

Draft date: 3/6/24

2024 Spring National Meeting  
Phoenix, Arizona

**FINANCIAL CONDITION (E) COMMITTEE**

Monday, March 18, 2024

8:00 – 9:00 a.m.

Phoenix Convention Center—301 B-D West—Level 3

**ROLL CALL**

Nathan Houdek, Chair	Wisconsin	Mike Chaney	Mississippi
Michael Wise, Co-Vice Chair	South Carolina	Chlora Lindley-Myers	Missouri
Cassie Brown, Co-Vice Chair	Texas	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
Amy L. Beard	Indiana	Judith L. French	Ohio
Doug Ommen	Iowa	Elizabeth Kelleher Dwyer	Rhode Island
Vicki Schmidt	Kansas	Scott A. White	Virginia
Gary D. Anderson	Massachusetts		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

**AGENDA**

1. Consider Adoption of its 2023 Fall National Meeting Minutes Attachment One  
—*Commissioner Nathan Houdek (WI)*
2. Consider Adoption of its Task Force and Working Group Reports  
—*Commissioner Nathan Houdek (WI)*
  - A. Accounting Practices and Procedures (E) Task Force Attachment Two
  - B. Capital Adequacy (E) Task Force Attachment Three
  - C. Financial Stability (E) Task Force Attachment Four
  - D. Receivership and Insolvency (E) Task Force Attachment Five
  - E. Reinsurance (E) Task Force Attachment Six
  - F. Valuation of Securities (E) Task Force Attachment Seven
  - G. Group Capital Calculation (E) Working Group Attachment Eight
  - H. Risk-Focused Surveillance (E) Working Group Attachment Nine
  - I. National Treatment and Coordination (E) Working Group Attachment Ten
3. Receive a Status Report from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*

4. Receive a Status Report from the Valuation of Securities (E) Task Force  
—*Carrie Mears (IA)*
5. Receive a Status Report from the Statutory Accounting Principles (E) Working Group on the Principles-Based Bond Project  
—*Dale Bruggeman (OH)*
6. Receive a Status Report on the Request to the Executive (EX) Committee  
—*Commissioner Nathan Houdek (WI)* Attachment Eleven
7. Receive Oral Comments on the *Framework for Regulation of Insurer Investments* and Related Documents  
—*Commissioner Nathan Houdek (WI)*
  - A. Carrie Haughawout (American Council of Life Insurers—ACLI)
  - B. Mike Consedine (Athene)
  - C. Christopher Anderson (Anderson Insights)
  - D. Edward Toy (Risk & Regulatory Consulting—RRC)
  - E. Francisco Paez (Met Life)
8. Discuss Any Other Matters Brought Before the Committee  
— *Commissioner Nathan Houdek (WI)*
9. Adjournment

## Draft Pending Adoption

Draft: 12/11/23

Financial Condition (E) Committee  
Orlando, Florida  
December 3, 2023

The Financial Condition (E) Committee met in Orlando, FL, Dec. 3, 2023. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Nathan Houdek, Vice Chair, and Amy Malm (WI); Mark Fowler (AL); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen (IA); Amy L. Beard (IN); Timothy N. Schott and Vanessa Sullivan (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Michael Wise (SC); Cassie Brown and Jamie Walker (TX); and Scott A. White and Doug Stolte (VA).

### 1. Adopted its Oct. 25 and Summer National Meeting Minutes

The Committee met Oct. 25 and took the following action: 1) adopted its 2024 proposed charges; and 2) adopted the *Property and Casualty Insurance Guaranty Association Model Act* (#540).

Commissioner Schott made a motion, seconded by Kaumann, to adopt the Committee's Oct. 25 (Attachment One) and Aug. 15 minutes (see *NAIC Proceedings – Summer 2023, Financial Condition (E) Committee*). The motion passed unanimously.

### 2. Adopted the Reports of its Task Forces and Working Groups

Superintendent Dwyer stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). She reminded Committee members that after the Committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the Summer National Meeting as part of the Financial Condition (E) Committee Technical Changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the Members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately. With respect to the task force and working group reports, Superintendent Dwyer asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the Members for consideration as part of the technical changes; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or working groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Superintendent Dwyer noted that the Financial Analysis (E) Working Group met Nov. 30, Nov. 8, and Oct. 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met Nov. 30 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies. Finally, the Group Solvency Issues (E) Working Group met in regulator-to-regulator session Oct. 8, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

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Commissioner Houdek made a motion, seconded by Commissioner Schott, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Two); National Treatment and Coordination (E) Working Group (Attachment Three); and Risk-Focused Surveillance (E) Working Group (Attachment Four). The motion passed unanimously.

### 3. Adopted the Listing of Qualified Jurisdictions and Reciprocal Jurisdictions

Superintendent Dwyer stated that in 2019, the Committee adopted an updated Pprocess for evaluating qualified and reciprocal jurisdictions and specifically moved from doing a full re-review of the jurisdictions every five years to now performing a due diligence review every year. The Mutual Recognition of Jurisdictions (E) Working Group recently approved the status of the seven existing qualified jurisdictions—Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK)—and the three reciprocal jurisdictions that are not subject to an in-force “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement)—Bermuda, Japan, and Switzerland.

Commissioner Beard made a motion, seconded by Commissioner Schott, to adopt the listing of qualified jurisdictions and reciprocal jurisdictions (Attachment Five). The motion passed unanimously.

### 4. Received Oral General Comments on Previously Exposed Framework for Regulation of Insurer Investments

Superintendent Dwyer reminded Committee members that at the Summer National Meeting, the Committee exposed a draft Framework for Regulation of Insurer Investments, and during the Committee’s Oct. 25 meeting, the Committee decided that it would allow each party that made written comments to make up to two minutes of oral comments at this meeting as it pertains to general comments. Superintendent Dwyer stated that during the same meeting, the Committee would begin to review written comments on specific recommendations included in the Framework in 2024. The following entities provided oral comments:

#### A. Equitable

Aaron Sarfatti (Equitable) summarized Equitable’s comments by stating there were four main points in its letter: 1) that capital charges for asset-backed securities (ABS) should be higher; 2) the Committee should prioritize the use of modeling of collateralized loan obligations (CLOs); 3) factors should be used to determine the C1 charges within the life risk-based capital (RBC) formula where modeling is not pragmatic; and 4) the Committee should develop a concentration risk framework.

Sarfatti noted Equitable had three other related comments. First, Equitable requests that the Committee clarify and coordinate the work on the modeling between the Risk-Based Capital Investment Risk and Evaluation (E) Working Group as proposed by the American Academy of Actuaries (Academy) and the work of the Valuation of Securities (E) Task Force on the same topic. Second, the viewpoint that the concentration risk framework that Equitable has advocated for is really a middle-ground solution and what is necessary to protect against deep insolvency by an insurer that has allocated 60% of its portfolio to lower-rated securities compared to an insurer that has allocated 2% of its portfolio to lower-rated securities. Sarfatti noted the latter would often be viewed as responsible participation in lower-rated securities. Third, when statistical safety requirements are considered, and the issue of lower-rated securities and ABS, it should be thought of in the context of the life insurance system as a whole as opposed to the safety requirements for any individual insurer.

