2023 SUMMER NATIONAL MEETING

SEATTLE

Draft date: 8/2/23

2023 Summer National Meeting
Seattle, Washington

FINANCIAL CONDITION (E) COMMITTEE
Tuesday, August 15, 2023
12:30 – 1:30 p.m.
Seattle Convention Center—Ballroom 1—Level 5

ROLL CALL

Elizabeth Kelleher Dwyer, Chair	Rhode Island	Mike Chaney	Mississippi
Nathan Houdek, Vice Chair	Wisconsin	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
Michael Yaworsky	Florida	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Doug Ommen	Iowa	Scott A. White	Virginia
Timothy N. Schott	Maine		

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

AGENDA

1. Consider Adoption of its July 19 and Spring National Meeting Minutes —*Superintendent Elizabeth Kelleher Dwyer (RI)* — Attachment One

2. Consider Adoption of its Task Force and Working Group Reports —*Superintendent Elizabeth Kelleher Dwyer (RI)*
   A. Accounting Practices and Procedures (E) Task Force — Attachment Two
   B. Capital Adequacy (E) Task Force — Attachment Three
   C. Examination Oversight (E) Task Force — Attachment Four
   D. Financial Stability (E) Task Force — Attachment Five
   E. Receivership and Insolvency (E) Task Force — Attachment Six
   F. Reinsurance (E) Task Force — Attachment Seven
   G. Valuation of Securities (E) Task Force — Attachment Eight
   H. Group Capital Calculation (E) Working Group — Attachment Nine
   I. Mortgage Guaranty Insurance (E) Working Group — Attachment Ten
   J. Restructuring Mechanisms (E) Working Group — Attachment Eleven
   K. Risk-Focused Surveillance (E) Working Group — Attachment Twelve

3. Adopt the Macroprudential Reinsurance Worksheet—*Bob Kasinow (NY)* — Attachment Thirteen

4. Adopt *Interpretation (INT) 23-01: Net Negative (Disallowed) IMR —Dale Bruggeman (OH)* — Attachment Fourteen

5. Hear a Presentation Regarding the Use of Artificial Intelligence (AI) by Canadian Regulators—*Jacqueline Friedland (Office of the Superintendent of Financial Institutions—OFSI)* — Attachment Fifteen

6. Discuss Framework for Insurer Investment Regulation—*Superintendent Elizabeth Kelleher Dwyer (RI)* — Attachment Sixteen

7. Discuss Any Other Matters Brought Before the Task Force —*Superintendent Elizabeth Kelleher Dwyer (RI)*

8. Adjournment

Draft: 7/24/23

Financial Condition (E) Committee
Virtual Meeting
July 19, 2023

The Financial Condition (E) Committee met July 19, 2023. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Nathan Houdek, Vice Chair (WI); Mark Fowler (AL); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Chris Struk (FL); Doug Ommen (IA); Amy L. Beard represented by Roy Eft (IN); Timothy N. Schott (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by John Finston and Bob Kasinow (NY); Michael Wise (SC); Cassie Brown represented by Jamie Walker (TX); and Scott A. White represented by Doug Stolte (VA). Also participating were: Philip Barlow (DC); Jackie Obusek (NC); and Tom Botsko (OH).

1. Adopted Life RBC Proposals 2023-09-IRE (Residuals Factor) and 2023-10-IRE (Residual Sensitivity Test Factor for Residuals)

Superintendent Dwyer stated that this item related to the topic of residual interest investments, which the Committee began discussing a couple of years ago and in early 2022, asked the newly formed Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group to address. Barlow described how the Working Group had been working on this issue since early 2022 and on into the first half of the year until it was recently adopted. He described that earlier in the year, the Working Group adopted the structure in the Life RBC formula that created a new reporting line for residual investments within the formula. He stated that the Working Group also adopted a structure earlier this year for a sensitivity test related to the residual tranches. Factors for both of these structures were not adopted until more recently, which went through a lot of discussion at the Working Group level before ultimately being adopted. Barlow noted that the two proposals before the Committee collectively represent a proposal submitted by the Texas Department of Insurance (DOI), and that was unanimously adopted by the Working Group. He discussed the features of the proposal, including a factor for residual investments starting at 30% for 2023 and 45% for 2024 and going forward but leaving space for a proposal to be submitted that supports either a higher or lower factor for 2024 if deemed more acceptable based upon data provided by the sponsor of the proposal. The sensitivity test for the residual investments for 2023 is set at 15%, and 0% for 2024 since the factor already reflects the full 45%. Botsko commended Barlow for the great work done on this project and to all of the Working Group members that provided the Capital Adequacy (E) Task Force with the proposal that was unanimously adopted at that level.

Walker made a motion, seconded by Stolte, to adopt proposals 2023-09-IRE and 2023-10-IRE (Attachment One-A). The motion passed unanimously.

2. Adopted a New Charge and a New Group Titled the Generator of Economic Scenarios (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group

Barlow described that this was an issue the Life Risk-Based Capital (E) Working Group had been working on with the Life Actuarial (A) Task Force for some time, and it involves replacing the current generator of economic scenarios (GOES) that is used for both reserves and capital. He stated that he would not go into all the details; this is being done, but the work is proceeding with substantial progress, and new charges are being requested to establish some governance and related structure around the GOEA once it is developed. He noted that this was adopted by the Life Insurance and Annuities (A) Committee. He stated that Iowa has agreed to chair the Subgroup, and Ohio has agreed to vice chair the Subgroup. He also stated that while a good membership has already volunteered, anyone interested can contact NAIC staff or himself.

Finston made a motion, seconded by Kaumann, to form the new subgroup named the Generator of Economic Scenarios (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group with the proposed charges as presented (Attachment One-B). The motion passed unanimously.

3. Adopted Model #630

Obusek stated that the Mortgage Guaranty Insurance (E) Working Group was charged with updating the *Mortgage Guaranty Insurance Model Act* (#630) to strengthen and modernize the model in response to the 2008 financial crisis. The last time the model was substantially updated was 1976. Obusek noted that the Executive (EX) Committee approved the Request for NAIC Model Law Development in July 2013. At that time, the development of a capital model to accompany Model #630 was the key focus of the Financial Condition (E) Committee's attention. The Working Group worked with two different consulting firms over several years to attempt to build a capital model, which was met with several challenges. In April 2021, the Working Group referred a draft mortgage guaranty exhibit to the Blanks (E) Working Group, and the exhibit was finalized and integrated into the blank, effective year-end 2021. In May 2022, the Mortgage Guaranty Insurance (E) Working Group decided to pause the development of the capital model and continue collecting data for further analysis in the future. As a result, the Working Group focused on finalizing the amendments to Model #630. Obusek noted that the Model #630 Drafting Group consisted of all of the members of the Working Group represented by herself as the chair; Kurt Regner (AZ); Monica Macaluso and Joyce Zeng (CA); Robert Ballard (FL); Rehagen (MO); Margot Small (NY); Diana Sherman (PA); Amy Garcia (TX); and Amy Malm and Levi Olson (WI). Obusek stated that over the next 14 months, the drafting group met 12 times, and Model #630 was exposed for public comment on Oct. 7, 2022; Feb. 27, 2023; and May 11, 2023. During those exposures, various comments were received from the mortgage guaranty consortium and the consumer representatives and discussed both by the drafting group and during open meetings of the Working Group. She noted that many of the comments received were addressed through changes integrated into the draft model included in the proposed changes. Some of the more significant amendments dealt with the reserving requirements related to contingency reserves and waivers with respect to risk in-force. The Working Group adopted the amended Model #630 during its July 13 conference call. Superintendent Dwyer reminded the Committee that in order to advance Model #630 to the Executive (EX) Committee and Plenary for consideration, a two-thirds majority vote is needed by the Financial Condition (E) Committee members in total; therefore 10 members would need to vote yes.

Commissioner Houdek made a motion, seconded by Rehagen, to adopt Model #630 (Attachment One-C). The motion passed unanimously.

Having no further business, the Financial Condition (E) Committee adjourned.

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Draft Pending Adoption

Draft: 3/28/23

Financial Condition (E) Committee
Louisville, Kentucky
March 24, 2023

The Financial Condition (E) Committee met in Louisville, KY, March 24, 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 Keith Warburton (CO); Michael Yaworsky represented by Jane Nelson (FL); Amy L. Beard and Roy Eft (IN); Doug Ommen and Carrie Mears (IA); Timothy N. Schott (ME); Chlora Lindley-Myers represented by John Rehagen and Danielle Smith (MO); Marlene Caride (NJ); Adrienne A. Harris represented by John Finston and Bob Kasinow (NY); Michael Wise (SC); Cassie Brown represented by Jamie Walker and Jessica Barta (TX); and Scott A. White (VA).

1. Adopted its 2022 Fall National Meeting Minutes

Commissioner Caride made a motion, seconded by Commissioner Houdek, to adopt the Committee's Dec. 15, 2022, minutes (*see NAIC Proceedings – Fall 2022, 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. He 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 workings 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 March 21, Feb. 15, and Jan. 19 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 March 21 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.

Finston made a motion, seconded by Superintendent Schott, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Mortgage Guaranty Insurance (E) Working Group (Attachment One); National Treatment and Coordination (E) Working Group (Attachment Two), and Risk-Focused Surveillance (E) Working Group (Attachment Three). The motion passed unanimously.

Draft Pending Adoption

3. <u>Received a Referral from the Valuation of Securities (E) Task Force</u>

Mears said that there was a need identified within the Valuation of Securities (E) Task Force pertaining to its role in assessing investment risk and how it would benefit from different data points that are currently not available. She noted that most of these data points were market value-based, and the original proposal to address this was to add columns to some of the annual reporting schedules. However, it was quickly realized that this was not efficient. Mears noted how that method would result in outdated data by the time it was received. She noted it might not be consistently completed, and many times the insurers and their accounting systems were not matched up with their investment systems to allow this to be data captured as easily as one would expect. Consequently, the industry challenged the proposal, and the general consensus was that a different method and platform were needed to modernize the ability to access this kind of information. Mears said that part of this referral was trying to establish whether that was a valid way forward. Mears requested that the Committee members think about data points around investments that would be valuable and helpful to the process and make a laundry list of requests. She cited as an example how perhaps with more data, actuaries could more easily look at asset duration or other metrics when reviewing and comparing to what is delivered for asset adequacy testing. She asked that a response be provided by May 15. Superintendent Dwyer asked that each of the Committee members review the attachment for this agenda item (Attachment Four) and develop their own lists, as Mears requested.

4. <u>Adopted the Securities Valuation Office's (SVO's) Modeling of CLOs for NAIC Designations</u>

Superintendent Dwyer stated that the Valuation of Securities (E) Task Force had recently adopted an amendment (Attachment Five) to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to include collateralized loan obligations (CLOs) as a financially modeled security under the responsibility of the NAIC's Structured Securities Group (SSG). She explained that CLOs are a type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. She noted that this amendment makes this asset class ineligible to use credit rating provider ratings to determine an NAIC designation if the SSG can model the security. She noted that the NAIC's Investment Analysis Office (IAO) had identified that securities within this asset class had inconsistently assigned NAIC designations when relying upon credit rating provider ratings and had recommended this change to the Task Force to ensure reporting equivalency for NAIC regulatory purposes. The amendment is effective as of Jan. 1, 2024, with insurers first reporting the financially modeled NAIC designations for CLOs with their year-end 2024 financial statement filings.

Mears made a motion, seconded by Finston, to adopt the action taken by the Valuation of Securities (E) Task Force on this item. The motion passed unanimously.

5. <u>Adopted a Request for NAIC Model Law Development Extension from the Mortgage Guaranty Insurance (E) Working Group</u>

Superintendent Dwyer noted that a memorandum from the Mortgage Guaranty Insurance (E) Working Group was included in the materials, requesting an extension on making revisions to the *Mortgage Guaranty Insurance Model Act* (#630). She noted that she believed they had made good progress and, while they are close to finalizing, they are requesting an extension until the Fall National Meeting. Commissioner Houdek stated he supports the work, as Wisconsin was a former chair of the Working Group.

Rehagen made a motion, seconded by Finston, to adopt the request (Attachment Six). The motion passed unanimously.

Draft Pending Adoption

6. Discussed Other Matters

Superintendent Dwyer stated that each year the commissioners gather in early February for a Commissioners' Conference. For the last few years, each of the committees has held a short session at that conference to get acclimated with each other and to briefly discuss some of the key regulatory objectives and projects for the year. She stated that during this year's session, the Committee members agreed that one of its priorities was the work of the Restructuring Mechanisms (E) Working Group and Restructuring Mechanisms (E) Subgroup. Further to that point, they agreed to roll the charges and members of the Subgroup into the Working Group (Attachment Seven). No objections were raised to the change, and she asked that NAIC staff update the web pages of both groups to reflect that change.

Having no further business, the Financial Condition (E) Committee adjourned.

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NAIC 2023 SUMMER NATIONAL MEETING SEATTLE

2023 Summer National Meeting
Seattle, Washington

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Monday, August 14, 2023
11:00 – 11:30 a.m.

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met Aug. 14, 2023. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted its 2024 proposed charges without revisions from the prior year.

3. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Aug. 13 and took the following action:

   A. Adopted its Spring National Meeting minutes.

   B. Adopted its July 5, June 28, May 16, April 12, April 10, and Spring National Meeting minutes.

   C. Adopted the following clarifications to statutory accounting guidance:

      i. Adopted revisions to the definition of a liability in *Statement of Statutory Accounting Principles (SSAP) No. 5R—Liabilities, Contingencies, and Impairments of Assets* and *Issue Paper No. 168—Updates to the Definition of a Liability*. (Ref #2022-01)

      ii. Adopted revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *Accounting Standards Update* (*ASU) 2021-10, Government Assistance,* and the incorporation of disclosures regarding government assistance. (Ref #2023-06)

      iii. SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, and other impacted SSAPs to refine guidance for the principles-based bond project. (Note that SSAP No. 26R and SSAP No. 43R have updated titles, effective Jan. 1, 2025.) (Ref #2019-21)

      iv. Adopted revisions to clarify and incorporate a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure for *SSAP No. 34—Investment Income Due and Accrued* and annual statement instruction purposes. *(Ref #2023-13)*

      v. Adopted revisions to incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities. *(Ref #2023-02)* *vi.* Adopted, with modification, *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer.* The revisions to *SSAP No. 95—Nonmonetary Transactions* and *SSAP No. 104R—Share-Based Payments* add guidance to include share-based consideration payable to customers. *(Ref #2023-07)*

vii. *Interpretation (INT) 20-01: ASU 2020-04 and 2021-01 – Reference Rate Reform*: Adopted proposal to revise the expiration date of INT 20-01 to Dec. 31, 2024. *(Ref #2023-05)*

viii. *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* was adopted with three editorial revisions. This INT provides optional, limited-time guidance, which allows the admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus. As detailed within the INT, it will be effective until Dec. 31, 2025, and automatically nullified on Jan. 1, 2026, but the effective date can be adjusted (e.g., nullified earlier or extended). In addition, the Working Group directed the formation of an ad hoc subgroup to work on a long-term solution. Upon adoption of the INT, NAIC staff will provide the Blanks (E) Working Group with a disclosure memorandum for posting on its website for year-end 2023. Additionally, a blanks proposal will be sponsored to incorporate the disclosures and attestation requirements into the notes and general interrogatories for year-end 2024. *(Ref #2022-19)*

ix. *Appendix D—Nonapplicable GAAP Pronouncements*: The following U.S. generally accepted accounting principles (GAAP) standards were rejected as they are not applicable to statutory accounting:

a. *ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*. (Ref #2023-08)

b. *ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)*. (Ref #2023-09)

c. *ASU 2022-05, Transition for Sold Contracts*. (Ref #2023-10)

D. Exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance until Sept. 29, except for INT 23-02T, INT 23-03T, Ref #2022-11, and Ref #2023-12, which have a comment deadline of Sept. 12:

i. Exposed revisions to further restrict the investments that are permitted for cash equivalent or short-term investment reporting. These revisions are proposed to ensure that certain investment types are captured on designated Schedule BA reporting lines and to eliminate the potential to design investments to specifically qualify for short-term reporting. (Ref #2023-17)

ii. Exposed revisions to SSAP No. 5 *and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* that adopt with modification certain aspects of *ASU 2016-19–Technical Corrections and Improvements*. Revisions also propose amending *SSAP No. 92—Postretirement Benefits Other Than Pensions* guidance on insurance contracts to use the same terminology used in *SSAP No. 102—Pensions* (Ref #2023-18)

iii. Exposed the overall concept for a long-term project to capture accounting guidance for asset valuation reserve (AVR) and IMR in *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. (Ref #2023-14)

iv. Re-exposed the revisions to *SSAP No. 21R—Other Admitted Assets* that clarify that pledged collateral must qualify as an admitted invested asset for a collateral loan to be admitted. The revisions require audits and the use of net equity value for valuation assessments when the pledged collateral is in the form of partnerships, limited liability companies, or joint ventures. (Ref #2022-11)

v. Exposed a revised SSAP No. 21R and Bond Issue Paper to provide guidance for the accounting for debt securities that do not qualify as bonds, as well as proposed measurement guidance for residuals. (Ref #2019-21)

vi. SSAP No. 43R: Exposed updated proposal to reflect revisions from the interim discussions and coordination on revisions to clarify the scope and reporting for investment structures that represent residual interests within SAPs. (Ref #2023-12)

vii. Exposure requests industry and regulator comment on a proposal for *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies* to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. (Ref #2023-16)

viii. Exposed clarifying revisions and an illustration to *SSAP No. 54R—Individual and Group Accident and Health Contracts* to clarify that gross premium valuation (under A-010) and cash-flow testing (under *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* [AG 51]) are both required if indicated. (Ref #2023-22)

ix. Exposed revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was included in the initial adoption of SSAP No. 92 and SSAP No. 102, as it is past the 10-year effective period for that transition. (Ref #2023-21)

x. Exposed revisions to *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits.* (Ref #2022-14)

xi. Exposed the intent to nullify *INT 03-02*: *Modification to an Existing Intercompany Pooling Arrangement*, as it is inconsistent with *SSAP No. 25—Affiliates and Other Related Parties*. (Ref #2022-12)

xii. *INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax*: Exposed proposed interpretation that recommends that for third-quarter 2023, reporting entities should disclose whatever information is available regarding their applicable reporting entity status. (INT 23-02)

xiii. *INT 23-03: Corporate Alternative Minimum Tax Guidance*: Exposed the INT, which provides guidance effective beginning year-end 2023 reporting of the corporate alternative minimum tax, which applies *SSAP No. 101—Income Taxes* with modification and provides disclosures. The exposed INT 23-03 includes that paragraph 11c of SSAP No. 101 should be followed. (Ref #2023-04)

xiv. *IMR/AVR Specific Allocations*: Exposed revisions to the *Annual Statement Instructions* to remove the guidance that permits the specific allocation of non-interest-related losses to IMR. (Ref #2023-15)

xv. *Appendix D—Nonapplicable GAAP Pronouncements*: The following U.S. GAAP standards were exposed with revisions to reject, as they are not applicable to statutory accounting:

a. *ASU 2018-09—Codification Improvements* (Ref #2023-19)

b. *ASU 2020-10—Codification Improvements* (Ref #2023-20)

E. Directed NAIC staff on the following items:

i. *Review Annual Statement Instructions for Accounting Guidance*: To proceed with a broad project to review the annual statement instructions and ensure accounting guidance is included within the SSAPs. (Ref #2023-01)

ii. *Schedule BA Reporting*: Directed NAIC staff to sponsor a blanks proposal to revise Schedule BA: Other Long-Term Assets in accordance with the bond project for debt securities that do not qualify as bonds, with formal notice to the Valuation of Securities (E) Task Force and the Capital Adequacy (E) Task Force on the proposal to allow life reporting entities the ability to use existing Schedule BA reporting provisions for Securities Valuation Office (SVO)-assigned designations in determining risk-based capital (RBC) for debt securities that do not qualify as bonds. (Ref #2019-21)

F. Received an update on U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.

4. Adopted the report of the Blanks (E) Working Group, which met July 27 and took the following action:

A. Adopted its May 31 minutes, which included the following action:
i. Adopted its March 7 minutes.
ii. Adopted the following proposals:

a. 2022-17BWG Modified – Add a new disclosure paragraph for Note 8 – Derivative Instruments and Illustration. The new disclosure is to be data captured. Add electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add new code column instructions for Schedule DB, Part A and B (SAPWG 2021-20).
b. 2023-01BWG Modified– Remove pet insurance from the inland marine line of business and add a new line of business to the Appendix – property/casualty (P/C) lines of business. Add a pet insurance line within the existing P/C blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit. Add new Schedule P Parts 1 through 4, specific to pet insurance.
c. 2023-02BWG Modified – Add an exhibit to identify premiums that are reportable for Market Conduct Annual Statement (MCAS) purposes.
d. 2023-03BWG – Remove life crosschecks for columns 2, 6, and 10 on the Accident and Health Policy Experience Exhibit (AHPEE).
e. 2023-04BWG Modified – Add instructions for the appointed actuary and qualified actuary contacts to the Jurat electronic-only section.
f. 2023-08BWG – Add clarifying language for mutual insurance companies on Schedule Y, Part 3.
g. 2023-10BWG Modified – Update the three primary issue periods on Long-Term Care Experience Reporting Form 2.
h. 2023-11BWG Modified– Add additional instructions and illustration to be data captured for Note 7 – Investment Income in the Notes to the Financial Statement to disclose more information on interest.
i. Adopted its editorial listing.

i. Deferred three proposals: 2023-05BWG – Changes to the Cybersecurity supplement; 2023-07BWG – Delete the legal entity identifier (LEI) column for the select investment schedules; and 2023-09BWG – Add a new financial statement Note 37 – Life Insurance Net Amount at Risk by Product Characteristics.
ii. Adopted its editorial listing.

B. Deferred the following proposals for an additional comment period:
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 Parts 2 and 3. Remove claims-made and occurrence breakdown, as well as first-party and third-party breakdowns from data collection, and remove the question in the interrogatories regarding tail policies.
ii. 2023-07BWG – Update the code column and delete the LEI column for the following investment schedules: Schedules A, B, BA, D Part 2, D Part 6, and E Part 1.
iii. 2023-09BWG – Add a new financial statement Note 37 – Life Insurance Net Amount at Risk by Product Characteristics to the life and accident and health/fraternal blank for the updates to the life C-2 mortality risk charges for life RBC.

C. Re-exposed the following proposal:

i. 2023-06BWG – Split the Schedule D, Part 1 into two sections: one for issuer credit obligations and the other for asset-backed securities (ABS). Update the other parts of the annual statement that reference the bond lines of business.

D. Adopted its editorial listing.

2023 Summer National Meeting
Seattle, Washington

CAPITAL ADEQUACY (E) TASK FORCE
Monday, August 14, 2023
12:30 – 1:30 p.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met Aug. 14, 2023. During this meeting, the Task Force:

1. Adopted its June 30 and April 28 minutes, which included the following action:
   A. Adopted proposal 2023-02-P-MOD (Underwriting Risk Line 1 Factors).
   B. Adopted proposals 2023-09-IRE (Residual Factor for Life) and 2023-04-IRE (Residual Sensitivity Test Factor for Life).
   C. Adopted the Generator of Economic Scenarios (E/A) Subgroup Charges.
   D. Adopted proposal 2022-09-CA-MOD (Revised Affiliated Investments Structure and Instructions).
   E. Adopted proposal 2022-16-CA (Underwriting Risk Factors – Investment Income Adjustment).
   F. Adopted proposal 2023-01-CA (Stop Loss Premiums).
   G. Adopted its Spring National Meeting minutes.
   H. Adopted proposal 2023-02-P (Underwriting Risk Line 1 Factors).
   I. Adopted proposal 2023-03-IRE (Revised Residual Structure for life).
   J. Adopted proposal 2023-04-IRE (Residual Sensitivity Test for Life).
   K. Adopted proposal 2023-05-L (Remove Dual Trend Test).
   L. Adopted proposal 2023-06-L (C-2 Mortality Risk Structure Changes).
   M. Adopted proposal 2023-07-L (CM6 & CM7 Mortgages Structures Changes).
   N. Exposed proposal 2022-16-CA (Underwriting Risk Factors Investment Income Adjustment) for a 30-day public comment period ending May 27.
   O. Exposed proposal 2023-01-CA (Stop Loss Premiums) for a 30-day public comment period ending May 27.
   P. Discussed the current turmoil in the banking sector.
   Q. Received an update from its Risk Evaluation Ad Hoc Group.

2. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met July 25 and took the following action:
   A. Adopted its May 17, and April 17 minutes, which included the following action:
      i. Adopted its Spring National Meeting minutes.
      ii. Referred proposal 2023-01-CA (Stop Loss Premiums) to the Capital Adequacy (E) Task Force for exposure.
      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.
      v. Exposed the proposal on the health test language for a 45-day public comment period ending June 30.
   B. Adopted its 2023 health risk-based capital (RBC) newsletter.

C. Adopted its 2022 health RBC statistics report.
D. Exposed proposal 2023-11-H (XR014 Fee-for-Service & Other Risk Revenue-Medicare & Medicaid) for a 30-day public comment period ending Aug. 24.
E. Received comments from the New York Department of Financial Services on the health test language projects.
F. Received an update from the Academy on the health care receivable and H2-underwriting risk review projects.
G. Adopted its 2023 working agenda.
H. Received an update on the work being performed by the Excessive Growth Charge Ad Hoc Group.
I. Discussed a way forward on evaluating pandemic risk in the health RBC formula.

3. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met Aug. 13 and took the following action:
   A. Adopted its June 14, May 17, April 20, and Spring National Meeting minutes, which included the following action:
      i. Discussed comments received on proposed structural and factor changes for residual tranches.
      ii. Adopted structural changes and factors for the base factor and a sensitivity test for residual tranches.
   B. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
   C. Heard a presentation from the American Academy of Actuaries (Academy) on Principles for Structured Securities RBC.

4. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Aug. 13 and took the following action:
   A. Adopted its June 22, April 14, and Spring National Meeting minutes, which included the following action:
      i. Adopted the proposed charges of the Generator of Economic Scenarios (GOES) (E/A) Subgroup.
      ii. Discussed proposal 2023-08-L (Custody Control Accounts).
      iii. Discussed its working agenda.
      iv. Adopted proposal 2023-05-L (C-2 Mortality Structure and Instruction Changes).
      v. Adopted proposal 2023-07-L (CM6 & CM7 Mortgage Structure Change).
      vi. Adopted proposal 2023-08-L (Custody Control Accounts).
      vii. Discussed C-2 mortality risk.
   B. Adopted its 2023 life risk-based capital (RBC) newsletter.
   C. Adopted its 2022 life RBC statistics report.
   D. Adopted its working agenda.
   E. Heard a presentation from the American Council of Life Insurers (ACLI) on repurchase agreements and exposed it for a public-comment period of 45 days.

5. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group, which met July 27 and took the following action:

A. Adopted its June 16, April 24 minutes, which included the following action:
   i. Adopted its Spring National Meeting minutes.
   ii. Adopted proposal 2023-02-P (UW Risk Line 1 Factors).
   iii. Adopted proposal 2023-02-P-MOD (UW Risk Line 1 Factors Modification), which updated the H/F, WC, and CMP reserve factors due to an incorrect calculation.
B. Adopted the report of the Catastrophe Risk (E) Subgroup, which met July 18 and took the following action:
   i. Adopted its Spring National Meeting minutes.
   ii. Discussed its working agenda.
   iii. Received an update from its Catastrophe Model Technical Review Ad Hoc Group.
   iv. Discussed wildfire peril impact analysis.
   v. Heard a presentation from Verisk on a severe convective storms model update and technical review.
   vi. Discussed the flood insurance market.
C. Adopted its 2023 property/casualty (P/C) RBC newsletter.
D. Discussed its 2022 P/C RBC statistics report.
E. Discussed its working agenda.
F. Heard an update from the Academy on current P/C RBC projects .

3. Adopted its working agenda.

4. Exposed its 2024 proposed charges for a 30-day public comment period ending Sept. 13.

5. Exposed its revised procedures document for a 30-day public comment period ending Sept. 13.

6. Received an update from its Risk Evaluation Ad Hoc Group.

7. Discussed the implications of the recent market turmoil and their impact on insurer investments.

Draft Pending Adoption

Attachment --
Examination Oversight (E) Task Force
--/--/23

Draft: 7/31/23

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

The Examination Oversight (E) Task Force met July 24, 2023. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Blase Abreo (AL); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Carol Matthews (CO); Andrew N. Mais represented by Michael Estabrook (CT); Trinidad Navarro represented by Tom Hudson (DE); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Jeff Gaither (KY); James J. Donelon represented by Melissa Gibson (LA); Gary D. Anderson represented by James A. McCarthy (MA); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); D.J. Bettencourt represented by Colin Wilkins (NH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise represented by Gwendolyn McGriff (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Greg Chew (VA); Mike Kreidler represented by Tarik Subbagh (WA); and Nathan Houdek represented by John Litweiler (WI).

1. Adopted its 2022 Fall National Meeting Minutes

Orth made a motion, seconded by Eft, to adopt the Task Force's Dec. 14, 2022, minutes (*see NAIC Proceedings – Fall 2022, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups and Technical Group

   A. Financial Analysis Solvency Tools (E) Working Group

Radel provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met June 1 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters) of the NAIC Policy Statement on Open Meetings, to continue work on its goals. The Working Group also conducted an e-vote that concluded July 12 to adopt revisions to the *Insurer Profile Summary Sharing Best Practices Guide*.

   B. Financial Examiners Coordination (E) Working Group

Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the Working Group met April 17 and March 22 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

   C. Electronic Workpaper (E) Working Group

Radel stated that although the Electronic Workpaper (E) Working Group had not met this year, it wanted to provide a brief update regarding the TeamMate+ transition. Clements provided the update for the Working Group and said that it continues to oversee the transition to TeamMate+. She noted that the transition is progressing at a steady pace and as of July 20, 23 states have signed the rider agreement, 13 states have access to live databases, and 10 states are in the transition process. There are currently 18 states in the Gold Team Cloud environment and four states in the FedRAMP environment. She said the Working Group expects to have enough states online by year-end to facilitate exam coordination.

D. Financial Examiners Handbook (E) Technical Group

Snowbarger provided the report of the Financial Examiners Handbook (E) Technical Group. He stated that the Technical Group met June 20 to expose updates related to Exhibit G – Consideration of Fraud and a memorandum of understanding for a 30-day public comment period. He noted that Exhibit G was updated to further align with the risk-focused examination approach and encouraged regulators to leverage the work performed by others (especially external auditors) in this area. Revisions clarified that if the auditor's fraud testing is deemed to be reliable, the examination team is not expected to complete the Fraud Risk Factor Checklist part of the exhibit. Additionally, in response to a Receivership Law (E) Working Group referral, Section 1-3 of the *Financial Condition Examiners Handbook* was updated to include a reference to the memorandum of understanding template. This template can be used to facilitate transitional planning and preparation, communication, and information sharing in a pre-liquidation situation. As no comments were received, the Technical Group will consider adoption of this guidance during its next meeting.

