Fred Andersen, Minnesota

Added wording for consideration (after comments and 1/23/25 discussion) includes:

* Affiliated focus – Section 3.C. – in response to concerns about confusion of term “affiliated” having different meanings in different rules, change terminology to Associated Party; also referenced in sections 2 through 6 re: scope and analysis expectations; engage w/ SAPWG as recommended;
  + Three issues:
    - # 1 is whether to have this designation. I’d like to have that debate after walking through the Guideline so it’s clear how it comes into play. I think not having the designation would make it less likely any company would be allowed to make a case for exemption.
    - # 2 is the details of the definition
* # 3 is the name Associated Party and whether some other name would be better. Disclosure-only wording – Section 5.B. – proposed in Academy comment letter
* Starting asset amount – Section 6.B. – contemplation of a mandatory CFT run using a starting asset amount = post-reinsurance reserve plus, based on feedback, opportunities for alternative runs with higher starting asset amounts; request Academy assistance re: addressing ACLI comment on expectations of Appointed Actuary;
  + Does Post-reinsurance Reserve definition need refinement, i.e., “which” assuming company reserve, e.g., another jurisdiction’s GAAP or Stat equivalent?
* Similar memorandum – Section 5.G. – efforts for readability, ease of key information access; need for further discussion on different forms of analysis?
  + Any consideration of non-CFT-focused similar memorandum? If so, need to coordinate between sections.
* Situations where CFT is mandatory – Section 5.A. – strawman - Section 5.H. – potential for requesting exemptions in certain low-impact, non-Associated party circumstances (response to John Blocher letter);
  + Should any exemption have process similar to permitted practice re: communication between states or with LATF or VAWG?
  + Should size basis for not granting non-Associated Party exemptions be removed?
* Should NY 7 risk-free scenario testing be required – Section 6.D. – strawman

Issues for later:

* Missouri size tweaking proposal – research impact on treaties in scope
* Aggregation and covered agreement issues (less important issues since Guideline is disclosure-only)
* Attribution analysis role (work on after CFT details are worked out)
* Non-Associated party data issues (work on after getting through Associated party issues)
* CFT using actual assets, or ok to demonstrate that sufficiency is not reliant on overly aggressive net asset return assumptions?
* Primary security definition refinement

**ACLI Proposed Edits to 1/30/25 Draft AG ReAAT**

**Background**

The NAIC Valuation Manual (VM-30) contains actuarial opinion and supporting actuarial memorandum requirements, including requirements for asset adequacy analysis.

State insurance regulators have identified the need to better understand the amount of reserves and type of assets supporting long duration insurance business that relies substantially on asset returns. In particular, there is risk that domestic life insurers may enter into reinsurance transactions that materially lower the amount of reserves and thereby facilitate releases of reserves that prejudice the interests of their policyholders. The purpose of this Guideline is to propose enhancements to reserve adequacy requirements for life insurance companies by requiring that asset adequacy testing use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.

This Guideline establishes additional safeguards within the domestic cedent to ensure that the assets supporting reserves continue to be adequate based on moderately adverse conditions.

**Text**

1. Effective date

This Guideline shall be effective for asset adequacy analysis of the reserves reported in the December 31, 2025, Annual Statement and for the asset adequacy analysis of the reserves reported in all subsequent Annual Statements.

Guidance Note: It is anticipated that the requirements contained in this Guideline will be incorporated into VM-30 at a future date, effective for a future valuation year. Requirements in the Guideline will cease to apply to annual statutory financial statements when the corresponding or replacement VM-30 requirements become effective.

Guidance Note: Regulators anticipate that this Guideline will be revisited as deemed necessary based on review of submissions.