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### B. ACLI

Carrie Haughwout (American Council of Life Insurers—ACLI) stated that the ACLI recognizes that the nature of insurer investments continues to evolve and become more complex, and as a result, the ACLI supports the use of comprehensive and holistic regulatory framework. The ACLI believes that appropriate resource allocation will be an important part of making the new holistic approach successful. The ACLI thinks that stakeholders and state insurance regulators alike can work together to build a shared approach that can then be used to execute that approach. Haughwout noted that as the work continues at the Committee level, its task forces and working groups have already shown changes in the process. Haughwout stated her appreciation for the work of the Committee and its members' staff, and the ACLI stands ready to assist in any way possible.

### C. Anderson Insights

Christopher Anderson (Anderson Insights LLC) noted that as a chartered financial analyst, there are four ways to look at insurer investments. The first is pricing to establish uniform valuations, which is what the Securities Valuation Office (SVO) did for many years but discontinued long ago. The second is individual credit risk as performed by the SVO. The third is portfolio analysis, as discussed in the draft Framework. This function is performed today by departments of insurance (DOIs), often with additional contracted resources. This requires skills that are quite different from analyzing individual securities. A number of years ago, despite its lack of experience, the NAIC attempted to provide portfolio analyses for insurance departments, but that enterprise was not successful. The fourth way to look at insurer investments is by the assessment of assets and liabilities and their interactions. This work is also conducted by DOIs, as is portfolio analysis. It, too, is distinct from individual security analysis and requires specialized skill sets tailored to each insurer. A key question is whether the NAIC itself should develop these services nationally when they are already being delivered by insurance departments. Individual security analysis has been performed by the SVO in much the same way as it was when RBC was adopted in the early 1990s. Anderson noted that given the changing technology in so many respects, he believes it is time to take a completely fresh look at how the NAIC can support state insurance regulators in assessing creditworthiness. A new model might emerge that may look very different from what is being done today, or it could affirm present procedures, but the goal should be to design the optimal way of meeting the needs of state insurance regulators in assessing asset quality. In any event, before exploring new ventures, Anderson said he believes that the priority should be to study how developing technology can improve the existing service of quantifying the risks of individual security.

### D. AIC

Daren Moreira (Sutherlands), on behalf of the American Investment Council (AIC), described how the AIC is an advocacy communications and research organization whose members include the world's leading private equity and private credit firms. Moreira stated he would let the AIC comment letter speak for itself but wanted to make one key point: The NAIC proceeding at the current pace is inconsistent with the principles and observations set out in the framework document, in particular, the plans for the beginning of financial modeling of (CLOs). Moreira also cited the proposed changes to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and the plans to implement a 45% RBC charge for residual tranche investments for year-end 2024. Moreira suggested additional time and consideration are warranted for these changes.

### E. ACC

Joe Engelhard (Alternative Credit Council—ACC) stated that the ACC was a similar trade association as the AIC, but its aim is more global, as it represents private equity and private credit firms in the US, Europe, and Asia. Engelhard noted that during a lot of the meetings earlier, he thought there was better coordination among various NAIC groups, with more than just updates. Engelhard stated that with the Academy presentation at the Risk-Based

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Capital Investment Risk and Evaluation (E) Working Group at the Fall National Meeting, principles were agreed to that would make sure that any modeling done by NAIC staff would follow such direction. Engelhard stated he believed this positive action was a result of the impact of the holistic framework. Engelhard also noted that as work begins, the usual fact-based, data-driven analysis of ABS to determine an approach to RBC charge would be important. With respect to the use of resources and the earlier discussion about correlation and the broader point of diversification, long-term, risk-free government securities in the US have lost 45% of their value, and investment-grade corporate bonds have lost a significant amount of their value. These facts and the shift toward private credit and private equity are reasonable and a good match between long-term investment liabilities and investment maturities.

### F. Apollo and Athene

John Golden (Apollo and Athene) indicated he represented Apollo and Athene and wanted to first address the behavior of parties that continue to work against the constructive process, including the latest personal attacks. Golden noted that such attacks were shameful and wholly inappropriate. He stated that such comments do not reflect the value of Apollo and Athene, which remains committed to a constructive dialogue and will continue to seek a regulatory system with principles of consistency and integrity. Golden implored other participants to do the same. Golden noted his organization's support for the holistic framework, which strikes a critical balance between the evolving life insurance industry and the availability of products that meet consumer needs. The US insurance system is one of the few sectors globally that offers the broad availability of long-term, guaranteed products to a reasonable solvency treatment to diverse credit assets supporting both consumer benefits and financing to the real economy, while other countries struggle to support retirees through their life insurance sectors. The framework will empower companies to meet consumer needs through its core principles of equal capital for equal risk, strong rating oversight, new tools such as challenge rights, and greater analytical abilities. These are principles that Apollo and Athene support without reservation. Golden said Apollo and Athene have never advocated more or less capital across the system and only desire a solvency regime that recognizes the benefits the credit markets offer and consistent treatment across capital and asset classes, especially at the investment-grade level. Golden suggested that CLO modeling currently intended for designations may be better used as a method to monitor industry portfolios and inform other tools rather than supplanting the current designations.

### G. Bridgeway Analytics

Amnon Levy (Bridgeway Analytics) noted that Bridgeway Analytics produces reports with information on investments, risk, and oversight and provides great use to various parties. Levy discussed the detailed frameworks Bridgeway Analytics included in its comments submitted to the Committee that set forth common pillars observed across effective investment, risk, and oversight frameworks for which it has been involved. Levy noted that Bridgeway Analytics has had the honor of supporting the design of regulatory frameworks across multiple jurisdictions, including RBC and fossil fuel information, and that it encourages state insurance regulators to adopt principles for investment risk that include clarity. This helps to ensure each component of the framework has well-articulated objectives and definitions and that consistency across different types of investments is handled objectively, although governance across the framework is also important. Defined standards allow for the leveraging of resources effectively, including prudent use of rating agency ratings, which, when coupled with information on business use, helps to demonstrate credibility in a way that benefits both policyholders and insurers. Bridgeway Analytics was founded with a mission to support insurers and state insurance regulators in navigating capital markets and the regulatory landscape through data-driven analysis that could be easily understood.

### H. Lease-Backed Securities Working Group

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John Garrison (Lease-Backed Securities Working Group) stated support for the process to undertake this holistic review and, at the highest level, agreed on a more intensive level of coordination between the three legs of the stool of accounting, risk assessment, and credit risk included in capital adequacy. Garrison encouraged the Committee to follow up on the ideas set forth in the framework document, including retaining a third-party consultant to take a fresh look at the current practices and to recommend and implement improvements to the current system. As noted at the Valuation of Securities (E) Task Force meeting, the current process has evolved over time, and even the name of the NAIC office focused on this work may no longer fit the current service to state insurance regulators. This holistic review should ideally include a renewed study of the most effective way for that task force to interact with and monitor staff, as well as the creation of a new broad investment working group under the Committee to act in an advisory capacity and to facilitate coordination.