Snowbarger said that the Technical Group also discussed its other 2023 projects, which include proposed revisions to incorporate: 1) consideration of climate-related risks; and 2) takeaways from the May 2023 Examination Peer Review. The Technical Group expects these proposed revisions to be considered for exposure during its next meeting, which is anticipated in late August.

Finally, Snowbarger mentioned that the Technical Group has formed a drafting group to address the referral from the Financial Analysis (E) Working Group related to strategic and operational risks faced by health insurers.

E. Information Technology (IT) Examination (E) Working Group

Ehlers provided the report of the IT Examination (E) Working Group. He stated that the Working Group met April 11 to discuss a referral received from the Cybersecurity (H) Working Group, which requests that the Working Group consider adding and/or revising IT review guidance within the *Financial Condition Examiners Handbook* to better prioritize cybersecurity risks and to consider a variety of sources in developing such guidance. The Working Group formed a drafting group to begin researching different frameworks that could be leveraged in the development of this guidance. He stated that the drafting group also plans to review the current procedures within Exhibit C to determine if there are any areas that can be streamlined to become more effective. Due to the nature of this project, the Working Group anticipates its efforts to carry over into 2024.

Cooley made a motion, seconded by Mathis, to adopt reports of the Financial Analysis Solvency Tools (E) Working Group, the Financial Examiners Coordination (E) Working Group, the Electronic Workpaper (E) Working Group, the Financial Examiners Handbook (E) Technical Group (Attachment One), and the IT Examination (E) Working Group (Attachment Two). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/EOTF Summer NM Minutes Draft.docx

2023 Summer National Meeting
Seattle, Washington

JOINT MEETING OF THE FINANCIAL STABILITY (E) TASK FORCE
AND THE MACROPRUDENTIAL (E) WORKING GROUP
Sunday, August 13, 2023
12:00 – 1:00 p.m.

Meeting Summary Report

The Financial Stability (E) Task Force met Aug. 13, 2023, in joint session with the Macroprudential (E) Working Group. During this meeting, the Task Force and Working Group:

1. Adopted the Task Force's June 20 and Spring National Meeting minutes.

2. Heard an update on Financial Stability Oversight Council (FSOC) developments.

3. Received a Working Group update and 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 with three more additional topics of interest: credit risk; interest rate risk; and structural changes in life insurance, including reinsurance.

2023 Summer National Meeting
Seattle, Washington

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE
Monday, August 14, 2023
11:00 a.m. – 12:00 p.m.

Meeting Summary Report

The Receivership and Insolvency (E) Task Force met August 14, 2023. During this meeting, the Task Force:

1. Adopted its 2023 Spring National Meeting minutes.

2. Adopted the report of the Receivership Financial Analysis (E) Working Group. The Working Group will meet August 14 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.

3. Adopted the report of the Receivership Law (E) Working Group. The Working Group met on July 24 and May 23 and took the following actions:
    a. Exposed proposed amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) for restructuring mechanisms and cybersecurity insurance for a 30-day comment period ending June 23;
    b. Discussed comments received on the exposure of proposed amendments to Model #540;
    c. Adopted proposed amendments to Model #540;
    d. Adopted its May 23 meeting minutes; and,
    e. Heard a presentation from Arcina Risk Group on extension of file retention of closed receivership estate records.

4. Exposed proposed amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) for restructuring mechanisms and cybersecurity insurance for a 30-day comment period ending September 14.

5. Exposed a template for describing the U.S. receivership regime for a 30-day comment period ending September 14. The template is intended for lead state insurance departments to provide consistency in discussions with international regulators and aid in developing resolution plans for internationally active insurance groups (IAIGs).

6. Heard an update on international resolution activities.

7. Discussed Part A Financial Regulation and Accreditation Standards and previous review work performed by the Task Force on standards for receivership and insurance guaranty association laws.

8. Heard an update on a proposed receivership tabletop session. The NAIC will review availability of space and time at the Fall National Meeting.

Draft Pending Adoption

Draft: 8/1/23

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

The Reinsurance (E) Task Force met July 24, 2023. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Adrienne A. Harris, Vice Chair, represented by John Finston (NY); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Leo Liu (AR); Ricardo Lara represented by Monica Macaluso (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Martin Sullivan (GA); Doug Ommen represented by Kim Cross (IA); Vicki Schmidt represented by Chut Tee (KS); Sharon P. Clark represented by Vicki Lloyd (KY); James J. Donelon represented by Tom Travis (LA); Gary D. Anderson represented by Christopher Joyce (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker (MN); Troy Downing represented by Kari Leonard (MT); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); D.J. Bettencourt represented by Pat Gosselin (NH); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Patrick Zeller (NM); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by David Smith and Doug Stolte (VA); and Nathan Houdek (WI).

1. <u>Adopted its Spring National Meeting Minutes</u>

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

2. <u>Adopted its 2024 Proposed Charges</u>

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

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

3. <u>Adopted the Report of the Reinsurance Financial Analysis (E) Working Group</u>

Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met July 19 and May 2 to approve several certified and reciprocal jurisdiction reinsurers for passporting. He noted that the Working Group will meet several more times during 2023.

Kaumann stated that the Working Group has now approved 61 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting, and that 41 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Gosselin, to adopt the Working Group's report (Attachment). The motion passed unanimously.

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

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

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

5. Discussed Ongoing Projects at the NAIC that Affect Reinsurance

Jake Stultz (NAIC) stated that there are five ongoing projects at the NAIC that affect reinsurance. He noted that the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for regulators to get a better understanding of reinsurance transactions at the companies that they regulate. He noted that the worksheet will allow for more consistent and thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force's policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Examiner's Handbook.* He said that the work completed using the reinsurance worksheet will remain confidential. He stated that the Macroprudential (E) Working Group adopted the reinsurance worksheet during its June 20 meeting and that the Financial Condition (E) Committee will consider it for adoption at the Summer National Meeting.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its first year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers asset adequacy testing (AAT) for life insurers, but he noted that the Task Force's primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement) or the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement). He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, which include actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

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

Draft Pending Adoption

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

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

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

6. Received a Status Report on the States' Implementation of Model #787

Stultz stated that the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) became an accreditation standard on Sept. 1, 2022, with enforcement beginning on Jan. 1, 2023. He noted that as of June 27, 34 jurisdictions have adopted Model #787. He noted that Model #787 mirrors *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) and that under the accreditation standards, a state may meet the requirements through an administrative practice, such as an actuarial guideline. Stultz stated that 12 states have advised NAIC staff that they will rely on AG 48, either through an insurance bulletin or through simple adoption of the NAIC's *Accounting Practices and Procedures Manual* (AP&P Manual). He added that if a state adopts Model #787, it also will need to adopt Section 5B(4) of Model #785. He stated that the map showing the current adoption status for Model #787 was included in the meeting materials (Attachment Two).

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

NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2023SummerNM/Meeting/Minutes/0 ReinsuranceTFmin 07.24.2023.docx

2023 Summer National Meeting
Seattle, Washington

VALUATION OF SECURITIES (E) TASK FORCE
Monday, August 14, 2023
2:00 – 3:00 p.m.

Meeting Summary Report

The Valuation of Securities (E) Task Force met Aug. 14, 2023. During this meeting, the Task Force:

1. Adopted its July 13, May 15, and Spring National Meeting minutes, which included the following action:
   A. Received a Structured Securities Group (SSG) staff report on updates on the proposed collateralized loan obligation (CLO) modeling methodology and CLO Ad Hoc Working Group.
   B. Received comments on a *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to update the definition of an NAIC designation. The Task Force had previously exposed the amendment for a 45-day public comment period ending June 30.
   C. Adopted a P&P Manual amendment to clarify the meaning of repurchase agreements in the derivatives transaction definition for funds in Part Three of the P&P Manual. The amendment had previously been exposed for a 45-day public comment period ending June 30.
   D. Discussed a proposal for consideration by the Executive (EX) Committee to change how NAIC Securities Valuation Office (SVO) fees are determined.
   E. Received updates on the proposed CLO modeling methodology and CLO Ad Hoc Working Group.
   F. Discussed and exposed a P&P Manual amendment to clarify the meaning of repurchase agreements in the derivatives transaction definition in Part Three of the P&P Manual for a 45-day public comment period ending June 30.
   G. Discussed and exposed a proposed P&P Manual amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the filing exemption (FE) process for a 60-day public comment period ending July 14.

2. Adopted its 2024 proposed charges.

3. Received and discussed comments on the proposed P&P Manual amendment to update the definition of an NAIC designation.

4. Received and discussed comments on the proposed P&P Manual amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the FE process.

5. Received a status report on the proposed CLO modeling methodology and Ad Hoc CLO Working Group.

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

7. Received final questions to be answered by credit rating providers (CRPs).

8. Discussed the Fitch Ratings downgrade of its U.S. government credit rating.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Virtual Meeting

GROUP CAPITAL CALCULATION (E) WORKING GROUP
July 27, 2023

Summary Report

The Group Capital Calculation (E) Working Group met July 27, 2023. During this meeting, the Working Group:

1. Discussed comments received from the American Council of Life Insurers (ACLI) and the UnitedHealth Group (UHG) with respect to a previously exposed proposal to designate the excess relative ratio (ERR) scalars as the primary scalar methodology used in the GCC.

2. Adopted the previously exposed proposal to designate the ERR scalars as the primary scalar methodology used in the GCC.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Virtual Meeting

MORTGAGE GUARANTY INSURANCE (E) WORKING GROUP
July 13, 2023

Summary Report

The Mortgage Guaranty Insurance (E) Working Group met July 13, 2023. During this meeting, the Working Group:

1. Adopted its Spring National Meeting minutes.

2. Adopted the draft *Mortgage Guaranty Insurance Model Act* (#630) with an amendment to Sections 18A and 18C to strike, "Unless set forth in the policy and subject to the [state equivalent of the Unfair Trade Practices Act #880]." In addition, Section 21 – No Private Right of Action was struck in its entirety from Model #630. The model was exposed for public comment on Oct. 7, 2022; Feb. 27, 2023; and May 11, 2023.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/MGIWG/2023 July 13 Open/MGIWG Summary.docx

Draft: 5/8/23

Restructuring Mechanisms (E) Working Group
Virtual Meeting
May 4, 2023

The Restructuring Mechanisms (E) Working Group of the Financial Condition (E) Committee met May 4, 2023. The following Working Group members participated: Elizabeth Kelleher Dwyer, Co-Chair, and Matt Gendron (RI); Glen Mulready Co-Chair, and Andrew Schallhorn (OK); Leo Liu (AR); Rolf Kaumann (CO); Jared Kosky and Jack Broccoli (CT); Judy Mottar and Vincent Tsang (IL); Robert Wake (ME); Judy Weaver (MI); Fred Andersen (MN); John Rehagen (MO); Lindsay Crawford (NE); John Sirovetz (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Diana Sherman (PA); Amy Garcia (TX); Doug Stolte and David Smith (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Adopted the April 4 Minutes

Malm made a motion, seconded by Andersen, to adopt the Restructuring Mechanisms (E) Working Group's April 4 minutes (Attachment ?). The motion passed unanimously.

2. Receive and Consider Comments on Exposed Draft Guidance & New Language to Address Previous Comments

Superintendent Dwyer announced that during the April 4 meeting, the Working Group exposed draft Best Practices guidance and requested wording to address issues discussed during the meeting. Superintendent Dwyer noted the Working Group received twelve comments (Attachment ?-?) and the discussion will focus on the comments received related to the exposed redline changes, as well as the new language to address previous comments, that later of which will be exposed sometime after this call.

a. Accreditation Requirements

Superintendent Dwyer explained that with respect to the question of making the Best Practices document currently being developed and debated and accreditation requirement, the product would proceed to the Financial Condition (E) Committee. They would decide whether to refer the Best Practices to the Financial Regulation Standards and Accreditation (F) Committee, who would decide what portions, if any, of the Best Practices document would become an accreditation standard.

b. Guaranty Fund Coverage

Robin Marcotte (NAIC) summarized the comments on the next issue dealing with retaining guaranty fund coverage. Superintendent Dwyer asked for comments from individuals that did not support the existing language in the draft Best Practices document on the topic of guaranty fund coverage. Wayne Mehlman (American Council of Life Insurers—ACLI) stated they support the existing language on guaranty fund coverage in the Best Practices document. Kristen DiCarmine (New York Life) stated they had no objections and that they would follow the document as it is considered at various stages for accreditation. Rehagen stated appreciation for the language included but noted that he was struck that the legal opinion requirement was removed. Superintendent Dwyer explained that as an attorney, she would prefer the company tell her as a regulator whether their attorney opines on the guaranty fund protection being retained. She explained that within the departments of insurance, she believes they understand the issue well enough and if they do not, she is not sure they could seek a legal opinion but that would be a reason for not requiring a formal legal opinion.

Bill O'Sullivan (National organization of Life and Health Guaranty Associations—NOLHGA) stated he agreed with Superintendent Dwyer on the reason for removing the legal opinion language because guaranty fund coverage, both on the life and property casualty side, will be determined at the time the company is placed into liquidation. He stated there could be all sorts of factors in making the determination regarding potential limitation and exclusions of coverage that would be difficult to estimate at the time of the transaction. He stated he believes it was more important is that certain factors are met and as included in the previously exposed revised language. Superintendent Dwyer stated that as an attorney, she preferred that to a representation at a point in time from some outside law firm. Rehagen stated that he was concerned that all states would not adopt the language but since the language has specific factors that must be addressed and assessed, he found the reason for taking that certification requirement out of the draft Best Practices document. Robert Romano (Norton Rose Fulbright and on behalf of Protucket Insurance Company) stated their comment is focused on the distinction between how guaranty fund coverage for life and health and property and casualty are managed and that at least in theory, they should be the same in the end. O'Sullivan responded that for life and health coverage, for there to be guaranty fund coverage, the insurer must be a member of the state guaranty fund association, which means they must be licensed or have been licensed in the state. Barbara Cox (National Conference of Insurance Guaranty Funds—NCIGF) stated that for property casualty business, the insolvency company must issue the covered business. She stated that NCIGF supports state regulation and that it would be good if the successor insurer was also a licensed insurer under the supervision of the state regulator, but current that does not ensure coverage on the property casualty side. The Receivership and Insolvency (E) Task Force is currently modifying the language that will address this issue. Cox noted the hope was for the language to be adopted by the Summer National Meeting. Romano suggested that once the language Ms. Cox is referring to is adopted by all the states, the Best Practices document will need to be updated. Peter L. Hartt (Randall and Quilter) stated they defer to the expertise of others, but they were simply looking for clarification on the purpose of licensure is. Superintendent Dwyer responded that she believes the guaranty fund representatives were correct that while licensure is especially important in life and annuity, not as important you sometimes could have coverage and guaranties in property and casualty in a separate way. Superintendent Dwyer asked one final time for objections to the previously exposed language for this item, as well as editorial changes for the remainder of the section and there were none.

c. <u>Independent Expert</u>

Marcotte summarized the comments on the next issue dealing with the use of an independent expert. Mehlman stated that the ACLI principles on this topic require an independent expert on both an insurance business transfer (IBT) and a corporate division (CD), and the development of such principles was after months of negotiations between members. Superintendent Dwyer noted that this issue had been discussed extensively and noted she believed most everyone believes that most transactions there is a need for such an expert, but that the Department's staff knows the company and the Department would on occasion find that and independent expert was not necessary. Superintendent Dwyer added that as drafted, this would require the Department to set that out and make a very explicit statement on why. Mehlman responded that they appreciate that but that he can only restate what is in the ACLI principles that require an independent expert regardless. Birny Birnbaum (Center for Economic Justice—CEJ) stated his company takes no issue with the language, but noted it demonstrates a greater need for a policyholder advocate. He noted it is unclear where there would be any kind of public report assessing the impact on policyholders and if there is no independent expert then there is really an even greater need for policyholder advocates to be part of the process. Superintendent Dwyer asked one final time for objections to the previously exposed language for this item, as well as editorial changes for the remainder of the section and there were none.