2. Scope

This Guideline shall apply to all life insurers with:

A. Asset Intensive Reinsurance Transactions ceded to entities that are not required to submit a VM-30 memorandum to US state regulators in transactions established 1/1/2020 or later that meet any of the criteria determined by counterparty in subsections (1) through (4) below:

(1) In excess of $5 billion of reserve credit or modified coinsurance reserve

(2) Combined reserve credit and modified coinsurance reserve in excess of:

(a) $1 billion and

(b) 2% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

(3) Combined reserve credit and modified coinsurance reserve in excess of:

(a) $100 million and

(b) 10% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

(4) Combined reserve credit and modified coinsurance reserve in excess of:

(a) $10 million and

(b) 20% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves

*{A comment recommends 5% in (2)(b), $500 M in (3)(a), and $100 M in (4)(a) (higher threshold for inclusion), but inclusion regardless of size if 50% of gross reserves or 20% of gross premiums are ceded, along with wording edits}*

Or

B. Asset Intensive Reinsurance Transactions ceded to entities that are not required to submit a VM-30 memorandum to US state regulators, regardless of transaction establishment date, that results in significant reinsurance collectability risk as determined according to the judgement of the ceding company’s Appointed Actuary.

3. Definitions

A. Alternative Run – At the option of the company, additional cash-flow testing projections that could be provided in association with the Guideline and would potentially be in line with the spirit and intent of the Guideline.

B. Asset Intensive Reinsurance Transactions - Coinsurance arrangements involving life insurance products that transfer significant, inherent investment risk including credit quality, reinvestment, or disintermediation risk as determined by Appendix A-791 of the Life and Health Reinsurance Agreements Model Regulation.

C. Attribution Analysis – A step-by-step estimate of the proportion of reserve decrease from the pre-reinsurance U.S statutory reserve to the ceding company best estimate reserve attributable to factors such as differences in individual key assumptions.

D. Deficient Block – When a block of business shows negative present value of ending surplus in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions such that additional reserves would be needed in the absence of aggregation.

E. Excess Capital – Assets available to support a block of business over and above the Post-reinsurance Reserve.

F. Pre-reinsurance Reserve – The U.S. statutory reserve that would be held by the ceding company for the business reinsured in the absence of the reinsurance transaction.

G. Post-reinsurance Reserve – Following a reinsurance transaction, the amount of reserves held by the ceding company plus the amount of reserves held by the assuming company minus the amount of reserves held by the assuming company supported with assets other than Primary Security.

H. Primary Security – [As defined in Section 4.D. of Actuarial Guideline 48] *{or replace with another term to describe a stable asset supporting reserves}*

I. Reserve Decrease – If the Post-reinsurance Reserve is lower than the Pre-reinsurance Reserve, the difference between the two.

J. Similar Memorandum – An actuarial report that is submitted to a non-US state regulator, and any supplemental materials, that contain at least the following elements in a clear manner:

(1) Asset descriptions

(2) Assumption documentation with indication that key assumptions are reasonably set.

Guidance Note: Assumption document should be provided “such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions” (from VM-30) and “(form a conclusion) on whether the assumptions contribute to the conclusion that reserves make provision for ‘moderate adverse conditions’” (from VM-30)

(3) Methodology

(4) Rationale for degree of rigor in analyzing different blocks of business.

(5) Include in the rationale the level of “materiality” that was used in determining how rigorously to analyze different blocks of business.

(6) Criteria for determining asset adequacy and if those criteria were met.

(7) Changes from the prior year’s analysis

(8) Summary of results

(9) Conclusions

(10) Indication of whether high-yield assets are being modeled with a reasonable reflection of their risk

(11) Indication of the scope, e.g., assuming company wide, counterparty (ceding company) specific, transaction specific.

K. Starting Asset Amount – The amount of assets inserted into the testing model at the beginning of the projection.

L. Sufficient Block – When a block of business shows positive present value of ending surplus in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions.

*Other definitions?*

4. Risk Identification for Purposes of Establishing Analysis and Documentation Expectations

A. General guidance - The higher the risk, the more rigorous and frequent the analysis and documentation that should be performed by the ceding company’s Appointed Actuary.

B. Relevant risks – For the purpose of determining the amount of rigor and frequency of analysis and documentation, relevant risks include one or more of the following:

(1) A significant Reserve Decrease in relation to the Pre-reinsurance Reserve.

(2) A significant use of non-Primary Security to support reserves.