### I. MetLife

Francisco Paez (MetLife) stated that MetLife agrees that investment portfolios for the industry have rapidly transformed in recent years, with large increases and allocations to complex securities. This requires updating the regulatory approach to ensure the proper alignment of risk and capital. Paez highlighted a small number of comments from MetLife's comment letter. He said that MetLife agrees with the Academy's view that compared with corporate bonds, risks on structured securities increase much more quickly as ratings decrease. Consequently, applying the current corporate RBC factors to structured securities based on ratings vastly underestimates the risk of loss and tail scenarios for subordinated structure bonds at a time when allocations to this type of risk have been growing at a double-digit annual range for several years. MetLife also agrees with Academy that a simpler solution should be favored and that if existing RBC factors can be used, they should be, but that there is a twofold practical way of bridging the gap between these two seemingly contradictory points. First, when practical, by mapping structured securities to the appropriate existing factor through risk modeling rather than referring to a credit rating. Second, when impractical to model, develop a simple multiplier approach of the existing factors for subordinated non-modeled structured securities.

In conclusion, MetLife recommends that the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group consolidate their initiatives around RBC for a single mapping approach to risk modeling. This would leverage the respective strengths of the NAIC Structured Securities Group (SSG) and the Academy to arrive at a better alignment of risk and capital at this time of rapid buildup of subordinated structured securities across portfolios in the industry.

### J. Minnesota Department of Commerce

Fred Andersen (Minnesota Department of Commerce) was not present, but Superintendent Dwyer noted the commentor's previous written comments that were part of the public record from the Committee's Oct. 25 meeting.

### K. Moody's

Richard Cantor (Moody's Investor Service—Moody's) presented some highlights from Moody's comment letter: 1) insurers are increasing their investments in complex assets with private letter ratings; and 2) material differences are more likely across different rating providers and with credit analysis, and private ratings have been particularly vulnerable to rating shopping and rating inflation because they lack market oversight. Cantor stated when ratings are public, investors and issues can regularly be challenged, which helps drive comparability. This reliance on private ratings contrasts with European regulators, which only recognize public ratings. To that end, Moody's agrees with a framework that supports discretion in its use of ratings. However, that framework should be narrowly focused on differences in ratings because a review of business processes, internal controls, and resources would be redundant to existing U.S. Securities and Exchange Commission (SEC) oversight. The

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frameworks incorporate a comparison of providers' ratings and their performance on jointly rated securities; however, this data will be limited to many asset classes of interest. Therefore, additional approaches may be needed to drive consistency in the use of ratings for designations. One pathway is to consider leveraging existing supervisory oversight of insurers, underwriting, and risk management practices. Such oversight could incorporate a review of internal controls around the selection and use of rating providers and their ratings and may be helpful to review for insurers whether they apply their own credit analysis and their use of credit rating providers in the filing exempt process. Another pathway is to leverage market discipline by increasing transparency around insurers, investment, and reliance on private ratings. Schedule D reporting could be expanded to include information that would assist market participants in understanding insurers' exposure to specific asset classes, structural protections, and any potential risks of regulatory arbitrage or ratings inflation.

### L. NAMIC

Colleen Scheele (National Association of Mutual Insurance Companies—NAMIC) stated NAMIC's appreciation for the goal of the proposed framework, modernizing the role of the SVO and creating a more holistic approach to investments. Given the complex nature of investments, the proposed development process should be open and transparent and address both regulatory and stakeholder needs as proposals filter through the Committee in pursuit of the framework's goals. A consistent and open approach to feedback will facilitate more meaningful dialogue and better outcomes for all. The framework should support the retention of industries and state insurance regulators' ability to utilize credit rating providers as they serve an important role in the market, and NAMIC supports the framework goal of creating consistency across the formula treatment of asset classes.

### M. Nebraska DOI

Lindsay Crawford (Nebraska DOI) stated that as the Chief Financial Regulator with the Nebraska DOI, she supports the holistic framework, particularly in relation to the need for modernization and the investment regulatory framework and the increased need for collaboration among the different working groups and task forces charged with addressing the complex and technical topic of insurers evolving investment strategies and structures. Nebraska sees great benefit in the formation of a high-level investment working group to promote collaboration in the process to ensure regulatory guardrails are appropriate and can be efficiently implemented in a coordinated fashion across financial statement reporting, risk assessment, and related presentation of RBC charges. Nebraska is also in agreement that the resources available to state insurance regulators need to be reevaluated to ensure they have the tools and resources needed to continue effectively regulating and understanding investment risks. Nebraska encourages the continuation of current initiatives without delay of the current task force and working groups.

### N. Pac Life

Jennifer Webb (Pacific Life Insurance Company—PacLife) stated in agreement with Golden that Pac Life is dismayed by the recent press tactics and in no way endorses them. Pac Life supports a transparent and collaborative approach and appreciates the efforts in this space. As a DC resident and insurance commissioner, Webb personally thanked Philip Barlow (DC) for his services. Pac Life supports the Committee's decision not to pause ongoing investment-related workstreams, including the CLO modeling. Webb stated the need to emphasize five points: 1) the NAIC should take a road approach when studying emerging risks and where there may need to be enhanced oversight; 2) there should be consistent treatment across asset classes to encourage economic decision-making and limit the potential for capital arbitrage; 3) the NAIC should embrace the use of modeling to supplement the limits of historical data for structured securities; 4) the analytical capabilities should be proportional to the complexity of the investments to ensure investment strategies for the purpose of identifying



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industry-wide risk analytics and macroprudential trends; and 5) the NAIC should continue to modernize state insurance regulator tools to address potential liquidity risks.

### O. RRC

Edward Toy (Risk & Regulatory Consulting LLC—RRC) stated that RRC's comments are driven by two things. The first thing is the role that RRC plays serving state insurance departments in their review of investment portfolios and investment strategies of insurance companies. The first also include Toy's personal history in the industry twenty years ago that worked with the task force in terms of the development of the filing exempt process. Toy stated that he was comfortable saying that at that time, industry understood that state insurance regulators would always retain not just the authority but also the responsibility to continue to ensure that ratings met regulatory needs. The hope was that that would not translate into a focus on a bond-by-bond basis, but instead on the basic processes of rating agencies and being comfortable that what they did met regulatory needs. If they did not meet those needs, to make the appropriate adjustments in terms of how regulators use rating agency ratings, with the qualification that anything should be based on thorough analyst, be well documented and transparent to everyone, both regulators and industry. The second thing RRC's comments are driven by regards to the more important aspect of the framework, which is the ongoing need for state insurance regulators to get as much support as possible from the investment portfolios and investment practices of insurance companies. Toy said this is on the basis that we know they have evolved, and things have accelerated dramatically in the last few years. Toy noted RRC's concerns were not just on bonds, although by no means was it suggesting that the credit ratings of bonds be ignored. Still, there are many other things going on with insurers' portfolios, whether you are looking at mortgage loans or collateral loans, asset concentrations, or risk factors today that substantially impact the market volatility of portfolios, including the last year-and-a-half on rising interest rates, as well as substantial changes in liquidity and liquidity needs, the portfolios have changed dramatically. Toy stated that RRC would be happy to support state insurance regulators in any way they deem appropriate.