d. Other Redline Changes Edits to Previously Exposed Draft Best Practices

Superintendent Dwyer asked for objections to the remaining redline changes in the previously exposed document, as well as editorial changes noted by NAIC staff and the chair, and there were none.

e. New Language on Proforma Financials

Marcotte summarized the comments on the next issue dealing with proforma financial statements noting that both comments support the position of the Working Group on this issue. Birnbaum stated that while three years of proforma financial statements may be adequate for some types of analysis associated with these proposed transactions, it is certainly not enough time to consider the treatment of policyholders. This would include for example fees, expenses, and changes thereon that gets at servicing issues. An example would be a transaction dealing with variable annuities where the transferee has a history of increased expense provisions on those types of products. There were no additional comments, but the revised language will be included for additional comments in the next exposure.

f. New Language on Evaluating Policyholder Impacts & Not Creating Monoline Insurers

DiCarmine discussed their previous comments discussed during the last call on no worse off and how to evaluate that and how their proposed language submitted attempts to address this concern of theirs. Malm asked for clarification of the use of the term monoline insurers since that has a connotation among regulators to include things such as mortgage guaranty insurance and financial guaranty insurance. Superintendent Dwyer suggested something like “the domestic regulator should consider whether the transfer or the transferee will become a monoline company following the transaction. Birnbaum suggested the idea of the concern is good and for whatever that means for a life insurer but questioned the language fix. He set forth a number of related issues that he thinks should be addressed in the financial analysis of the receiving company. Superintendent Dwyer suggested perhaps “consider or evaluate” is better than “ensure” to leave room for those lines of business. DiCarmine described how supplemental benefits could be an example of a life insurer monoline of business where perhaps the transferor previously sold life and annuities as well. Marcotte suggested the better term might be diversification. Superintendent Dwyer agreed with Marcotte and suggested this language be modified in the next version of the draft Best Practices.

g. New Language on Policyholder Advocate

Superintendent Dwyer stated that she understood the concerns raised in the comment letter by the Center for Economic Justice but that personally having worked at an insurance department for 25 years, she believes that the states are the policyholder advocate. Superintendent Dwyer noted that while the commentor believes there is a conflict, she respectfully disagreed with that view. Superintendent Dwyer asked if there were others that shared similar views. Bonnie Burns (California Health Advocate) stated she supported the comments from the Center for Economic Justice. Burns stated that while departments can help consumers with these issues, those consumers may not get to a department of insurance for a variety of reasons. Burns noted she has a lot of experience with people who have questions beyond what the department of insurance can manage.

Superintendent Dwyer asked for an example. Burns noted that if a consumer was considering taking legal action and has indicated such to the department of insurance who is unable to help with information. Or sometimes there are provider issues that come up outside of the department's expertise. Birnbaum stated that the way the draft Best Practices was currently structured, there is a communication plan that alerts policyholders to the business transfer and gives the consumer an opportunity to participate in any kind of public forum. So, the problem is if the consumer calls in and makes a comment its not framed in a way that is helpful to the regulator because the consumer does not really understand the process and does not understand the requirements placed upon the regulator to decide. If there were a policyholder advocate, they could not only take the information provided to them for serving in that capacity, and they could also sort of supplement that information with additional information from the consumer and other consumers and put into the context that is relevant for the regulator to consider. He described how in a long-term care rate filing, many regulators hold a hearing on those types of issues, where the consumer calls in, makes comments, but they are not comments that a regulator can use in terms of the requirements. As previously noted, a policyholder advocate could assist in the situation. Burns noted how she was a consumer, and this was not her area of expertise and would be relying on Birnbaum. Burns noted that consumers come to her for information about how things affect them and what if anything they can do to assist and people in the insurance department are unable to talk to them in that way. Superintendent Dwyer responded that she wanted to be clear, but that she was not saying that policyholder advocates and things that consumer advocates do have no value. She noted that long-term care rate filings and provider issues are not what is at issue, rather the issue is whether a book of business should be transferred from one company to another without any change in the policy. Birnbaum agreed this was different than a proceeding to approve a policy form or a rate but there is a similarity and while he understands that its regulators responsibility to make sure there are no adverse or materially adverse impact on those policyholders, but any type of situation in which there an impact on policyholders and the benefits of having a policyholder advocate. Superintendent Dwyer asked the members of the Working Group if any of them wanted to change their view on this issue and the addition of such language and no one responded.

h. <u>Hong Kong Legislation</u>

Marcotte noted that Dave Wolf (NJ) had provided some language on the Hong Kong legislation that he had some previous experience with and had questioned on the April 4 call if it included "material" in its requirement of an adverse effects. The Working Group deferred discussion on the topic until NAIC staff could review the legislation more closely and Mr. Wolf could be on to discuss more specifically his view.

i. <u>No Material Adverse Effects</u>

Superintendent Dwyer noted this issue was discussed on the last call and the Working Group expressed a preference for using "material" specifically in addition to "no adverse effect." Robert

Woody (American Property Casualty Insurers Association—APCIA) noted how this standard had been used in other places and how he thought there are some circumstances where material might even be defined. Without such a standard, the door could be opened to very minor issues becoming an obstacle to a transaction. Stephen DiCenso (Milliman) noted that he thought the comments he submitted stand on their own and if there needs to be further elaboration, there is some documentation in the minutes of an example that he provided. Romano stated his agreement and that there needed to be changes made throughout the document for consistency. Hartt agreed with the other comments and too also emphasized the need for consistency throughout the document. Birnbaum noted that industry seems to favor the no material adverse effect language which seems to imply there can be some assessment of all policyholder with one assessment when in fact if you look at the corporate division narrative, it refers to evidence demonstrating that the interests of all classes of policyholders and stakeholders will be protected. There could be a variety of positive and negative effects and part of this has to do with material, which is who gets to decide what is material. The question is how you determine what a material adverse effect is and how do you ensure consistency or uniformity across the states. Stolte stated he agreed with Birnbaum and more specifically that he does not think a policyholder should have any adverse impact from one of these transactions; something he finds problematic. Superintendent Dwyer noted she would ask NAIC staff to draft up something that will be included in the next exposure.

j. <u>Other Comments</u>

Marcotte noted that comments were received on the topic of runoff, and as has been noted in the past, the inclusion of that topic in the current Best Practices was related to the fact that the group was charged to address the issue but that ultimately that topic may need to be placed elsewhere in a different document. Carolyn Fahey (AIRROC) expressed AIRROCs willingness to work with the Working Group to further examine some of the questions related to runoff and the distinct differences between runoff and restructuring. Mehlman asked about the status of the White Paper. Superintendent Dwyer responded that the White Paper was waiting on these Best Practices and that once these are finished, they will be incorporated into the White Paper, by reference. Superintendent Dwyer stated they are trying to get both done by the end of the year.

Having no further business, the Restructuring Mechanisms (E) Working Group adjourned.

<u>https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2023-2-Summer/Restructuring Mech WG/5-4-23/5-4-23 Restructure WG.docx</u>

Draft: 4/20/23

Restructuring Mechanisms (E) Working Group
Virtual Meeting
April 4, 2023

The Restructuring Mechanisms (E) Working Group of the Financial Condition (E) Committee met April 4, 2023. The following Working Group members participated: Elizabeth Kelleher Dwyer, Co-Chair, and Matt Gendron (RI); Glen Mulready Co-Chair, and Andrew Schallhorn (OK); Leo Liu (AR); Rolf Kaumann (CO); Jared Kosky and Jack Broccoli (CT); Fred Moore, Judy Mottar, and Vincent Tsang (IL); Robert Wake (ME); Judy Weaver (MI); Fred Andersen (MN); John Rehagen and James Le (MO); Lindsay Crawford (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Diana Sherman (PA); Amy Garcia (TX); Doug Stolte and David Smith (VA); Dan Petterson (VT); Tim Hays (WA); and Amy Malm (WI).

1. Discussed the Merger of the Restructuring Mechanisms (E) Subgroup into the Restructuring Mechanisms (E) Working Group

Superintendent Dwyer said at the Spring National Meeting, the merger of the Restructuring Mechanisms (E) Subgroup into the Restructuring Mechanisms (E) Working Group was announced during the Financial Condition (E) Committee meeting. It was also noted that the membership and charges would be merged into the Working Group, with Ohio added as one new member. Members were asked to contact NAIC staff if they would like to make any changes to their listed representative; although, it was noted that a merger of the two groups is appropriate given that many of the representatives are the same. Superintendent Dwyer noted that the Subgroup developed a first draft of regulatory principles and best practices for insurance business transfers (IBTs) and corporate divisions (CDs), but the merged Working Group would now complete that work. Commissioner Mulready stated that the goal is to have all products of the Working Group, including the best practices, finalized by the Fall National Meeting.

2. Adopted the Restructuring Mechanisms (E) Subgroup's Nov. 9, 2022, Minutes

Malm made a motion, seconded by Commissioner Mulready, to adopt the Restructuring Mechanisms (E) Subgroup's Nov. 9, 2022, minutes (*see NAIC Proceedings – Fall 2022, Financial Condition (E) Committee, Attachment Seven*). The motion passed unanimously.

3. Exposed Proposed Revisions to Best Practices

Superintendent Dwyer announced that included in the materials were proposed revisions to the best practices that address: 1) the use of an independent expert for CDs; and 2) language to address comments from the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and the National Conference of Insurance Guaranty Funds (NCIGF). The concept of the changes was previously authorized by the Restructuring Mechanisms (E) Subgroup, and NAIC staff developed language to address both concepts. Superintendent Dwyer indicated that there was a desire to expose the proposed revisions for a 21-day public comment period ending April 26 so the comments could be discussed during the Working Group's next meeting, which is scheduled for May 4. Rehagen stated that the exposure period is shorter than normal, but he appreciates the reason and is therefore not opposed to it. Superintendent Dwyer indicated that the changes appear to be non-controversial and therefore proposed a shorter proposed exposure period, but comments may suggest otherwise which would cause another exposure period. William O'Sullivan (NOLHGA) stated his appreciation for NAIC staff working with him on the changes that are intended to preserve guaranty fund coverage by requiring the successor entity to continue to be licensed in the appropriate jurisdictions. Superintendent Dwyer noted that the Receivership and

Insolvency (E) Task Force is developing changes to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) that would provide similar assurances for property/casualty (P/C) contracts.

Kaumann made a motion, seconded by Commissioner Mulready, to expose the revisions to the best practices until April 26. The motion passed unanimously.

4. Heard an Update on RBC Runoff Referrals

Bruggeman stated that the referral from the Working Group to the Property and Casualty Risk-Based Capital (E) Working Group had been discussed, and after that, the Capital Adequacy (E) Task Force requested that the Health Risk-Based Capital (E) Working Group and the Life Risk-Based Capital (E) Working Group also review and discuss it. He noted that the Life Risk-Based Capital (E) Working Group reviewed and discussed the issue of runoffs for its formula, and it concluded that no changes were needed. He also noted that the Health Risk-Based Capital (E) Working Group came to the same conclusion as the Property and Casualty Risk-Based Capital (E) Working Group, which is that resulting insurers should be monitored through the state analysis and examination functions. They also concluded that if a change is ultimately made to the health risk-based capital (RBC) formula, they would recommend that it be defined as a voluntary or involuntary , and includes the characteristics of: 1) non-renewing of policies for at least 12 months; 2) no plan or intention to write new business or assume new business; and 3) no additional runoff blocks of business. Additionally, if the remaining reserves are zero, the runoff is probably complete or almost complete.

5. Continued Discussion of the Review of Previously Submitted Comments

A. No Worse Off

Superintendent Dwyer noted that the first topic that has been discussed by the Restructuring Mechanisms (E) Subgroup but for which the Restructuring Mechanisms (E) Working Group would need to conclude is the issue of "no worse off" language. Superintendent Dwyer stated that standards such as "best interest of the policyholder" or "no material adverse effect," was the United Kingdom (UK) standard and standards previously interpreted by Courts provide a clearer standard. Commissioner Mulready noted that Oklahoma modeled the language in its law after the Part VII UK standard, and he suggested the same for these NAIC best practices. He noted that the "no material adverse effect" language has worked for over 20 years and over 300 transactions.,. Stolte stated that Virginia prefers "no worse off" since it does not believe a policyholder should experience any type of adverse impact, and materiality is in the eye of the beholder. Commissioner Mulready responded that he appreciates the comment on materiality, but he noted that the process is so robust, and the materiality in the process would be in the eyes of the independent expert, as well as the state insurance regulator and the judge.

Superintendent Dwyer stated that while the standards are financial, language that has previously been used and for which case law exists would be preferred. She noted that it was not clear where "no worse off" language was derived from. Stolte noted that they were not lawyers, but they were just trying to protect the policyholders in the transaction. He noted that this would have no impact on Virginia policyholders because of the Virginia anti-novation law, and the company would be required to come to the Virginia state insurance regulator for approval. Smith added that the "no worse off" language was a compromise between the best interests of the policyholders and the "no material adverse effect." Kosky noted that Connecticut law uses a best interest rule, and its CD law uses similar language.

Luann Petrellis (Catalina Re) voiced support for the " no material adverse impact" standard. It has been widely used through the UK Part VII Transfers for many years without any subsequent financial difficulties in any transaction. She also emphasized that materiality is a universally accepted standard of review, and there is a wealth of legal precedent interpreting what that means. There is an aspect of subjectivity in any of these standards, but there are tried and true tested procedures with material adverse impact, and there have been successfully completed transactions in the U.S. that utilized that standard. Petrellis noted that during legislative processes on this topic, everyone in the industry from all points of view agreed with this language, and using any other standard would likely result in inconsistency. Stephen DiCenso (Milliman) provided an example of the issue, noting that if an insurer had an RBC of 500, and then after the transaction it was 400, some might argue that the policyholder was worse off, but in either of those two cases, judgment would indicate that there is no material impact. That example supports the "no material adverse effect" standard. Peter L. Hartt (Randall and Quilter) stated that he concurs with the comments from DiCenso and Petrellis, and he stated that Randall and Quilter's concerns would be the unintended consequences of experimenting with new terminology that has not been well tested. Kristen DiCarmine (New York Life) noted that the points raised in its joint letter are different than those others have made, and she emphasized that there are some financial and administrative elements that would help to define "no worse off" or not materially adverse. She suggested adding language that would address this comment. Superintendent Dwyer asked DiCarmine to send in such language.

James Mills (Enstar) stated that "no material adverse effects" goes beyond just UK Part VII Transfers, and more precisely, it is a term of art used broadly in contract evaluation. He noted that there was a comprehensive framework that would be used, and it is important to recognize what exists in statutes that legislatures have enacted. He agreed with the point made by DiCenso, and he argued that any dividend payment by an insurer would be detracting from the financial stability of its policy, but state insurance regulators evaluate capital adequacy, not capital maximization, within insurers, and there are difficulties in the insurance industry. Stolte responded that these are best practices, and in Virginia, its law is to consider the best interests of the policyholder, and nothing done by the Working Group will change that. Superintendent Dwyer agreed with Stolte regarding nothing within the Working Group changing Virginia law, and the same goes for other state laws. She stated the Working Group's product will be to set high financial standards for these transactions. She asked if there were states besides Virginia and Connecticut that were against the use of the "no material adverse effect."

Broccoli responded that Connecticut is fine with that standard for IBTs, and its position previously described was with respect to CDs. No other states responded. Superintendent Dwyer summarized that the Working Group would utilize "no material adverse effect." She added that the Working Group will work on this further regarding how to measure the standard. It will also look at whether the standard would be different for reinsurers. Wolf asked if it would be possible to remove material from the standard. He believes that the standard in Hong Kong was "no adverse effect on policyholders." Superintendent Dwyer stated that in addition to the concepts mentioned by New York Life, the Working Group would ask Wolf to provide information on the Hong Kong standard.

