reinsurance Question

If a rider to a policy provides a guarantee regarding the amount of the policy benefits in exchange for the payment of a rider fee, how should the term “*reinsured policies*” be interpreted when *only the rider is reinsured*?

**Interpretation 1:** The reinsured policy is the rider. In this case, the rider fee would be compared to the reinsurance premium to determine whether condition 2.e of Appendix A-791 exists.

**Interpretation 2:** The reinsured policy is the base policy and the rider together. In this case the rider fee plus some income, e.g. fees and/or investment margin, from the base policy would be compared to the reinsurance premium.



# Arguments for Interpretation 1

## Arguments supporting the reinsured policy being the rider.

- a) Only the rider is reinsured, and therefore “Direct premiums” should only be comprised of rider fees. Revenue from the base policy should not be considered because the base policy is not reinsured.
- b) **Accounting Requirement 2.f requires that a treaty transfer all significant risk inherent in the business being reinsured.** If a portion of base policy income was included in satisfying 2.e., then at least such portion of base policy risks should be transferred by the treaty; but it is not since the base policy is not reinsured. Only the rider is reinsured.

# Arguments for Interpretation 2

**Arguments supporting the reinsured policy being the rider and the base policy combined.**

a) If the base policy and rider are priced together, then at least a portion of the income from the base policy should be included in the “income realized from the reinsured policies”.

b) The riders would not exist without the base policies. Therefore, the base policies should be included in the reference to “reinsured policies” in Accounting Requirement 2.e.