### P. Commonwealth of Virginia

Doug Stolte (VA) stated the Virginia Bureau of Insurance generally supports the concepts of the framework, but the solvency of insurers must remain the primary focus of the framework as opposed to market or other considerations, which must remain secondary to the protection of policyholders. The Virginia Bureau of Insurance also supports the Committee not pausing the existing workstreams related to insurer investments, which must continue without interference or delay. Stolte encouraged his fellow state insurance regulators to reacclimate themselves with the P&P Manual, which contains the current investment framework for the NAIC. The framework is based on the credit quality of insurer investments being a sound anchor for regulatory functions, including the Accreditation Program. It is important that the revised framework maintains a solvency focus.

Superintendent Dwyer agreed with the comment from Golden and Webb regarding Barlow and said that state insurance regulators greatly appreciate his work on solvency. Superintendent Dwyer commented that the rigorous process used for this meeting, where commenters were limited to two minutes, is designed to allow participation and input into the NAIC products. Such participation historically makes for better products.

Having no further business, the Financial Condition (E) Committee adjourned.  
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2024 Spring National Meeting  
Phoenix, Arizona

**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE**

Sunday, March 17, 2024  
11:30 a.m. – 12:00 p.m.

**Meeting Summary Report**

The Accounting Practices and Procedures (E) Task Force met March 17, 2024. During this meeting, the Task Force:

1. Adopted its 2023 Fall National Meeting minutes.
2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met March 16. During this meeting, the Working Group took the following action:
  - A. Adopted its Feb. 20, 2024; Jan. 29, 2024; Jan. 10, 2024; and 2023 Fall National Meeting minutes.
  - B. Adopted new concepts as part of the new market tax credits project, effective Jan. 1, 2025. The revisions provide new concept revisions for *Statement of Statutory Accounting Principles (SSAP) No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. The revisions expand the scope of both SSAPs. The Working Group also adopted consistency revisions to *SSAP No. 34—Investment Income Due and Accrued* and *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*. The Working Group directed NAIC staff to sponsor a blanks proposal on the annual statement reporting categories for tax credit investment risk-based capital (RBC), issue a referral to the Life Risk-Based Capital (E) Working Group to inform it of the planned reporting line changes, and draft an issue paper to document the discussions and revisions for the new market tax credit project. (Ref #2022-14)
  - C. Adopted the following clarifications to statutory accounting guidance:
    - i. Adopted revisions to *SSAP No. 21R—Other Admitted Assets* to incorporate a new measurement method for residual interests, which incorporate the industry’s proposal of an “effective yield with a cap” method, as well as a practical expedient to allow the “cost recovery” method. (Ref #2019-21)
    - ii. Adopted revisions that update the language in *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities*, paragraph 24, on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. (Ref #2023-30)
    - iii. Adopted revisions that will be forwarded as a proposal to the Blanks (E) Working Group to clarify that realized gains and losses on perpetual preferred stock and mandatory convertible preferred stock shall not be added to the interest maintenance reserve (IMR), regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting through the asset valuation reserve (AVR). (Ref #2023-29)
    - iv. Appendix D—*Nonapplicable GAAP Pronouncements*: The following U.S. generally accepted accounting principles (GAAP) standards were rejected as they are not applicable:
      - a. *Accounting Standards Update (ASU) 2023-03, Amendments to U.S. Securities and Exchange Commission (SEC) Paragraphs* (Ref #2023-25)

- b. *ASU 2023-04, Amendments to SEC Paragraphs—Cryptocurrency* (Ref #2023-27)
- D. Exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a 76-day public comment period ending May 31, except for agenda item 2024-13, which has a 34-day public comment period ending April 19:
- i. Exposed revisions to eliminate lingering references that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported in the scope of *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*. (Ref #2024-09)
  - ii. Exposed revisions to adopt, with modification, disclosures from *ASU 2023-06, Disclosure Improvements*. The additional disclosures are for unused commitments and lines of credit, disaggregated by short-term and long-term, and disclosures of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for repos and reverse repos that are significant (10% of adjusted capital and surplus). (Ref #2023-26)
  - iii. Exposed revisions to adopt, with modification, the leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*, modified to align with existing guidance, and reject the practical expedient for private companies and not-for-profit entities. (Ref #2024-02)
  - iv. Exposed revisions that clarify that directly-held crypto assets are non-admitted assets for statutory accounting and to adopt the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. (Ref #2024-03)
  - v. The Working Group exposed revisions to *SSAP No. 63—Underwriting Pools* and *SSAP No. 25—Affiliates and Other Related Parties* to address transfers of assets when modifying intercompany pooling agreements. In addition, the Working Group exposed the intent to nullify *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*. (Ref #2022-12)
  - vi. Re-exposed revisions to expand the transparency of reporting for collateral loans on Schedule BA to allow for quick identification of the type of collateral that supports admittance of collateral loans and define debt issued by funds operations. It was noted during the discussion that no collateral loans should be included in the private equity line because there is already a separate collateral loan reporting line. (Ref #2024-01)
  - vii. Exposed revisions to incorporate consistency revisions for residuals so that all SSAPs refer to *SSAP No. 21R* for the accounting and reporting guidance. (Ref #2024-08)
  - viii. Exposed revisions to incorporate FAS 105 guidance directly into *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* and update the related annual statement instructions to more accurately reflect the existing required disclosures. (Ref #2024-12)
  - ix. The Working Group exposed the agenda item and directed NAIC staff to work with the industry in determining separate accounts guidance for the reporting of book value assets and to propose revisions to incorporate a consistent statutory accounting approach. (Ref #2024-10)
  - x. Exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts

- with interrelated contract features such as experience rating refunds. The Working Group also added reference to A-791, paragraph 6 guidance in the yearly renewable term guidance paragraph regarding the entirety of the contract. (Ref #2024-06)
- xi. Exposed revisions to adopt, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures* that would add certain disclosures from *ASU 2023-09* and remove one existing disclosure to conform with the ASU. (Ref #2024-11)
  - xii. Exposed the agenda item and directed NAIC staff to work with the industry on the reporting of securities lending collateral and repurchase agreement collateral for possible consistency revisions. (Ref #2024-04)
  - xiii. Exposed revisions to remove health disclosures and the related illustration for the expired transitional reinsurance and risk corridors programs. (Ref #2024-13)
  - xiv. Exposed editorial revisions that remove the “Revised” and “R,” which were previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the *Accounting Practices and Procedures Manual (AP&P Manual)*. (Ref #2024-14EP)
  - xv. Exposed revisions to remove the first sentence of *Appendix A-791 Life and Health Reinsurance Agreements (A-791)*, paragraph 2c Question and Answer. In addition, the Working Group directed notification of the exposure to the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force, and the Reinsurance (E) Task Force. (Ref #2024-05)
  - xvi. Exposed a project that proposed to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty (P/C) and Title annual statement blanks, which is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modified coinsurance assets. (Ref #2024-07)
- E. Directed NAIC staff to develop updates to SSAP No. 58 and *Appendix A-630 Mortgage Guaranty Insurance* to incorporate the 2023 revisions to the *Mortgage Guaranty Insurance Model Act (#630)*. (Ref #2023-31)
- F. Received updates on the following:
- i. U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.
  - ii. IMR Ad Hoc group activities.
  - iii. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities.
- G. During its Feb. 20 meeting, the Working Group took the following action:
- i. Exposed revisions to SSAP No. 21R to incorporate a new measurement method for residual interests. The revisions incorporate the industry’s proposal of an “effective yield with a cap” method, as well as a practical expedient to allow the “cost recovery” method. (Ref #2019-21)
  - ii. Exposed revisions to provide detailed definitions for the annual statement reporting categories of SSAP No. 48 and residual interests on Schedule BA. (Ref #2023-16)
  - iii. Adopted revisions to SSAP No. 21R to incorporate a collateral loan disclosure for year-end 2024 to detail admitted and non-admitted collateral loans in accordance with the underlying collateral supporting the loan. The Working Group also exposed additional changes that propose collateral loan reporting lines for Schedule BA and requested comments on whether certain collateral loans backed by certain types of collateral should flow through AVR for RBC impact. (Ref #2023-28)