B. <u>Due Process</u>

Rehagen noted that in Missouri, it is illegal to transfer policies without policyholder consent, as it pertains to assumption reinsurance. Superintendent Dwyer stated in such a situation, it would be up to the court to decide. She asked if there was specific language in the standards as far as the coordination of other states or access to the filings. Rehagen said years ago, there were some transactions for which effected states were not notified, however, communication between the states has greatly improved. He suggested a requirement that states be notified ahead of time. Superintendent Dwyer stated that requiring the state to notify and coordinate might be fine but advised against specifics regarding the format of communication deferring to the most efficient method of delivery. Robin Marcotte (NAIC) discussed how the current best practices draft suggests requiring a communication plan from the company, which then needs to be approved by the state insurance regulator. The current draft requires that this plan coordinate with other affected state insurance regulators and allowing them to have adequate time to assess the impact and the opportunity to submit written comments or attend public hearings. Gendron stated that clarification is needed as to when notification is required and who is responsible for that notification.

Birny Birnbaum (Center for Economic Justice—CEJ) discussed how the parties receiving notice other than the policyholders have the resources and expertise to meaningfully engage the process. He stated that consequently, there is a need for a policyholder advocate as part of the process. This position would receive and interpret comments from policyholders or simply answer questions when they do not understand the notice they receive. Birnbaum also stated that with respect to the independent expert, this person would likely focus on those things that can be easily quantified, such as material impact and administration capacity. He stated that this would be necessary for personal policies and commercial policies that are more similar to personal policies, such as small business policies. Superintendent Dwyer asked Birnbaum how that person would be defined and what language he would propose to address this issue. Birnbaum responded that the establishment of the policyholder advocate would be part of the process, as well as part of the communication plan, but it would also need to have access to the same kind of confidential information as the state insurance regulator. Commissioner Mulready responded that he believed that was part of the process already, as the current three-step process includes ensuring that there is no material adverse impact on the policyholders by the independent expert. He noted that the state insurance regulator is also already meant to protect the consumer, and the judge is reviewing the information to conclude that it is for that purpose.

DiCarmine noted the need to ensure opportunities for policyholders to meaningfully participate, both in person and remotely. Superintendent Dwyer stated that current statutes make provisions for this and there might be additional participation through Court order. Birnbaum questioned what the policyholder would do without a policyholder advocate that could more easily consider the complexity of the transaction and multiple moving parts. Thus, he asserted that participation would likely not be meaningful because the policyholder does not have the resources or skill set to evaluate the transaction. This advocate would not diminish the commissioner's role. Superintendent Dwyer explained that in this situation, the insurance department would sit down with the policyholder to explain the transaction to them. Wayne Mehlman (American Council of Life Insurers—ACLI) stated that for IBTs and CDs, while the ACLI does not suggest the need for policyholder consent, it suggests the need to require notice, a public hearing, and an independent expert for a review.

C. <u>Do Not Create Monoline Companies</u>

DiCarmine stated a comment on not allowing IBT and CD to create monoline companies was included in comments that were made by New York Life and two other insurers. She stated that New York Life could work on some language for the Working Group to consider.

D. <u>Pro Forma Financial Statements</u>

Superintendent Dwyer stated that the next issue deals with financial strength and how many years of pro forma financial statements are needed. Weaver stated that the Restructuring Mechanisms (E) Subgroup discussed the question of three or five years, but noted that Michigan requires five years. Consequently, five years was recommended by Weaver, but she also suggesting that the domestic regulator would have the ability to require more than five years in the appropriate circumstances. Malm stated support for five years with the potential for more depending upon the line of business. Commissioner Mulready stated that the Oklahoma statute requires three years, but more can be requested. He suggested that five years seemed like too many. Kosky agreed with Commissioner Mulready, and he noted that Connecticut requires three years, with more in the appropriate situation. Broccoli agreed with Kosky and Commissioner Mulready, but he noted that if the company has no access to capital, a state insurance regulator would probably want a longer period of time, even more than five years.

E. CD Procedures Similar to Form A Procedures

Kosky stated that Connecticut made comments at a past Restructuring Mechanisms (E) Subgroup meeting that it views the process for reviewing a CD similarly to a Form A Change in Control. Kosky noted that it has always been Connecticut's plan to review CDs under the same lens as a Form A. He also noted that under Connecticut law, the commissioner shall approve the division unless the commissioner finds that the interest of any policyholder will not be adequately protected or constitutes fraud. Marcotte noted that Locke Lord LLP made similar comments on the Subgroup's exposure. Superintendent Dwyer suggested language that indicated that for a CD or anything that an actual court of record does not approve, there must be a robust process within the department. Kosky suggested that there be six or seven standards would be appropriate for a CD that the commissioner review regarding approval. Superintendent Dwyer asked about a hearing. Kosky stated that the law was a "may" standard for the commissioner in holding a hearing as deemed appropriate. Marcotte described how in the current proposed best practices, there was an intent to avoid duplication between listing the same standards for IBTs and CDs, and many of the financial review requirements are combined unless there is a specific statement about something being different between the two.

F. Retention of Licenses

O'Sullivan noted that comments have been made to the Working Group and the Restructuring Mechanisms (E) Subgroup since their inception regarding a need for an insurance company to retain its licenses in states after an IBT or CD to retain guaranty fund coverage. He noted that for life insurers, any successor company needs to retain its licenses in its states to be considered a member of the guaranty fund association and, therefore, provide guarantee fund coverage. He noted that there were some regulatory discussions that some sort of streamlined licensing may be needed to address this issue. Wake indicated concern about the unintended consequences of requiring states to automatically license all surviving companies. Superintendent Dwyer asked about the status of the #540 model language at the Receivership and Insolvency (E) Task Force. O'Sullivan indicated that such changes were meant to address issues related to P/C. Wake noted that there was a consensus of the Task Force to use a surgical approach with limited changes. He noted that if licenses were not retained, there was concern about straining the orphan clause and existing coverage in the domestic state. He noted that that was perhaps not a bad consideration because it forces the domestic state to think through the transaction, given the ramifications if things do not go well.

Peter Gallanis (NOLHGA) discussed the decision at the Task Force to not address the life issues with an IBT and CD because of the fundamental differences between the P/C and life and health. For instance, there are differences in the types of contracts that are covered in P/C and life and health. Gallanis noted his concern that tugging on a thread in this sweater could have unintended consequences. Therefore, the recommendation for life and other long-term contracts issued by life insurers is to have the same licensure in the same states post-transaction and pre-transaction. If that cannot be met, perhaps the transaction should not be approved.

Weaver noted that the Financial Analysis (E) Working Group has made some reference or referrals to the National Treatment and Coordination (E) Working Group that states have seen issues in which other states are not ensuring that companies are licensed in the states when there is a merger. This step is needed to ensure states can properly regulate and oversee that business.

Having no further business, the Restructuring Mechanisms (E) Working Group adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2023-2-Summer/Restructuring Mech WG/4-4-23/4-4-23 Restructure WG.docx

2023 Summer National Meeting
Seattle, Washington

RISK-FOCUSED SURVEILLANCE (E) WORKING GROUP
Monday, August 14, 2023
9:30 – 10:30 a.m.

Meeting Summary Report

The Risk-Focused Surveillance (E) Working Group met Aug. 14, 2023. During this meeting, the Working Group:

1. Discussed proposed changes to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* to provide additional guidance for state insurance regulators in reviewing service agreements put in place between insurers and their affiliates. As a result of the discussions held, the Working Group agreed to adjust its proposed guidance on cost-plus reimbursement contracts. The Working Group also agreed to refer the updated guidance to the Financial Analysis Solvency Tools (E) Working Group and the Financial Condition Examiners (E) Handbook Technical Group for consideration of adoption.

2. Discussed the next steps to be taken to address a 2022 referral received from the Macroprudential (E) Working Group on affiliated investment management agreements and capital maintenance agreements. Ed Toy (Risk and Regulatory Consulting LLC) provided a presentation on key considerations in the state insurance regulator review of affiliated investment management agreements. The Working Group agreed to form a drafting group to develop guidance for NAIC handbooks in this area.

3. Discussed the status of an all-state survey to collect data on financial analyst and examiner compensation for the purposes of adjusting the salary ranges included in the NAIC handbooks.

4. Received a report on 2023 peer review training sessions, which included one financial analysis session, one financial examination session, and one Own Risk and Solvency Assessment (ORSA)-focused session.

Clarifications for the MWG Reinsurance Worksheet

Summary Response to Comments Received
Joint FSTF/MWG Call
June 20, 2023

1. **OPTIONAL TOOL**: This worksheet is designed as an **OPTIONAL** tool to assist lead state/domiciliary regulators when reviewing reinsurance transactions to allow them to obtain the information necessary to understand the economic impacts, typically upon initial review of the proposed transaction but also potentially when the lead state/domiciliary regulator is performing a historical review of the transaction for some specific purpose.
2. **NOT AN ONGOING FILING**: This worksheet is **NOT** for use as an ongoing filing with the NAIC and/or the lead/domiciliary state. It is an **EDUCATIONAL** tool for lead state/domiciliary regulators to use on an ad hoc basis as needed.
3. **ONLY USED IF NEEDED**: The worksheet is **NOT** designed to be used with **EVERY** reinsurance transaction. It is designed as a consistent tool for lead state/domiciliary regulators to use when reviewing reinsurance transactions for which they need to determine the economic impacts of said reinsurance transactions. If a reinsurance transaction is easily understood without the use of this worksheet, then a worksheet would not be used by the lead state/domiciliary regulator.
4. **NOT A FIXED TEMPLATE**: The worksheet is **NOT** a fixed template which **MUST** be used to answer the lead state/domiciliary regulators' information needs. If an insurer has materials used in its own assessment of the reinsurance transaction which answer the information needs of the lead state/domiciliary regulator expressed in the worksheet, then those materials may be accepted by the lead state/domiciliary regulator rather than requiring the insurer to use the worksheet format. Every effort should be made to **avoid duplicate requests** for information.
5. **OPEN TO REINSURANCE TYPE**: The worksheet **was designed with life reinsurance transactions** as the initial focus, but there is **no reason to limit this tool to life reinsurance transactions**. If the lead state/domiciliary regulator has a P/C reinsurance transaction for which they are struggling to understand the economic impact (despite any existing notes, interrogatories, and Schedule F disclosures for already approved transactions), the lead state/domiciliary regulator would be able to use the worksheet to request the needed information, with appropriate edits. Again, this worksheet should not be used if the lead state/domiciliary regulator has a clear understanding of the transaction from data already provided.
a. Similarly, the worksheet was designed with affiliated transactions as the initial focus, but a lead state/domiciliary regulator should use the template for unaffiliated transactions if existing information does not provide a clear understanding of the transaction.
6. **NOT REINSURANCE POLICY**: The Macroprudential (E) Working Group is working in coordination with the Reinsurance (E) Task Force. This optional, informational tool is **not intended to impact any of its reinsurance policies or procedures**, such as the qualified/reciprocal jurisdiction evaluation process or the U.S. Covered Agreement.
7. **ONLY REFERENCED IN HANDBOOKS**: The worksheet is **not included in the Financial Analysis Handbook or the Examination Handbook**, although it may be referenced there as an optional tool. The worksheet will be available on StateNet.
8. **CONFIDENTIALITY:** The worksheet would be confidential under a states existing confidentiality laws and regulations in place to assess such transactions.

Attachment Thirteen

Cross-border Affiliated Reinsurance Comparison Worksheet - by Treaty						
Date:						
Category	**US Stat. Pre-Transaction**	**Impacts of Transaction (Col's B-D)**	**US Stat. Post-Transaction**		**Other Jurisdiction**	**(Alternate Method) - Other Jurisdiction**
Other Jurisdiction Name						
BALANCE SHEET COMPARISON:						
Asset Grouping 1 (e.g., Cash/Investments)						
Asset Grouping 2 (e.g., Policy Loans)						
Asset Grouping3 (e.g., Separate Accounts)						
Other Assets						
TOTAL ASSETS *						
Liab. Grouping1 (e.g., Gen. Acct. Reserves)						
Liab. Grouping2 (e.g., Gen. Acct. Policy Loan Reserves)						
Liab. Grouping3 (e.g., Separate Accounts)						
Unauthorized Reinsurance Liability						
Other Liabilities (*See NOTES SECTION*)						
TOTAL LIABILITIES						
TOTAL ASSET REQUIREMENT COMPARTISON:						
Reserve Grouping1 (e.g., Separate Account Reserves)						
Reserve Grouping2 (e.g., GA Policy Loan Reserves)						
Reserve Grouping3 (e.g., GA Policy Reserves)						
TOTAL RESERVES						
Capital Grouping1 (e.g., Required Capital)						
Capital Grouping2 (e.g., Add'l Capital for Rating Agency)						
Capital Grouping3 (e.g., in Excess of Rating Agency Cap.)						
TOTAL CAPITAL						
TOTAL ASSET REQUIREMENT						
CHANGE IN CAPITAL AND SURPLUS:						
Capital and Surplus						
Net Income						
Change in Liability for Unauthorized Reinsurance						
Aggregate Write Ins for gains and losses in surplus						
Capital Contribution/(Dividends)						
Other Changes in surplus						
TOTAL LIABILITIES & CAPITAL						
SOLVENCY RATIO						
* Supported by listings of asset categories and amounts to highlight differences in supporting assets after the transaction.						
NOTES SECTION:						
(e.g., explain product line, describe transaction and any unique aspects)						
(If Asset Adequacy Testing is included in "Other Liabilities," additional regulatory guidance may be needed, e.g., on counterparty asset assumptions where access is limited.)						

Transaction Details

Please identify the following transaction details if applicable:	Contract 1 (if needed)	Contract 2 (if needed)	Contract 3 (if needed)	Contract 4 (if needed)
Which party of the contract are you (assuming or (retro)ceding)?				
Description risk category covered (mortality, longevity, Cat Risk, etc.)				
Start date				
End date				
Currency				
Sum Insured / Gross Notional amount / PML				
Capital at risk				
Line of Business (e.g. annuities, term, participating guarantee, etc.)				
Risks covered (e.g. longevity, mortality, etc.)				
Type of reinsurance treaty (XoL, Quota share – proportionate, etc.)				
Collateral value				
Value of guarantee				
Name(s) of the reinsurer(s) (please only include top 3 by premium share if more than one)				
Rating of reinsurer(s)				
Countries of reinsurer(s)				
Assets pledged by reinsurer				
Initial premium				
Initial fees				
Value of reserves				
Ceding commission structure		If yes, please provide a brief description		
Any experience refund or loss carryforward features		If yes, please provide a brief description		
Do you use or plan to use any form of derivatives for reinsurance purposes (e.g. longevity or mortality swaps)?		If yes, provide description of these derivatives		
Was any debt or surplus note issued in connection with the transaction? Ex. Such as in an embedded value securitization		If yes, please provide a brief description		

Please identify and describe if any of the following types of arrangements are associated with this transaction:	**Description**	
Trust		
Funds Withheld		
Coinsurance		
Modified Coinsurance		
Sidecars		Please describe Exit mechanism if known
Any other Joint Venture or SPV		
Third-party capital		

Ceded and Retroceded Details	**Reinsurer Name**	**Jurisdiction**
If ceding to an offshore affiliate please identify the assuming affiliated reinsurer(s) and their regulatory jurisdiction		
If ceding to an offshore affiliate and that affiliate is going to retrocede to another reinsurer, please identify the ultimate assuming reinsurer(s) and their regulatory jurisdiction		

Key Definitions
PML-Probable Maximum Loss
Capital at risk-required capital or capital charge.
Collateral value-the market value of securities pledged as collateral if a trust is set up in connection with the transaction.
Value of the guarantee – For example, third party guarantees in non-standard types of reinsurance. e.g. an MGA owns affiliated insurers, an unaffiliated reinsurer reinsures with the MGA affiliate with a guarantee from the MGA.