*{Is there another metric besides “Primary Security” that can provide comfort that appropriately stable assets are supporting reserves?}*

(3) Significant collectability risk associated with the reinsurer, for reasons including:

(a) Rating of counterparty

(b) Capital position and trend of capital position

(c) Regulatory actions against counterparty

(d) Liquidity ratios

(e) Late payments on the agreement

(f) Decline in quality of invested assets

(4) Any other potential risks associated with reinsurance transactions should be discussed and considered.

C. Risk mitigation - Any potential risks or risk mitigants associated with protections such as trusts or funds withheld .

5. Analysis and Documentation Expectations in Light of Risks

A. Generally, cash flow testing the Post-reinsurance Reserve is most appropriate when there is higher risk, and alternative analysis may be appropriate if there is lower risk. Details of cash-flow testing expectations related to this Guideline are provided in Section 6. Cash flow testing is expected for treaties falling within the Scope of the Guideline, stated in Section 2, except in certain cases described in Section 5.G and Section 5.H.

B. The Appointed Actuary should consider the analysis required to be performed by this Actuarial Guideline, along with other relevant information and analysis in forming their opinion regarding the potential need for additional reserves. In the event that the Appointed Actuary believes that additional reserves are required (based on their application of appropriate actuarial judgment), then the Appointed Actuary should reflect that in their Actuarial Opinion.

This Guideline does not include prescriptive guidance as to whether additional reserves should or should not be held. As is already the case, such determination is up to the Appointed Actuary, and the domestic regulator will continue to have the authority to require additional reserves as deemed necessary.

C. Examples of alternative analysis include:

(1) Gross premium valuation or other asset adequacy analysis techniques described in Actuarial Standard of Practice (ASOP) #22, supplemented by an Actuarial Guideline 53-type analysis for the counterparty as well as Primary Security considerations.

(a) As stated in ASOP #22, gross premium valuation would tend to be inappropriate if there are significant asset risks or disintermediation risk with potential sales of assets needed to support cash-demand liabilities such as deferred annuities.

(2) Attribution analysis as described in Section 7.

(3) Other analysis approved by the domestic regulator.

D. Aggregation may be allowed between treaties for a single counterparty subject to the considerations in Section 8.

E. The domestic commissioner continues to have the option to require cash flow testing for individual treaties or counterparties, as they may deem necessary to understand and evaluate risk.

F. Where information on cash flows or any aspect of the analysis is not available, the appointed actuary may use reasonable simplifications, approximations, and modeling efficiency techniques.

G. A Similar Memorandum may be submitted as an alternative to cash-flow testing if the domestic regulator finds that they are able to determine whether the assets are adequate to support the liabilities, under moderately adverse conditions.

H. With advanced approval, alternative analysis as described in Section 5.C may be permitted by the ceding company’s domestic regulator according to the following criteria:

(1) Risks from Section 4 are demonstrated to be non-substantial (including consideration of risk mitigants in section 4.C.), or

(2) The domestic regulator finds that they are able to determine whether the assets are adequate to support the liabilities, under moderately adverse conditions.

6. Cash-flow Testing Details

A. This Section contains details on cash-flow testing expectations that are relevant only to this Guideline.

B. Starting Asset Amount

(1) For the baseline run of cash-flow testing, the Starting Asset Amount shall be equal to the Post-Reinsurance Reserve.

(2) An Alternative Run of cash-flow testing may also be provided, at the option of the company, using a Starting Asset Amount equal to an alternative amount higher than the Post-Reinsurance Reserve. The Appointed Actuary should provide justification in their documentation about the appropriateness of the Starting Asset Amount in the Alternative Run.

(3) In lieu of an optional Alternative Run, the Company could provide an explanation of amount and type of assets in excess of the Post-Reinsurance Reserve that would be available to support the cash-flow tested business.

C. Projections, key assumptions, and ending results shall be documented.

D. Explanation of margins on assumptions, including consideration of volatility in underlying factors, should be provided, along with results of appropriate sensitivity tests.

E. Addressing of significant risks (including those beyond interest rate risk) should be modeled and explained.

(1) For example, if illiquidity risk of assets results in significant additional returns, scenarios should be provided demonstrating how those risks can result in losses, even if the company appointed actuary opines that such scenarios are beyond moderately adverse.

(2) This modeling helps demonstrate that the appointed actuary understands the high-yield assets, their risks, and the loss potential in certain scenarios.