- iv. The Working Group directed NAIC staff to draft an agenda item in response to a referral from the Life Risk-Based Capital (E) Working Group regarding proposed RBC changes for repurchase agreements originating from the American Council of Life Insurers (ACLI).
- H. During its Jan. 29 e-vote, the Working Group took the following action:
  - i. Voted to expose the new market tax credit project for additional revisions made to the drafts of SSAP No. 93 and SSAP No. 94R. These revisions recommend clarifying changes to SSAP No. 93 and SSAP No. 94R, as well as more detailed revisions to the prospective utilization assessment detailed in SSAP No. 93. (Ref #2022-14)
- I. During its Jan. 10 meeting, the Working Group took the following action:
  - i. Adopted revisions to reject *ASU 2016-13, Measurement of Credit Losses on Financial Instruments (CECL)* and related subsequent ASUs in various SSAPs and *INT 06-07: Definition of Phrase "Other Than Temporary."* (Ref #2023-24)
  - ii. Adopted *INT 23-04: Scottish Re Life Reinsurance Liquidation Questions*, which provides accounting and reporting guidance for ceding entities with reinsurance balances to or from Scottish Re, a U.S.-based life reinsurer in liquidation.
  - iii. Exposed revisions to expand the transparency of reporting for collateral loans on Schedule BA to allow the quick identification of the type of collateral that supports the admittance of collateral loans. (Ref #2024-01)
- 3. Adopted the report of the Blanks (E) Working Group, which met Feb. 21, 2024. During the meeting, the Working Group took the following action:
  - A. Adopted its Nov. 7, 2023, minutes.
  - B. Re-exposed the following proposal for a 60-day public comment period ending April 23:
    - i. 2023-12BWG Modified—Categorize debt securities on Schedule BA that do not qualify as bonds under *SSAP No. 26—Bonds* or *SSAP No. 43R—Asset-Backed Securities* and are captured in the scope of SSAP No. 21R.
  - C. Adopted its editorial listing and the following proposals:
    - i. 2023-05BWG Modified—Changes to the cybersecurity supplement to remove the reference to identity theft insurance from the General Instructions; remove the interrogatory questions from Part 1 that pertain to identity theft insurance; and remove the column for identity theft insurance from Part 2 and Part 3. Remove claims-made and occurrence breakdown from data collection and remove the question in the interrogatories regarding tail policies.
    - ii. 2023-13BWG Modified—Add new instruction and illustration under Note 5—Investments for Net Negative (Disallowed) IMR and a new general interrogatory for a company attestation.
    - iii. 2023-14BWG Modified—Revise the health test language and general interrogatories.
    - iv. 2023-15BWG Modified—Add a new general interrogatory to the Life General Interrogatories Part 2 to provide needed information for completing the C-2 mortality risk in the life RBC.
    - v. 2023-16BWG Modified—Change Schedule P in the property/casualty blank to show 10 years of data and a “prior” row for all lines of business beginning in 2024. This modifies requirements for seven lines of business that currently only show two years of data and a “prior” row.
  - D. Exposed six new items for a 60-day public comment period ending April 23.

*2024 Spring National Meeting*  
*Phoenix, Arizona*

**CAPITAL ADEQUACY (E) TASK FORCE**

Sunday, March 17, 2024  
1:30 – 2:30 p.m.

**Meeting Summary Report**

The Capital Adequacy (E) Task Force met March 17, 2024. During this meeting, the Task Force:

1. Adopted its Jan. 31, 2024, minutes. During this meeting, the Task Force took the following action:
  - A. Adopted proposal 2023-16-CR (2023 Cat Event List).
  - B. Exposed proposal 2024-02-CA (Residual Structure PC & Health) for a 30-day public comment period that ended March 2.
  - C. Exposed proposal 2024-06-CA (Repurchase Agreements PC & Health) for a 30-day public comment period that ended March 2.
2. Adopted its 2023 Fall National Meeting minutes.
3. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met Feb. 22. During this meeting, the Working Group took the following action:
  - A. Adopted its Nov. 8, 2023, minutes, which included the following action:
    - i. Adopted its July 25 minutes.
    - ii. Adopted proposal 2023-11-H for page XR014 Fee-For-Service and Other Risk Revenue for Medicare and Medicaid.
    - iii. Received an update from the American Academy of Actuaries (Academy) on the health care receivables and H2-underwriting risk review projects.
    - iv. Discussed pandemic risk and heard a presentation from the Texas Department of Insurance (TDI).
    - v. Received an overview of the Risk Evaluation Ad Hoc group.
    - vi. Discussed questions on the 2022 health risk-based capital (RBC) statistics.
  - B. Exposed proposal 2024-09-CA (Underwriting Risk Investment Income Adjustment Factors).
  - C. Discussed comments received on the Academy health care receivables presentation.
  - D. Discussed pandemic risk and agreed to send a referral to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group.
  - E. Adopted its 2024 working agenda.
  - F. Heard an update on the Academy H2 – Underwriting Risk review project.
4. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met March 17. During this meeting, the Working Group took the following action:
  - A. Adopted its 2023 Fall National Meeting minutes.
  - B. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.

- C. Received an update from the Academy on asset-backed securities (ABS) RBC.
  - D. Discussed residual tranches.
  - E. Discussed next steps.
5. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met March 17. During this meeting, the Working Group took the following action:
- A. Adopted its 2023 Fall National Meeting minutes.
  - B. Adopted its Jan. 25 minutes, which included the following action:
    - i. Discussed the American Council of Life Insurers' (ACLI's) repurchase agreements proposal.
    - ii. Discussed the proposal to add a line for total adjusted capital (TAC) adjustment for non-admitted affiliates.
    - iii. Discussed the proposal to add a line to Schedule BA mortgages for omitted asset valuation reserves (AVR).
  - C. Received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup.
  - D. Discussed repurchase agreements.
  - E. Discussed covariance.
6. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup, which met March 17 in joint session. During this meeting, the Working Group and Subgroup took the following action:
- A. Adopted their Jan. 30 minutes, which included the following action:
    - i. Adopted proposal 2023-16-CR (2023 Cat Event List).
  - B. Adopted the Catastrophe Risk (E) Subgroup's Jan. 29 minutes, which included the following action:
    - i. Adopted the 2023 U.S. and non-U.S. catastrophe event lists.
  - C. Adopted their 2023 Fall National Meeting minutes.
  - D. Adopted proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory).
  - E. Adopted proposal 2024-01-P (Schedule P Short Tails).
  - F. Adopted proposal 2023-14-P (Pet Insurance).
  - G. Adopted proposal 2023-15-CR (Convective Storm for Information Purposes Only Structure).
  - H. Adopted the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's working agenda.
  - I. Exposed proposal 2024-10-P (Other Health Line).
  - J. Discussed proposal 2023-17-CR (Climate Scenario Analysis).
  - K. Discussed wildfire and convective storm impact analysis.
  - L. Discussed underwriting risk factors and investment income adjustment factors.
7. Received updates from the Risk-Based Capital Purposes & Guidelines Ad Hoc Subgroup, Asset Concentration Ad Hoc Subgroup, and Geographic Concentration Ad Hoc Subgroup. The Task Force agreed to take the following action:
- A. Sent referrals to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Catastrophe Risk (E) Subgroup to further review the asset concentration and geographic concentration issues, respectively, based on the Ad Hoc Subgroups' findings.