Please list the asset types and amounts backing the ceded business and indicate with a * (or some other symbol) if they do not meet the statutory accounting definition of admitted assets

As of Date:

Asset Listing			
Description	**Book Value**	**Market Value**	**NRSRO Rating**

Interpretation of the Statutory Accounting Principles (E) Working Group

Net Negative (Disallowed) Interest Maintenance Reserve

INT 23-01 Dates Discussed

April 10, 2023, June 28, 2023, August 13, 2023

INT 23-01 References

Current:
SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve
Annual Statement Instructions

INT 23-01 Issue

1. The statutory accounting guidance for interest maintenance reserve (IMR) and the asset valuation reserve (AVR) is within *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, but the guidance within SSAP No. 7 is very limited. It provides a general description, identifies that IMR/AVR shall be calculated and reported per the guidance in the applicable SSAP, and if not explicit in the SSAP, in accordance with the annual statement instructions. The SSAPs most often simply direct allocation to (or between) IMR and AVR, with the bulk of the guidance residing within the annual statement instructions.

2. As detailed in SSAP No. 7, paragraph 2, the guidance for IMR and AVR applies to life and accident and health insurance companies and focuses on IMR and AVR liability recognition and distinguishing between IMR and AVR:

> 2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

3. The IMR guidance in the annual statement instructions provides information on the net balance. A positive IMR represents net interest rate realized gains and is reported as a liability on a dedicated reporting line. A negative disallowed IMR represents net interest rate realized losses and is reported as a miscellaneous other-than-invested write-in asset in the general account and nonadmitted.

4. IMR balances between the general account and separate accounts are separate and distinct. Meaning, a net negative IMR in the general account only represents activity that occurred in the general account that was allocated to IMR. However, the net positive or negative balance of the general account influences how the net positive or negative balances are reported in separate account statements (and vice versa). (A net negative IMR balance in the general account may not be disallowed if there is a covering net positive IMR in the separate account. Negative IMR that is not disallowed is reported as a contra-liability.) The instructions for reporting the net negative and positive balances are detailed in the annual statement instructions:

> Line 6 – Reserve as of December 31, Current Year

Record any positive or allowable negative balance in the liability line captioned "Interest Maintenance Reserve" on Page 3, Line 9.4 of the General Account Statement and Line 3 of the Separate Accounts Statement. A negative IMR balance may be recorded as a negative liability in either the General Account or the Separate Accounts Statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement.

If there is any disallowed negative IMR balance in the General Account Statement, include the change in the disallowed portion in Page 4, Line 41 so that the change will be appropriately charged or credited to the Capital and Surplus Account on Page 4. If there is any disallowed negative IMR balance in the Separate Accounts Statement, determine the change in the disallowed portion (prior year less current year disallowed portions), and make a direct charge or credit to the surplus account for the "Change in Disallowed Interest Maintenance Reserve" in the write-in line, in the Surplus Account on Page 4 of the Separate Accounts Statement. The following information is presented to assist in determining the proper accounting:

General Account IMR Balance	Separate Account IMR Balance	Net IMR Balance
Positive	Positive	Positive (See rule a)
Negative	Negative	Negative (See rule b)
Positive	Negative	Positive (See rule c)
Positive	Negative	Negative (See rule d)
Negative	Positive	Positive (See rule e)
Negative	Positive	Negative (See rule f)

Rules:

a. If both balances are positive, then report each as a liability in its respective statement.

b. If both balances are negative, then no portion of the negative balances is allowable as a negative liability in either statement. Report a zero for the IMR liability in each statement and follow the above instructions for handling disallowed negative IMR balances in each statement.

c. If the general account balance is positive, the separate accounts balance is negative and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the Separate Accounts Statement.

d. If the general account balance is positive, the separate account balance is negative, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the Separate Accounts Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the Separate Accounts Statement.

e. If the general account balance is negative, the separate account balance is positive, and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the General Account Statement.

f. If the general account balance is negative, the separate account balance is positive, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the General Account Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the General Account Statement.

5. In October 2022, the ACLI requested the Statutory Accounting Principles (E) Working Group to reassess the guidance for net negative (disallowed) IMR, with a request to consider admittance of those amounts. The ACLI noted that the nonadmittance of disallowed negative IMR can have adverse negative ramifications for insurers with two key themes:

a. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.

b. Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity's financial health or its policyholders.

6. In considering the request, the Working Group concluded that, for year-end 2022, there would be no change to statutory accounting guidance and deviations from statutory accounting principles would need to be approved via a permitted or prescribed practice. The Working Group then held company-specific educational sessions in January 2023 to receive detailed information regarding negative IMR and received a subsequent comment letter from the ACLI.

7. During the 2023 Spring National Meeting, the Working Group further discussed the topic of negative IMR and directed NAIC staff to proceed with drafting guidance for a 2023 solution and to begin work towards a long-term solution.

INT 23-01 Discussion

8. This interpretation prescribes limited-time, optional, statutory accounting guidance, as an exception to the existing guidance detailed in SSAP No. 7 and the annual statement instructions that requires nonadmittance of net negative (disallowed) IMR as a short-term solution. Specifically, this interpretation impacts the annual statement instruction rules regarding disallowed negative IMR detailed in rules 'b,' 'd' and 'f' shown in paragraph 4. As this interpretation overrides existing guidance, it will require a 2/3rd vote.

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

a. Reporting entities that qualify pursuant to paragraph 9b, are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account[1] capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted[2] net negative (disallowed) IMR.

b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the

[1] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

[2] As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination[3] unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.

10. Reporting entities that admit net negative (disallowed) IMR shall follow the following process:

a. All net negative (disallowed) IMR in the general account shall first be admitted until the capital and surplus percentage limit, as detailed in paragraph 9.a, is reached.

b. If all general account net negative (disallowed) IMR has been fully admitted, and the reporting entity is still below the paragraph 9.a capital and surplus limit, then the reporting entity can report net negative (disallowed) IMR as an asset in the separate accounts. Reporting entities that have both insulated and non-insulated separate accounts shall recognize IMR assets proportionately between the insulated and non-insulated statements until the aggregated amount recognized as an admitted asset in the general account and as an asset in the insulated and non-insulated statements reaches the percentage limit of capital and surplus detailed in paragraph 9a.

11. Reporting entities that admit net negative (disallowed) IMR in the general account shall report the admittance in the balance sheet as follows:

a. Reporting entities shall report the net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 25) (named as "Admitted Disallowed IMR") on the asset page. The net negative (disallowed) IMR shall be admitted to the extent permitted per paragraph 9a, with the remaining net negative (disallowed) IMR balance nonadmitted.

b. Reporting entities shall allocate an amount equal to the general account admitted net negative (disallowed) IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as "Admitted Disallowed IMR"). Although dividends are

[3] Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

12. Reporting entities that record net negative (disallowed) IMR as an asset in the separate account shall report the recognition in the balance sheet as follows:

a. Reporting entities shall report the permitted net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 15) (named as "Recognized Disallowed IMR") on the asset page.

b. Reporting entities shall allocate an amount from surplus equal to the asset recognized as disallowed IMR as an aggregate write-in for special surplus funds (line 19) (named as "Recognized Disallowed IMR) on the liabilities and surplus page.

13. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the annual and quarterly financial statements for IMR:

a. Reporting entities that have allocated gains/losses to IMR from derivatives that were reported at fair value prior to the termination of the derivative shall disclose the unamortized balances in IMR from these allocations separately between gains and losses.

b. Reporting entities shall complete a note disclosure that details the following:

i. Net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

ii. Amounts of negative IMR admitted in the general account and reported as an asset in the separate account insulated and non-insulated blank,

iii. The calculated adjusted capital and surplus per paragraph 9a, and

iv. Percentage of adjusted capital and surplus for which the admitted net negative (disallowed) IMR represents (including what is admitted in the general account and what is recognized as an asset in the separate account).

c. Reporting entities shall include a note disclosure that attests to the following statements:

i. Fixed income investments generating IMR losses comply with the reporting entity's documented investment or liability management policies,

ii. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity's derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.

iii. Any deviation to 13.c.i was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.

iv. Asset sales were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

INT 23-01 Status

14. The consensuses in this interpretation were adopted on August 13, 2023, to provide limited-time exception guidance to SSAP No. 7 and the annual statement instruction for the reporting of net negative (disallowed) IMR. The provisions within this interpretation are permitted as a short-term solution until December 31, 2025, and will be automatically nullified on January 1, 2026.

15. The effective date of this interpretation may be adjusted (nullified earlier or with an extended effective date timeframe) in response to Statutory Accounting Principles (E) Working Group actions to establish statutory accounting guidance specific to net negative (disallowed) IMR.

16. Further discussion is planned.

Application Guidance for Admitting / Recognizing Net Negative (Disallowed) IMR

General Account:

1. Net negative IMR in the general account that exceeds net positive IMR in the separate accounts is considered "disallowed" general account IMR. (Determination of the disallowed IMR in the general account shall be compared against the aggregate IMR balance in all separate accounts.)

2. Net negative disallowed IMR in the general account shall be reported as an aggregate write-in for other-than-invested assets as "Admitted Disallowed IMR" on line 25 of the asset page and nonadmitted. The change in nonadmittance shall be reported on line 41 in the summary of operations.

3. To the extent the reporting entity is permitted to admit net negative disallowed IMR pursuant to the provisions in this interpretation, the reporting entity shall admit the disallowed IMR reported on line 25 of the asset page to the extent permitted, with the change in nonadmittance reflected on line 41 in the summary of operations.

4. Reporting entities shall report an amount equal to the general account admitted net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 34 of the Liabilities, Surplus an Other Funds page) named as "Admitted Disallowed IMR."

5. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

Separate Account:

6. Net negative IMR in the separate account (aggregated IMR in both insulated and non-insulated separate accounts) that exceeds net positive IMR in the general account is considered "disallowed" separate account IMR. If the aggregate separate IMR is positive, with a negative IMR in the insulated separate account and positive IMR in non-insulated separate account (or vice versa), then the negative IMR in the insulated separate account is not permitted to be reported as an asset. In those situations, the separate account has an aggregate positive IMR balance.

7. Net negative (disallowed) IMR in the separate account permitted to be recognized as an asset, as the admittance in the general account did not utilize the full percentage of adjusted capital and surplus permitted within this interpretation, shall be proportionately divided between insulated and non-insulated separate accounts if both separate accounts are in a negative position. If the separate account IMR is an aggregate net negative, but only one separate account blank is in a negative position, then only the separate account blank with a net negative position can recognize disallowed IMR as an asset.

8. If negative IMR in the separate account has previously been recognized as a direct charge to surplus, the reporting entity shall recognize an asset as an aggregate write-in for other-than-invested assets as "Recognized Disallowed IMR" on line 15 of the separate account asset page, with an offsetting credit to surplus. This credit to surplus shall reverse the charge previously recognized. This process shall continue in subsequent quarters if additional separate account IMR is permitted as an asset to the extent IMR was previously taken as a direct charge to surplus. Once prior surplus impacts have been fully eliminated, then the entity shall follow the guidance for new net negative (disallowed) IMR as detailed in the following paragraph. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.

9. If the reporting entity enters a net negative (disallowed) IMR position (meaning, there has not been a prior charge to surplus for net negative (disallowed) IMR), then the entity shall recognize the asset as

an aggregate write-in for other-than-invested assets as “Disallowed IMR” on line 15 of the separate account balance sheet, with an offsetting credit to IMR (line 3 of the liability page) until the IMR liability equals zero. This process shall continue in subsequent quarters if additional net negative IMR is generated from operations and is permitted as an asset under the provisions of this interpretation. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.

10. Reporting entities shall report an amount equal to the asset recognized reflecting net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR.” This shall be included in each separate account statement (insulated and non-insulated) if net negative disallowed IMR is recognized as an asset in that statement.

11. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

NAIC Summer National Meeting

OSFI's Recent Journey with Insurance Data and Analytics
August 15, 2023

Jacqueline Friedland, FCIA, FCAS, FSA
Executive Director
Risk Assessment and Intervention Hub

OSFI | BSIF

Canada

Outline

- Personal background
- It started with the FCT
- Another winter holiday, another analytics project (RADAR)
- Meltwater media monitoring tool
- More AI in use – reinsurance NLP pilot
- OSFI Blueprint and transformation
- OSFI data and analytics and next steps

Personal background – provides context for the story

- Actuary by training
- More than 35 years in industry (consulting and insurers)
- Author of CAS and SOA textbooks used for actuarial examinations
- Advisory committee member of University of Waterloo and University of Toronto actuarial programs
- Transformation expertise
- Mantra: enhance efficiency and effectiveness (neither at the expense of the other)
- Joined OSFI fall 2020 in P&C insurance
- Was not (am not) your typical supervisor

It started with FCT

- Obligation of AA to conduct FCT annually
- Single most important report from the perspective of prudential regulation – too important to only be understood by actuarial specialists
- Rigorous actuarial standards of practice and very strong relationship of CIA and OSFI have led to high quality of FCT reports
- FCT includes solvency and going concern scenarios
- Challenge I faced:
  - How do I teach supervisors (not actuarial specialists) how to use and what to look for in the FCT
  - How do I make the process for review of FCT reports most efficient and effective
- Benefits I had:
  - Teaching experience
  - President of the CIA

Looking for efficiency and effectiveness

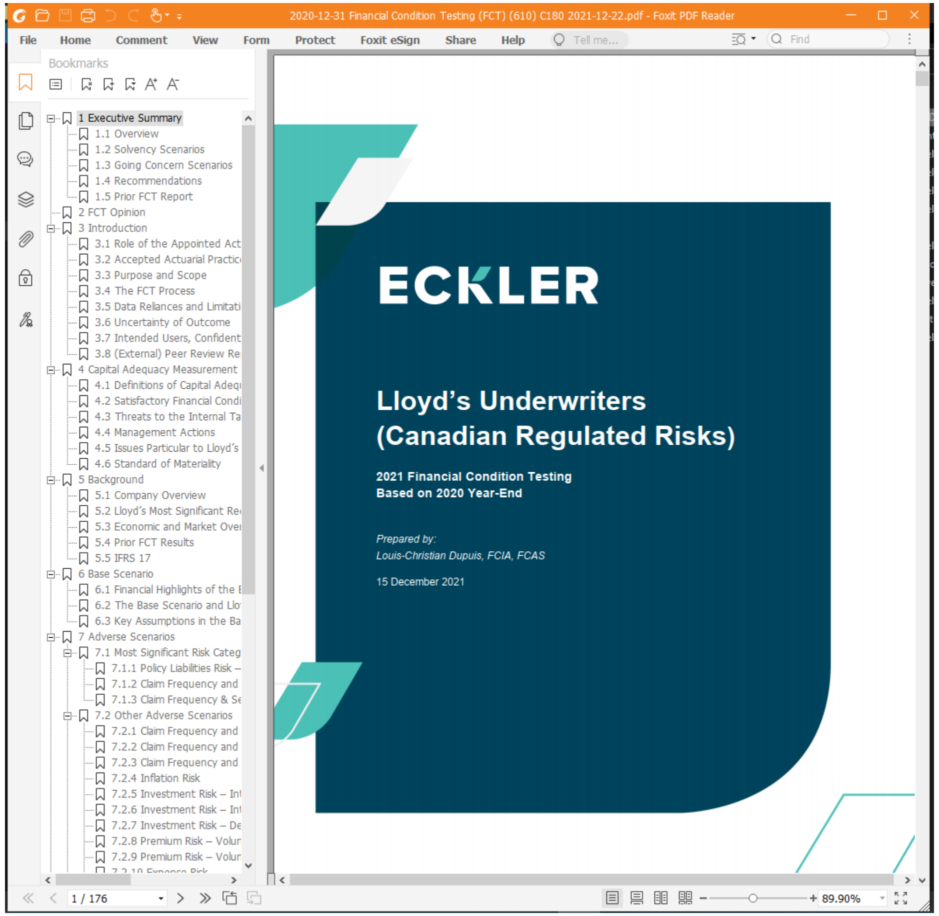
- Estimates of time to analyze FCT report:
  - 2 days max per insurer
  - ½ day read text with focus on executive summary and charts / tables
  - 1 day use FCT tool to help develop conclusions with respect to risk assessment
  - ½ day document findings and ratings
- Use tool to answer questions such as:
  - Were the current selected scenarios, assumptions, and ripple effects, consistent with prior year for the same insurer and were they consistent with peers?
  - Was the affect of a particular adverse scenario on key financial metrics consistent with prior year for the same scenario for the insurer and consistent with peers for the same scenario?
  - Were the differences in actual results and expected results (which could be calculated given data entry from the prior year FCT) within a reasonable range, and specifically were they greater than the standard of materiality selected by the AA?
  - Were key financial ratios that could be derived from the base scenario (which is required by actuarial standards to be based on the insurer's plan) consistent with historical experience?
  - Were changes in the insurer's strategy appropriately reflected in the base and adverse scenarios?