7. Attribution Analysis

A. To perform an Attribution Analysis, for each relevant transaction, start with the Pre-reinsurance Reserve and document adjustments from that reserve to get to the ceding company best estimate.

(1) Adjustments may include the following:

(a) Differences in key assumptions

(i) Policyholder behavior assumptions

(ii) Mortality or longevity assumptions

(iii) Investment return assumptions versus US statutory discount rates

*{Is it important to analyze investment risks if the company is not reliant on aggressive asset return assumptions?}*

(iv) Other key assumptions, e.g., taxes

(b) Other reserve adjustments due to:

(i) Removal of cash surrender value floor

(ii) Market value / book value difference due to change in interest rates

(iii) Moderately adverse to less adverse (or best estimate) conversion

(iv) Other, including other changes to fair value or future cash flows

(2) Please comment on the order of the Attribution Analysis adjustments, where a different order could significantly change the impact of an adjustment.

B. Use the template or provide similar information in a user-friendly format explaining reasons for any reserve decrease.

C. Provide a narrative explanation, if necessary, to accompany the numbers provided in the Attribution Analysis template or similar format.

8. Aggregation Considerations

A. Aggregation through subsidy of a Deficient Block by a Sufficient Block should apply within a counterparty for any required testing.

*{Are there cases where aggregation within a counterparty is inappropriate, such as between certain lines of business?}*

B. For the purposes of cash-flow testing, the ceding company should be permitted to aggregate the results of the counterparty level reinsurance analysis against the results for retained business to align with how cash flow testing would apply if they were to recapture the business

9. Documentation

A. If cash-flow testing is performed, present key assumptions, along with any significant interim negatives along with other results the company selects to disclose.

B. If cash-flow testing results are negative, provide an explanation if commensurate, additional asset adequacy testing reserves are not being held.

C. If Attribution Analysis is performed, present the results in the template or in a user-friendly form providing similar information as in the template.

D. If performing other analysis, present results as appropriate.

E. Provide any narrative explanation to accompany the numerical results, including support for decisions to hold or not hold additional asset adequacy analysis reserves.

Appendix: Examples of Alternative Run cash-flow testing approaches in the spirit of the Guideline

(iii) The list below specifies Alternative Run cash-flow testing approaches which the Task Force regards as being most consistent with these principles:

(a) In one example of an Associated Party 100% coinsurance transaction:

*(1)* The amount of funds withheld assets exceeds the Post-reinsurance Reserve.

*(2)* Excess capital supported by Primary Security commensurate with U.S. risk-based capital standards, is demonstrated to be held and dedicated to and available to the support of the reinsurance business, if needed.

*(3)* For the Alternative Run, the Starting Asset Amount may equal the funds withheld amount.

(b) In another example of an Associated Party 100% coinsurance transaction:

*(1)* The funds withheld assets exceed the reserve held at the assuming company.

*(2)* Excess capital supported by Primary Security commensurate with U.S. risk-based capital standards, is not demonstrated to be held and dedicated to and available for the support of the reinsurance business, if needed.

*(3)* For the Alternative Run, the Starting Asset Amount may equal the funds withheld amount minus a portion of the funds withheld amount set aside to support capital needs.

*(a)* It is possible the Starting Asset Amount in this example would exceed the Post-reinsurance Reserve.

(c) In an example of a non-Associated Party 100% coinsurance transaction:

*(1)* The funds withheld assets exceed the reserve held at the assuming company.

*(2)* Excess capital is available (perhaps determined with the assistance of the domestic regulator) but is not necessarily dedicated to support the reinsurance business.

*(3)* For the Alternative Run, the Starting Asset Amount may equal the funds withheld amount minus an amount available to support capital needs.

*(a)* It is possible the Starting Asset Amount in this example would exceed the Post-reinsurance Reserve.

(d) Example: Assets in an official trust *{define}* exceed the reserve held at the assuming company.

(e) Example: ModCo…{*any significant difference from FWH?}*

(f) Less than 100% coinsurance, use Post-reinsurance Reserve terminology (total of ceding company and assuming company reserves held)…

(g) Add examples