- B. Appointed the Risk-Based Capital Purposes & Guidelines Subgroup to address the issues of: 1) the RBC Permeable; and 2) the possibility of removing authorized control level (ACL) and TAC data in the Annual Statement Five-year Historical Data page.
8. Adopted proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory).
  9. Adopted proposal 2023-14-P (Pet Insurance).
  10. Adopted proposal 2023-15-CR (Convective Storm for Information Purposes Only Structure).
  11. Adopted proposal 2021-01-P (Schedule P Short Tails).
  12. Adopted its working agenda.
  13. Exposed proposal 2024-08-CA (Col 12 Affiliated Investments) for a 30-day public comment period ending April 16.
  14. Heard an update from the Health Risk-Based Capital (E) Working Group on the H2 component project. These changes are anticipated to affect the structure and factors for health, life, and property/casualty (P/C) RBC formulas.
  15. Exposed the collateral loan memorandum from the Statutory Accounting Principles (E) Working Group for a 45-day public comment period ending May 1.
  16. Exposed proposal 2024-02-CA (Residual Structure PC & Health) for a 30-day public comment period ending April 16.
  17. Exposed the repurchase agreements referral from the Life Risk-Based Capital (E) Working Group for a 30-day public comment period ending April 16.



*2024 Spring National Meeting*  
*Phoenix, Arizona*

**FINANCIAL STABILITY (E) TASK FORCE**

Saturday, March 16, 2024

11:15 a.m. – 12:00 p.m.

301 A West - Phoenix Convention Center - Level 3

**Meeting Summary Report**

The Financial Stability (E) Task Force met March 16, 2024. During this meeting, the Task Force:

1. Adopted its 2023 Fall National Meeting minutes.
2. Received a Macroprudential (E) Working Group update.
3. Received a Valuation Analysis (E) Working Group update.
4. Heard an international update, which included an update on the International Association of Insurance Supervisors (IAIS) Global Monitoring Exercise (GME). The GME includes the individual insurers monitoring exercise and the sector-wide monitoring exercise. Updates for other IAIS key initiatives were discussed including cross border reinsurance, level 3 assets and climate risk.

*2024 Spring National Meeting*  
*Phoenix, Arizona*

**RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE**

Sunday, March 17, 2024  
11:00 a.m. – 12:00 p.m.

**Meeting Summary Report**

The Receivership and Insolvency (E) Task Force met March 17, 2024. During this meeting, the Task Force:

1. Adopted its 2023 Fall National Meeting minutes.
2. Adopted its Feb. 29 minutes. During this e-vote, the Task Force took the following action:
  - A. Adopted a recommendation to the Financial Regulation Standards and Accreditation (F) Committee regarding Part A Accreditation Standards for the 2023 amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540).
3. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met March 17 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss insurers in receivership and related topics.
3. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) Resolution Working Group has nearly finished drafting revisions to the Insurance Core Principles (ICPs) on recovery and resolution, which are expected to be released for public consultation at the end of March.
4. Discussed model amendments, guidelines, and provisions of receivership laws critical to a multi-jurisdiction receivership that were outlined in a November 2021 memorandum to state insurance departments from the Task Force, which is available on the Task Force webpage. State insurance departments are encouraged to review the memorandum and consider enhancements to their state laws.
5. Discussed the Global Receivership Information Database (GRID). State insurance departments are encouraged to review the information in GRID on open receiverships, make any needed updates or contact NAIC staff for assistance.
6. Discussed states' adoption of Federal Home Loan Bank (FHLB) legislation regarding exemptions to stays in receivership. The Task Force directed the Receivership Law (E) Working Group to gather information about how such legislation has been incorporated into approximately half of states' laws and consider what additional information may be useful to state insurance departments on this topic.
7. Heard a presentation from the National Conference of Insurance Guaranty Funds (NCIGF) on its activities related to pre-liquidation enhancements.

*Virtual Meeting*  
*(in lieu of meeting at the 2024 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 – 10:00 a.m. PT

**Meeting Summary Report**

The Reinsurance (E) Task Force met Feb. 26, 2024. During this meeting, the Task Force:

1. Adopted its 2023 Fall National Meeting minutes.
2. Adopted the report of the Reinsurance Financial Analysis (E) Working Group, which met Feb. 5, 2024; Dec. 20, 2023; and Nov. 22, 2023, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group completed the reviews of certified reinsurers and reciprocal jurisdiction reinsurers.
3. Received a status report on the reinsurance activities of the Mutual Recognition of Jurisdictions (E) Working Group, which last met Nov. 1, 2023, in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings. During this 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.
4. Discussed a proposal to require asset adequacy analysis to be performed using a cash-flow testing methodology for life and annuity reinsurance transactions.
5. Received a report of ongoing NAIC projects affecting reinsurance.

2024 Spring National Meeting  
Phoenix, Arizona

## VALUATION OF SECURITIES (E) TASK FORCE

Saturday, March 16, 2024  
2:00 – 3:30 p.m.

### Meeting Summary Report

The Valuation of Securities (E) Task Force met March 16, 2024. During this meeting, the Task Force:

1. Adopted its 2023 Fall National Meeting minutes.
2. Received and discussed comments on a revised proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the P&P Manual) to update the definition of an NAIC designation. The Task Force had previously exposed the amendment for a 53-day public comment period that ended Jan. 26. The Task Force directed the Securities Valuation Office (SVO) to continue to work with interested parties and the Task Force on a revised draft of the amendment.
3. Received and discussed comments on a revised proposed amendment to the P&P Manual authorizing the procedures for the SVO's discretion over NAIC designations assigned through the filing exemption (FE) process. The Task Force had previously exposed the amendment for a 53-day public comment period that ended Jan. 26. The Task Force directed the SVO to continue to work with interested parties and the Task Force on a revised draft of the amendment.
4. Received and discussed comments on a proposed amendment to the P&P Manual to add a practical expedient to determine the issue date for private letter rating filings. The Task Force had previously exposed the amendment for a 53-day public comment period that ended Jan. 26. The Task Force directed the SVO to work with interested parties to develop an operational process to add the required information and report back to the Task Force on proposed next steps.
5. Exposed a proposed P&P Manual amendment to update the U.S. Government Agency and Other U.S. Government Obligation abbreviations for a 30-day public comment period ending April 17.
6. Exposed a proposed P&P Manual technical amendment to update references to the Statement of Statutory Accounting Principles (SSAPs) in the P&P Manual guidance for subsidiary, controlled, and affiliated (SCA) and related party bond or preferred stock investments for a 30-day public comment period ending April 17.
7. Received an annual report from the SVO on year-end carry-over filings and an update on technology projects.
8. Received a staff report on the proposed collateralized loan obligation (CLO) modeling methodology and the CLO Ad Hoc Working Group.