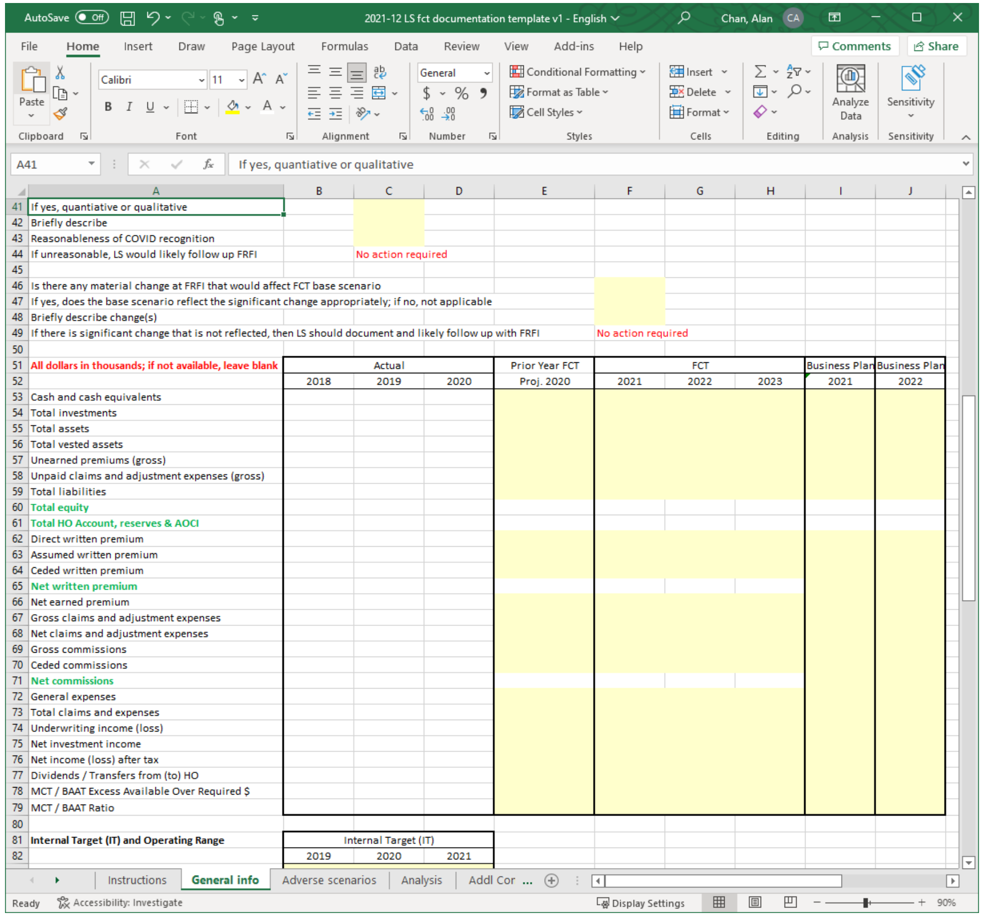
FCT version 1 – P&C and mortgage insurers only

- Started during Christmas break (2022), with six colleagues willing to be testers (tremendous benefits of early adopters)
- Excel-based tool with five tabs: instructions, general information, adverse scenarios, analysis, VU (OSFI's supervisory system of record)
- Clearly marked cells for data entry vs. calculations, conditional formatting drew user's attention in analysis tab, conditional tests made it clear where action was needed
- Create Users Guide at same time that tool was developed (translation to French)
- Special coding for each row and column to enable aggregation for peer group and trend analyses by our analytics teams
- Roll out in January, require use immediately (training and drop-in sessions)
- Data input in version 1 by lead supervisors (LSs)
- First year of use, LS needed to enter prior and current year information

FCT version 1.5 – Intelligent Automation Information Extraction and Template Filling (AI / NLG)

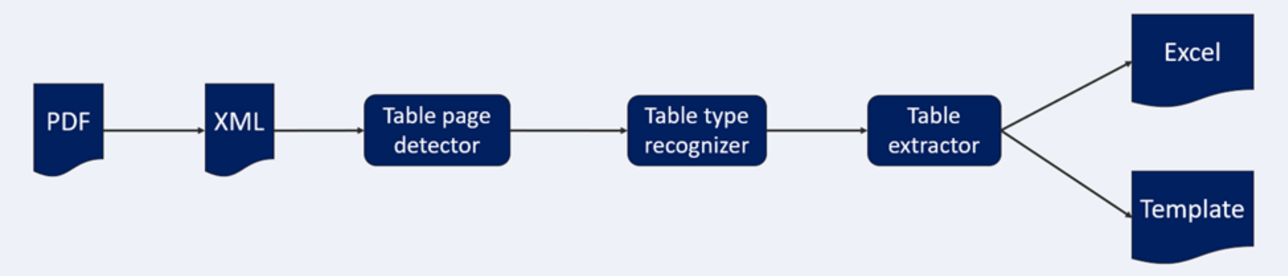
Attachment Fifteen





FCT version 1.5 Conclusions – 1 of 2

- Automated NLP tool was used to extract data from FCT report to validate quality of the FCT template submissions across 147 P&C insurers
- The tool was developed in Python to identify and extract data from tables in PDF documents using several applications, including:
  - Coding via Jupyter Notebook in TES DSVM
  - Ghostscript – pdf interpreter
  - Pooler – pdf to xml converter
  - Python – delegator, Pandas, openpyxt



- Each FCT report contained ~100 to 300+ pages and 100+ tables with limited standardized format
- Results were promising as it was found that 85% of data were correctly extracted and filled, 11% were missing, and 4% were incorrectly captured
- Causes of incorrect data capture primarily related to differing formats and non-standardized data (e.g., reporting in $000 or $M)

FCT version 1.5 Conclusions – 2 of 2

- Data extracted from FCT (PDF) Report were compared against data submitted through FCT template to identify potential reporting errors across 95 P&C insurers' base scenarios, about 10k data points
- We discovered that 5.5% of data points in the base scenario were inconsistent
  - Some data divergence (3.7%) was due to unit difference, rounding, and negative sign
  - 1.3% of data points had potential reporting errors
  - 0.5% were due to data extraction errors

FCT version 2

- Discussed work with FCT at OSFI's P&C Actuarial Advisory Committee and with relevant CIA committees
- P&C AAs agreed to complete the FCT template for FCTs prepared in 2022 (big saving for LSs)
- FCT template (in Excel) became a regulatory return
- Expanded to life AAs in 2023
- No push back from AAs
- Significant retooling required in 2023 due to IFRS 17
- Test and learn – lots of learning as move to Power BI and then back to Excel
- Still a work in progress!

Another winter holiday, another analytics project

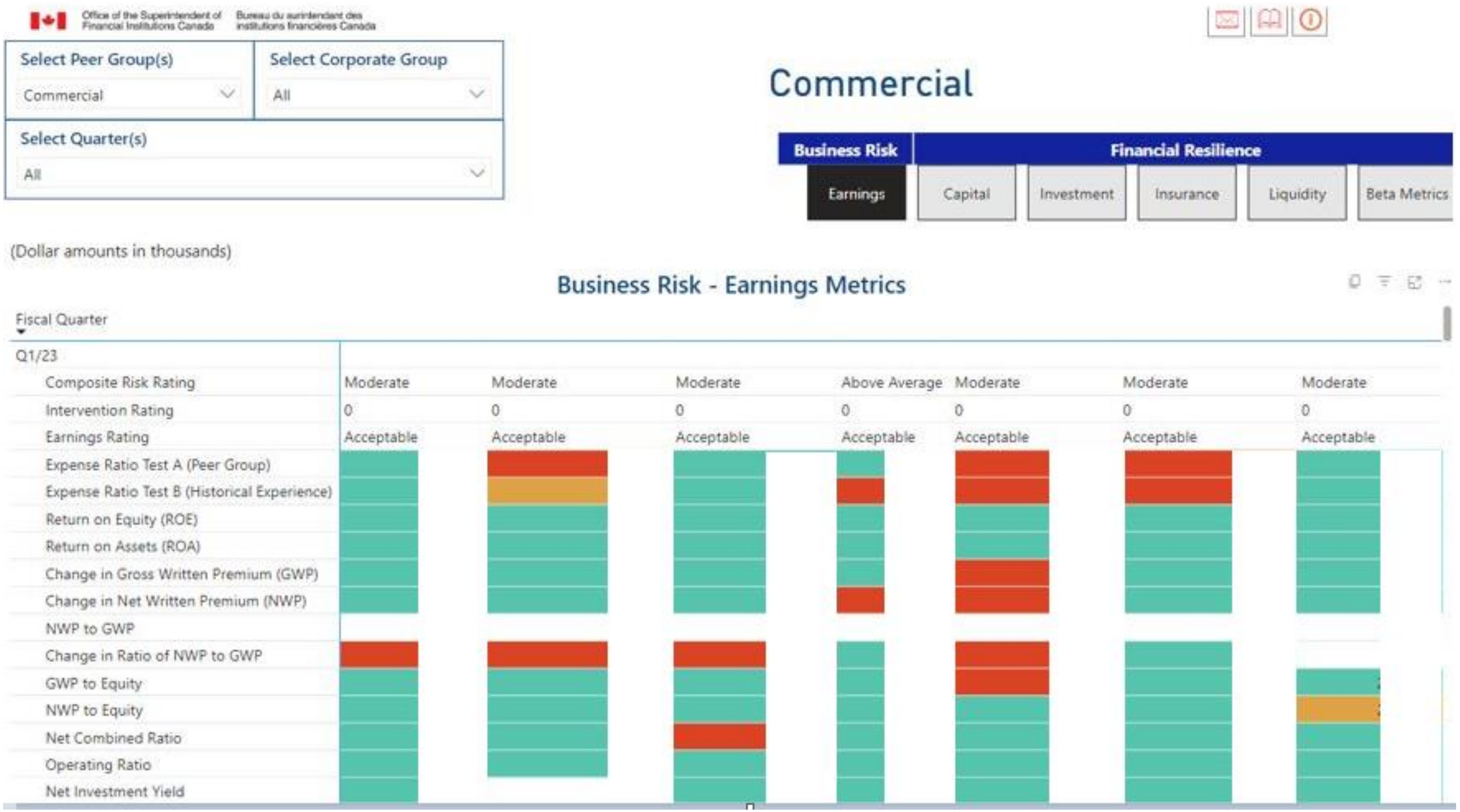
- Serve in new role with new industries, new data, and new metrics
- See tons of Power BI dashboards but missing the "so what"
- Ask for an Excel dump with ten years of quarterly data for each industry (P&C insurance, life insurance, and banks) and begin to play
- Pull out my university statistics textbook (with a 1981 copyright date)
- Begin to create Users Guide as I create the tool
- Build with colleagues who will be the early adopters
- Collaborate widely across teams – expect this will be big (and it was!)
- Align metrics to OSFI's new Supervisory Framework with emphasis on business risk and financial resilience
- Strive to deliver v1 working in environment where the following are prioritized:
  - Efficiency over perfection
  - Innovation over status quo
  - Transparency over harmony

Risk Assessment Data Analytics Report (RADAR)

- Interactive dashboard of common financial risk indicators across insurance and banking
- Integrated with the new Supervisory Framework focusing on financial resilience
- Includes business risk components and supervisory ratings
- Initial step in the risk assessment and monitoring process for all institutions
  - For smaller, less complex institutions, use of RADAR may be all an LS needs
  - For larger institutions, use of RADAR helps focus and prioritize an LS's work
- Colour coding indication for areas of potential concern or follow up (calibrated across peers and historical trends)
- Supported by comprehensive user guides and interactive training

Attachment Fifteen

Risk Assessment Data Analytics Report (RADAR)



Risk Assessment Data Analytics Report (RADAR)

How to Use RADAR

RADAR generates key financial metrics based on financial information obtained from FRFIs' quarterly regulatory returns. For each quarter, monitoring would begin with a review of the FRFI's financial metrics. The LS would note any metrics outside of the usual ranges and the amounts by which such values deviate from the set ranges, if applicable.

A FRFI's financial metrics are used to determine the level of supervisory attention required. A metric that falls outside of the usual range is not necessarily considered adverse. In some quarters, it may not be unusual for financially stable FRFIs to have more than one metric with results outside of the usual range. For example, a rise or decline in the equity markets may result in a significant change in shareholder equity for a company (or net available assets if a branch). Because shareholder equity (or net available assets) is used as the divisor in some of the metric calculations, these metrics may fall outside of their usual range. The metrics and trends are valuable in identifying FRFIs likely to experience financial difficulties. The metrics are not, in themselves, indicative of an adverse financial condition.

RADAR will be modified over time to reflect continuous improvement initiatives. Ongoing feedback to the SD&AI team from LSs is strongly encouraged.[2]

[1] For a complete list of insurers and banks currently assigned to the RMOG, see Peer Group and Data Source file.
[2] Contact RAHDistribution-InsuranceDataandAnalytics@osfi-bsif.gc.ca with any questions or suggestions.

1. Earnings

1.1 Expense Ratio Test A (Peer Group)
1.2 Expense Ratio Test B (Historical Experience)

Purpose[4]

An insurer's expense ratio is a measure of profitability calculated by dividing the expenses associated with acquiring, underwriting, and servicing policies by the insurance revenue of the insurer. An insurer's expenses include (but are not limited to) advertising and marketing, employees' wages, commissions for the sales force, technology expenses, rental costs, and office equipment. The expense ratio is a measure of an insurer's efficiency before factoring in claims on the policies underwritten or investment gains or losses. The expense ratio is combined with the net loss ratio to determine an insurer's net combined ratio.

Calculation

Under IFRS 4, the calculation of the expense ratio was:

Expense ratio = (gross commissions – ceded commissions + taxes + other acquisition expenses + general expenses) / net earned premium.

Under IFRS 17, the calculation of the expense ratio is:

Expense ratio = [(amortization of insurance acquisition cash flows – amortization of reinsurance acquisition cash flows + general and operating expenses – interest on debt - other interest expense - other finance costs)] / (insurance revenue + allocation for reinsurance premiums).

Test A (Peer Group)

This test compares the current quarter expense ratio to values that were selected based on a detailed review of the historical experience by different product types[5] for federally regulated P&C insurers.

