Reinsurance Asset Adequacy Testing

Life Actuarial Task Force

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Agenda

1. Background
2. Timeline
3. Final steps for Guideline
4. Exposure (after consideration of discussion)

Background

- Reminder of goals:
  - Provide US state regulators what is needed to review the reserves & solvency of US life insurers.
    - Transparency into reserves and supporting assets even if business is ceded
  - Steer clear of conflict with reciprocal jurisdiction / covered agreement issues.
  - Prevent work by US ceding companies where there's immaterial risk.

Timeline

- May 29, 2025, 1pm CT – LATF discussion
- May 30, 2025, end of business day – “fatal flaws” 4-day exposure
- June 3, 2025 – Final comments due
- June 5, 2025 – Final LATF discussion and vote for adoption
- July 2025 – A Committee consideration of adoption
- August 13, 2025 – Exec / Plenary consideration of adoption
- April 1, 2026 – First reports due

Covered Agreement comment letter

- Concerned about, “you have this information, then what?”
  - Commitment, if issues are identified such that NAIC-coordinated addressing is warranted, is for public discussions to re-open to discuss how to most appropriately address any concerns (not company specific)
  - Listening to comments and concerns of all interested parties
- Worked for past 15 months, at industry’s request, to appropriately limit scope
- Cash flow testing is key for US state regulators to protect US policyholders
  - Will there be enough money to pay claims in various scenarios?
  - Without this key actuarial transparency, US state regulators feel less able to do our jobs to protect US policyholders
- US and other regulators are acting as teammates
  - Preventing failures is good for everyone: US & other regulators, ceding companies, reinsurers, policyholders

Remaining Actuarial Topics – Highlighted in Exposure

- Assets to include in Cash Flow Testing Starting Asset Amount
- Aggregation re: product lines
- Handling of certain retrocessions
- Scope adjustment

Remaining Topics – Other substantive items

- Certain non-affiliated exemption considerations

Remaining Topics – Less substantive items

- Scope relative size – numerator / denominator consistency
- Examples

Remaining Topics – Additional topics from commenters

- Definitions of asset adequacy analysis and additional reserve
- Clarification re: treaty-level deficiencies

Assets to include in Starting Asset Amount

- Focus has been on Primary Security
  - Concept from Actuarial Guideline 48
  - For certain reinsured business, only certain asset types can support VM-20 PBR reserves
  - Non–Primary Security seems to focus on lower quality, lower dependability, lower transparency
- However, some non-Primary Security is standard to include in cash-flow testing
  - Including certain Schedule BA assets, residential mortgage loans
- Comment: change Primary Security to admitted assets for purposes of this Guideline
- After further study, proposal to start with admitted assets and exclude certain asset types

Proposal: assets to exclude from Starting Asset Amount

- Define "Guideline Excluded Assets"
  - Non-admitted assets
  - Letters of credit
  - Contingent notes
  - Credit-linked notes
  - Excess of loss (XOL) reinsurance
  - Parental and affiliate guarantees
  - Assets only admitted pursuant to permitted practices.
- Post-Reinsurance Reserve does not include Guideline Excluded Assets

Examples of gray area admitted / non-admitted assets

- Admissibility of some common Schedule BA assets:
  - Joint venture, partnership, LLC
    - Admitted only if there are audited financial statements
  - Surplus notes
    - Admitted if meet certain requirements
  - Collateral loans
    - Admitted only if fully backed by collateral that would qualify as an admitted asset
  - Residual tranches
    - Admitted only if debt securities issued from the structure would qualify as admitted assets

Aggregation re: product lines

- Proposal:
  - Do not require product-line level analysis for year-end 2025
  - In recognition of the amount of work to put together counterparty-level analysis that will be required
- Discussion:
  - State "for year-end 2025 only"?

Handling of certain retrocessions

- Proposal:
  - The original ceding company should use a starting asset amount based on the reserve the ultimate affiliated assuming company is holding.
    - In cases where a US captive does not provide AG ReAAT analysis when they're in scope and then captive retrocedes the block to a non-VM-30 entity.
    - This type of instance was identified in multiple cases
      - US company cedes to a captive, and that captive is retroceding the business to a non-VM-30 filer
  - e.g., If the cession to the captive results in a reserve decrease from $100 to $90
  - And then a retrocession from the captive to a reinsurer in another jurisdiction results in a reserve decrease from $90 to $75...
  - Regulators want to see analysis of the adequacy of the $75

Scope adjustment

- Consideration to tweak the size scope:
    - Effect of excluding a few relatively small treaties for large cedants and
    - Adding a few relatively large treaties for small cedants
    - Proposal was from Missouri department
    - Examples of treaties that would be excluded:
        - a treaty with $2 billion reserve credit which is 3% of the ceding company's total gross reserves
        - a treaty with $300 million reserve credit which is 15% of the ceding company's total gross reserves
    - Added: a treaty with $5 million reserve credit which is 60% of the ceding company's total gross reserves

Certain non-affiliated exemption considerations

- Proposal:
  - Expand consideration of cash-flow testing exemption to <u>large</u> non-affiliated treaties
  - NAIC Valuation Analysis Working Group would assist with domestic regulator review of exemption requests

Remaining Topics – Less substantive items

- Scope relative size – numerator / denominator consistency
  - Include Exhibit 7 (deposit type contracts) and Separate Account reserves in scope denominator if they're part of the numerator
- Frame Alternative Run guidance as examples

Remaining Topics – Additional topics from commenters

- Definition of asset adequacy analysis – already in VM-01, not in AGs
- Definition of additional adequacy reserve
  - Section 2.C.2 of VM-30
  - Not desired at this point, since disclosure only?
- Flexibility re: regulatory view of treaty-level deficiencies
  - Concern about being prescriptive or restrictive
  - Disclosure only, collecting information
- Reinsurance collectability
  - Concern if reinsurer insolvency even if not also ceding company insolvency