9. Received a staff report on the projects of the Statutory Accounting Principles (E) Working Group.

Draft: 3/5/24

Group Capital Calculation (E) Working Group  
Virtual Meeting  
February 27, 2024

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Feb. 27, 2024. The following Working Group members participated: John Rehagen, Chair (MO); Susan Berry, Vice Chair (IL); John Loughran (CT); Ray Spudeck (FL); Kevin Clark (IA); Roy Eft (IN); John Turchi and Christopher Joyce (MA); Judy Weaver (MI); Ben Slutsker (MN); Lindsay Crawford (NE); John Sirovetz (NJ); Bob Kasinow (NY); Cameron Piatt and Dale Bruggeman (OH); Diana Sherman (PA); Trey Hancock (TN); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Discussed the Process for Updating Scalars and Proposed 2023 Scalars

Jennifer McAdam (American Council of Life Insurers—ACLI) provided an overview of the excess relative ratio (ERR) scalar development. On July 27, 2023, the Group Capital Calculation (E) Working Group adopted a proposal to designate ERR scalars as the primary scalar methodology within the group capital calculation (GCC). The ACLI and six member companies have engaged consultants, Oliver Wyman and Lou Felice, to define an approach to updating and maintaining the ERR scalars for use in the GCC. This work focused on life and health scalars. The approach was developed with an understanding that it could also be applied to property/casualty (P/C) business. The work identified sources of data in each jurisdiction and recommended methodological solutions to address changes to scalars over time. The report proposed scalars for 2023 and outlined the recommended methodology to calibrate scalars on an ongoing basis.

Kristin Ricci (Oliver Wyman) walked through the scalar calibration process under the ERR method. She talked about the proposed 2023 scalars by regime, which were shown in comparison to what are currently on the GCC template. The proposed 2023 scalars are based on data that was available as of year-end 2022. Three years of historical data were used for calibration to reflect responses to changes in the underlying regimes while adding a degree of stability over time. She walked through key design decisions. First, she discussed the data collection approach. A waterfall approach was taken to aggregate the required data to support the calibration. An ideal source would be regulatory reporting data. A summary of the data collection by jurisdiction was shown. Second, she mentioned that three years was chosen as the length of time series to have smoothing in the annual volatility to capture changes in a reasonable timeframe around trends in solvency ratios. Lastly, she discussed how this process applies to regime changes.

Felice (Consultant for ACLI) talked about the proposed health scalar development under the ERR method for health insurers that operate in Japan. Data came from Aflac, which is a health insurance market leader in Japan. He said the health scalar should be reviewed in conjunction with the life scalar for Japan. He pointed out that the GCC scalar needs to react to the new economic solvency ratio regime that becomes effective in 2025.

2. Discussed the Comment Letter Received from APCIA/AHIP

Tom Finnell (America's Health Insurance Plans—AHIP and American Property Casualty Insurance Association—APCIA) presented the comment letter, and he said there was no comment from a P/C perspective in terms of the factors that were developed for the life sector. The AHIP has no opinion in terms of health factors for Japan as it is very data-specific relative to the company that is involved. He said the amount of business AHIP and the APCIA write internationally is generally fewer, and the impact of scaling on the GCC would not be that impactful. He said

this is especially so in the case of the health sector with Aflac being one exception. He also said they have no objection to the approach.

### 3. Discussed the Comment Letter Received from UHG

James Braue (UnitedHealth Group—UHG) presented UHG’s comment letter, and he said the proposed approach on page six of the Oliver Wyman report was to look at both 200% and 300% of the authorized control level (ACL) as the level of first intervention. He said it does not make sense to look at the 300% level for calibration of foreign capital requirements since the domestic capital requirements in the GCC are at the 200% level. UHG’s recommendation was to drop the idea of investigating scalars calibrated to 300% of the ACL. He said the Oliver Wyman report makes an assertion that the ERR method adjusts for differing reserve levels across regimes, but mathematically it does not work in that way. This should be appropriately documented so that the ERR methodology does not take into account reserve differences across jurisdictions. Rehagen said 200% has been approved for the GCC, and 300% is intended to be a sensitivity test.

### 4. Adopted the 2023 Scalars Proposed by the ACLI

Berry made a motion, seconded by Crawford, to adopt the 2023 scalars proposed by the ACLI (Attachment 1). Finnell asked whether factors to be voted on involve the life sector and the health sector in Japan only and whether factors that are applicable to other sectors for the 2022 GCC are going to be carried forward. Dan Daveline (NAIC) said all the other factors will be carried forward. The motion passed unanimously.

### 5. Discussed the Process for Updating Scalars in the Future

Rehagen said the process used by the ACLI sounds reasonable. His suggestion was to charge NAIC staff to document the process into an NAIC document, which can be reviewed in the future and potentially adopted as a methodology. After that, he suggested requesting that the Financial Condition (E) Committee ask the Executive (EX) Committee for funding to keep the scalars updated.

Finnell said when the proportionality in terms of jurisdictions is taken into consideration, fewer jurisdictions and companies would be involved in scalar updates, so time and money would be saved. Bruggeman said he agreed with Finnell’s theoretical conclusions. He said things should not change too often to lose the perspective of trends over time for the GCC. Rehagen said he agreed, and one of his concerns early on was that yearly adjustments for temporary changes would add noise. Felice said the scalar can be set to one for jurisdictions where there are not a lot of companies writing business. Daveline said NAIC staff will start their work. The NAIC website will be updated with the 2023 scalars where a template that reflects modifications will be added.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024\_1Spring/Group Capital/GCC 02-27-24 Minutes.doc

*2024 Spring National Meeting*  
*Phoenix, Arizona*

**RISK-FOCUSED SURVEILLANCE (E) WORKING GROUP**

Saturday, March 16, 2024  
8:00 – 8:45 a.m.

**Meeting Summary Report**

The Risk-Focused Surveillance (E) Working Group met March 16, 2024. During this meeting, the Working Group:

1. Discussed the progress of its Affiliated Investment Management Agreement Drafting Group, which was formed to address issues referred from the Macroprudential (E) Working Group in 2022. The issues included solvency monitoring guidance for affiliated investment management agreements and capital maintenance plans, as well as concerns related to ownership structures of insurers and surplus note issuance. The Drafting Group met several times in late 2023 and early 2024 to discuss the referred issues, which resulted in the following action:
  - A. Referred issues related to capital maintenance agreements and surplus note issuance to the Financial Analysis Solvency Tools (E) Working Group, as they are primarily analysis considerations.
  - B. Developed a blanks proposal to adjust Annual Statement General Interrogatory 29.05 to clarify that insurers should disclose any investment sub-advisors in their responses to the interrogatory. The proposal was exposed by the Blanks (E) Working Group for a public comment period ending April 23.
  - C. Developed proposed edits to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* to provide additional guidance to regulators in reviewing affiliated investment management agreements and services provided to an insurer.
2. Exposed proposed changes to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* related to affiliated investment management services for a 45-day public comment period ending April 30. Upon receiving and addressing comments on the proposed changes, they will be referred to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption.
3. Discussed plans for 2024 Peer Review Program sessions, which include a financial analysis session already held in January, a financial examination session scheduled for August, and another financial analysis session scheduled for October.



Draft: 02/27/24

National Treatment and Coordination (E) Working Group  
Virtual Meeting  
February 27, 2024

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met Feb. 27, 2024. The following Working Group members participated: Debbie Doggett and Kelly Hopper, Co-Chairs (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); Ana Broderick and William Mitchell (CT); Sherry Wilson (DE); Jennifer Milam (FL); Stewart Guerin (LA); Karen Feather (PA); Amy Garcia and John Carter (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Doug Melvin (WY).

1. Exposed Proposal 2024-01

Doggett said that proposal 2024-01 (Domestic Corporate Amendments) includes modifications to the instructions and Form 2 (General Information) to include a change type for pre and post redomestication notification for the domestic corporate amendment application. Doggett suggested a 30-day comment period, ending March 22<sup>nd</sup>.

Carter made a motion, seconded by Guerin to expose Proposal 2024-01 (Domesticate Corporate Amendment) for a 30-day comment period, ending March 22. The motion passed unanimously.

2. Discussed the Electronic Redomestication Application

Piatt explained that modifications to the electronic redomestication application will be made to allow simultaneous submission for licensure and redomestication based on feedback of the current process, which is to not allow a company to start a redomestication application if they are not currently licensed or have an expansion application pending. A survey has been sent to all states requesting their state requirements for this initial filing and for the pre and post notifications. Information provided will be used to develop the electronic application.

3. Heard Update on the Legacy Application Ad Hoc Group

Barr (NAIC staff) said that the ad hoc group met Jan. 29<sup>th</sup>, Feb. 12<sup>th</sup> and Feb. 26<sup>th</sup> to discuss the processes for the applications included in Phase II of the UCAA project, which includes domestic and foreign corporate amendments and expansion application. During the discussions it was determined that another change type needed to be included for the domestic corporate amendment application for pre and post notifications or a redomestication. The Legacy Ad Hoc Group will continue to meet when development begins for Phase II, to view, test and provide feedback on the applications as they are developed. Anyone wishing to join should contact Jane Barr via email.

Doggett asked when the transition of the new database and legacy database would take place. Barr said that plenty of notice will be given, and during testing of the new application, there will be a freeze in the legacy portal to prevent new application from being created and the state will be notified to process any outstanding application prior to the database no longer being available.

4. Heard Update on Biographical Affidavit Ad Hoc Group

Barr said the ad hoc group met Feb. 6 and Feb. 20<sup>th</sup> to discuss the biographical affidavit, addendum pages and cover letter to clarify completion and how these addendum and cover letter should be completed. The group will continue to meet, and recommendations will be sent to the Working Group for

consideration. Updates made will be in conjunction with the future development of the biographical database.

#### 4. Discussed Other Matters

Barr said that the Form A Ad Hoc Group will resume meeting this summer to continue developing the Form A application and instructions for Phase III of the UCAA rewrite project.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.

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**MEMORANDUM**

To: Commissioner Andrew N. Mais (CT), Chair of the Executive (EX) Committee

From: Commissioner Nathan Houdek, (WI), Chair of the Financial Condition (E) Committee

Date: February 14, 2024

Re: Request for Approval to Develop an RFP

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At the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed its *Framework for Regulation of Insurer Investments – A Holistic Review* document. Included in that framework is the recommendation that the NAIC engage a consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs). Such a new system would include clear quantitative and qualitative parameters for CRPs to utilize their ratings for use as NAIC designations. As you are aware, NAIC designations drive the capital requirements for insurer investments as set by the NAIC in its risk-based capital (RBC) formula.

At this time, the Financial Condition (E) Committee is requesting approval from the Executive (EX) Committee to engage in the development of a request for proposal (RFP). Once the Committee develops the RFP, it would bring such a product back to the Executive (EX) Committee to consider possible release. The development of the RFP will include assistance from NAIC staff, as well as input from relevant members of the industry, to ensure that the scope of work developed is appropriately tailored to the exact needs of the objective, thereby mitigating unnecessary or excessive costs to complete the work. Once the RFP is developed, it will follow the NAIC Procurement Policies and Procedures.

The following provides a snapshot of the initial considerations for such an RFP, which we hope is helpful in providing the Executive (EX) Committee with the necessary information to evaluate the worth of this project.

- The objective is to eliminate blind reliance on CRPs while maintaining responsible use of the invaluable service they can provide.
- Any due diligence framework would have the recognition that ratings from different CRPs may vary. They are opinions and inherently subjective.
- NAIC designations are integral to our regulatory framework. However, the NAIC currently lacks any analytical or performance criteria to map the various opinions reflected in CRP ratings to NAIC designations to produce a meaningful and consistent measure of credit risk for the NAIC's financial solvency purposes.
- Over time, we have recognized that we can improve our usage of CRPs for NAIC designations and would like to introduce a robust due diligence process to facilitate that usage. This process would need to be consistent across rating agencies, repeatable over time, one that fosters communication and engagement with the CRPs, and both quantitative and qualitative in nature. While we would intend to welcome a

variety of CRPs to be approved for the provision of NAIC designations, our due diligence process should be designed to set minimum standards for inclusion.

- We recognize the external attention on our NAIC designation process and, therefore, believe engaging with an independent resource to design this CRP due diligence program would be most beneficial to all parties.
- The design process should also be transparent to all CRPs, with the ability for them to provide feedback throughout.
- The process should utilize existing resources to the extent possible (such as nationally recognized statistical rating organization (NRSRO) regulatory disclosures to the U.S. Securities and Exchange Commission (SEC) or to other regulators), recognizing that our requirements, as a consumer of credit ratings to produce NAIC designations for insurance regulatory purposes, goes beyond the mandate of SEC oversight.
- The recommendations should consider feedback from relevant interested parties, both existing and future.
- The process may want to consider different standards for public versus private ratings given the market validation and transparency of public ratings (e.g. require the full filing of private security documentation to provide regulators with transparency), ways to minimize or ameliorate the incentive for insurers to ratings shop (e.g. obtaining the highest public or private rating by selecting the weakest methodology) such as requiring multiple ratings, and how to best utilize the SVO to ensure the reasonability of NAIC designations.
- The process should be designed not to impede innovation and, therefore, have alternative ways to measure past or potential future performance for emerging asset types.

If there are any questions regarding the development of an RFP, please contact NAIC staff (Dan Daveline at [ddaveline@naic.org](mailto:ddaveline@naic.org)) for further clarification.