OSFI BSIF

Meltwater Media Monitoring Tool (real AI) – 1 of 5

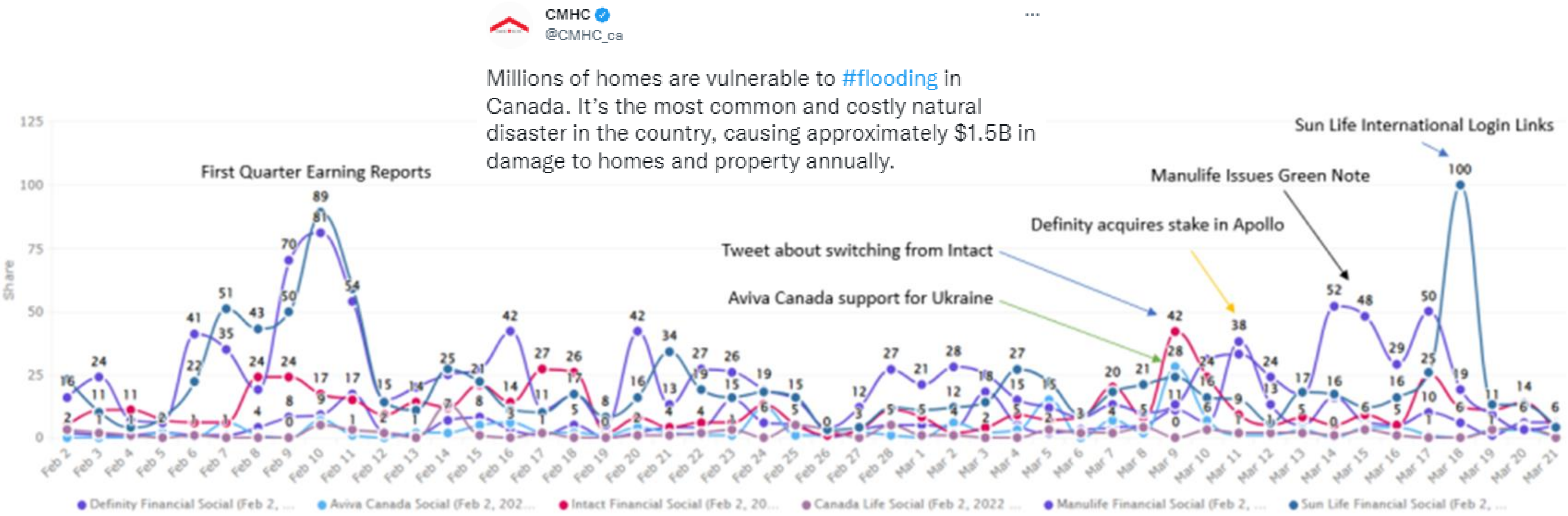
- From the viewpoint of the leader who was never a supervisor … what do I need to do to a successful LS?
  - Read, understand, assess the material sent by the insurer to me at quarter-end and year-end
  - Read, understand, assess the major actuarial reports including the valuation of insurance contract liabilities and the FCT reports
  - Conduct reviews (on-site, off-site, desk, thematic, etc.) on specific topics of interest and / or concern
  - Stay aware of what is happening with the insurer
- Are there tools that can help me do any of the above more efficiently and effectively?
- Meltwater is tremendous for staying aware
- In our RMOG team, there are LSs with portfolios of 12-15 insurers, use of Meltwater is critical to their success in being informed in a timely manner – equally critical for our largest IAIGs

Meltwater Media Monitoring Tool – 2 of 5

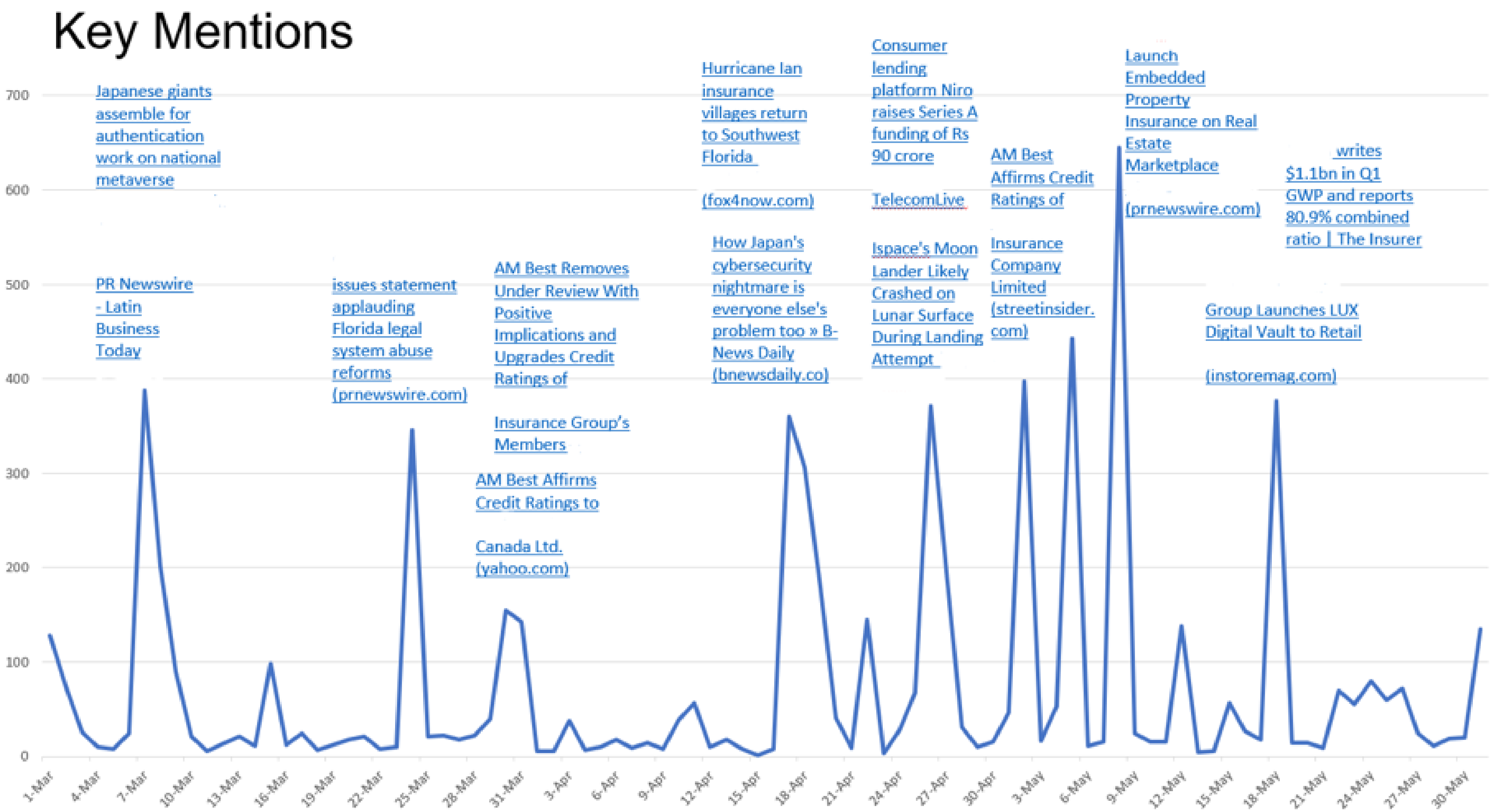
- Allows for monitoring of media and social media across companies, industries, and topics
- Used for institution and parent company monitoring
- Ability to identify media spikes, trends, risks, and sentiment

Meltwater Media Monitoring Tool – 3 of 5

Tracking customers comments about insurance and perceived climate risk issues.



Meltwater Media Monitoring Tool – 4 of 5

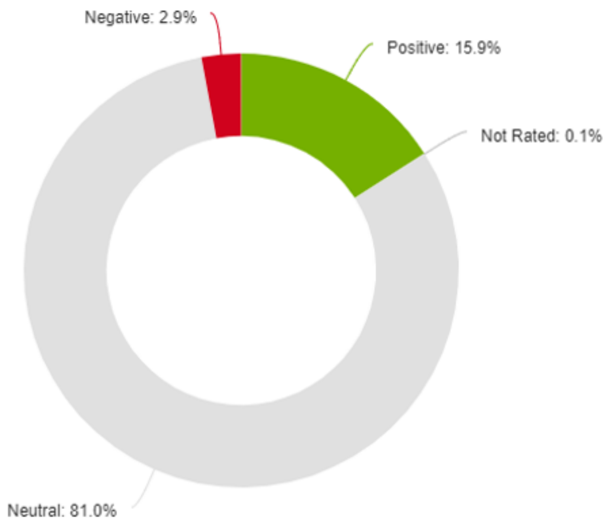


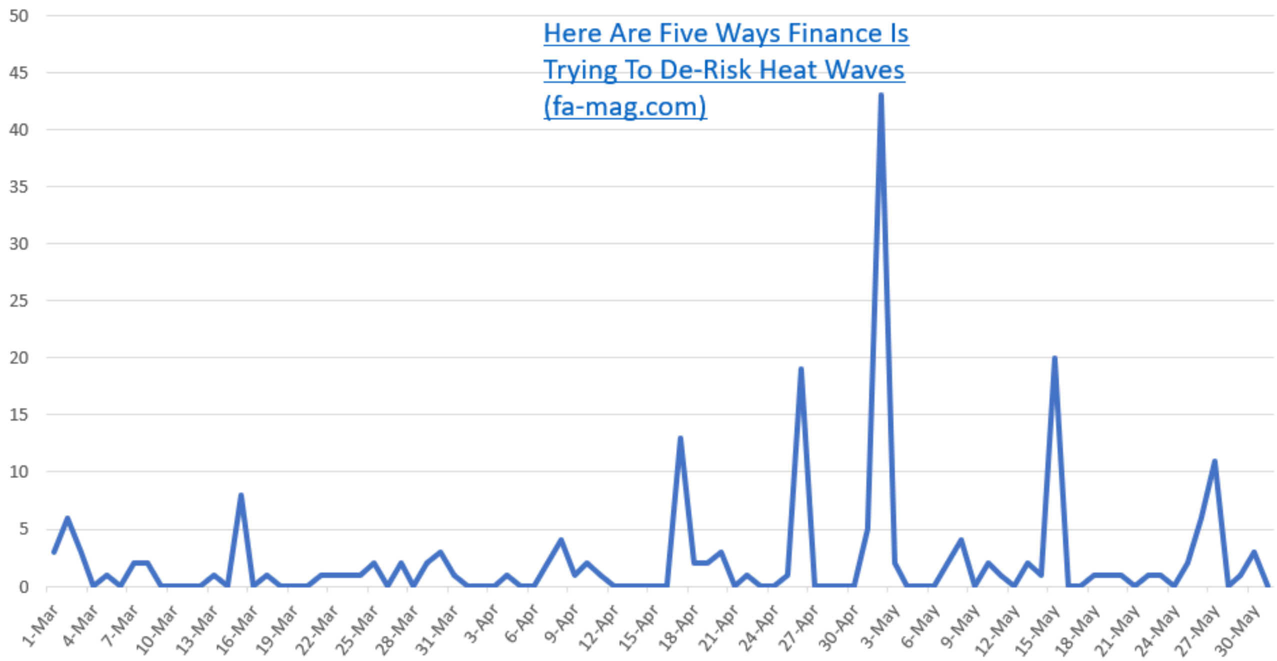
The mention trend widget provides insight into the trend over time of the combined volume of social and editorial content over the last quarter.

OSFI BSIF

Meltwater Media Monitoring Tool – 5 of 5

Negative Sentiment





The sentiment widget provides insight into how social and editorial content may be categorized as having positive, negative and neutral sentiment over the last quarter. The line graph illustrates the trend of mentions containing negative sentiment over the last quarter.

More AI in use … Reinsurance NLP Pilot

- Rough reinsurance renewal season year-end 2022
- Seeking details about reinsurance use (attachment points, percentage participation, limits, etc.)
- Information exists in AA reports on liabilities and FCT but in varied, unstructured formats that lack consistency across insurers and time
- Experimenting with natural language processing to extract details from actuarial reports
- Quality of extraction is dependent on defined parameters and ability to train extraction model
- Test and learn

Treaty Name	Treaty Effective Period	Type	Canadian Entities Covered	Specific to Canadian Operations	Layer	$Million Limit1/QS % Cession
Appendix G on AAR	Appendix G on AAR	Appendix G on AAR	Appendix G on AAR	Appendix G on AAR	Appendix G on AAR	Appendix G on AAR
Marine XOL	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Marine XOL	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Trade Credit QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Trade Credit QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Trade Credit XOL	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Trade Credit XOL	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Personal Accident - Main XOL Treaty	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Personal Accident - Main XOL Treaty	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Personal Accident - Main XOL Treaty	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Personal Accident - Main XOL Treaty	Jan 1, 2022 to Dec 31, 2022	Excess of Loss				
Automobile QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Automobile QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Automobile QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Cyber QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				
Cyber QS	Jan 1, 2022 to Dec 31, 2022	Quota Share				

OSFI
BSIF

OSFI Blueprint and Transformation

Become a leading data and analytics driven regulator that makes well-informed decisions and is able to supervise and regulate pro-actively to changes in the risk environment

Continuously improve our data technology infrastructure to support leading-edge data and analytical capabilities

Make investments to build, support, and promote the development of leaders and staff in becoming agile, proficient, and forward-looking in data trends and analytics

OSFI Data and Analytics

Communities

- Risk and Data Analytics (RDA)
- Supervision Data and Analytical Insights (SD&AI)
- Insurance Financial Risk (IFR) and other specialist groups

Initiatives

- Data Collection Modernization Initiative (DCM)
- SupTech Network
- Advanced Analytics Working Group
- Technology Exploration Space (TES) and Advanced Data Analytics Platform and Technologies (ADAPT)
- Data Analytics Community of Practice (DACoP)
- Data Literacy Strategy

Next Steps for SD&AI

What we aim to achieve

Vision

SD&AI aims to become the Centre of Excellence for supervision risk analytics

Enable data-driven, risk-based, supervisory decision-making and financial risk assessment by providing timely, forward-looking, insightful analytic solutions

How we will achieve it

Strategy

Focus our mandate on:

- Providing analytic solutions to support supervisory risk identification and financial risk assessment
- Elevating OSFI's analytical capabilities by leveraging AI / ML
- Conducting financial analytics, reporting, and research on special supervisory topics
- Supporting "Vision 2030" with a focus on financial resiliency
- Promoting data literacy and the effective use of supervisory information

What we will prioritize near term

Key Initiatives

Prioritize initiatives that:

- Automate intelligence extraction and enable access to supervisory information
- Enable continuous and real-time monitoring of risk exposure
- Forecast financial metrics and business plan
- Identify high-risk and vulnerable institutions

Questions?

Framework for Regulation of Insurer Investments – A Holistic Review

<u>Executive Summary</u>

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.
- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.
- At the most basic level, the question has arisen – **what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?**
- The historical focus of the SVO has been on risk assessment of individual securities, with filing exempt securities blindly reliant on credit rating providers (CRPs) for designations.
- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics
- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.
- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.
- This memo provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.
- It also provides high-level guidelines for considering consistency of capital across assets as the investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

<u>Background</u>

There are several workstreams underway related to investments, which are meant to address a material, observable shift in insurer investment strategies – primarily but not limited to life insurance/reinsurance – toward more private assets, more structured assets and more complex assets. The workstreams are not meant to be punitive for the sake of being punitive, or to discourage innovation in insurers' investment strategies, but they recognize existing frameworks did not contemplate these investment strategies and will need to be enhanced to appropriately incorporate their characteristics into the regulatory framework.

While this goal is largely accepted by all interested parties as being necessary, the details of various proposals and the processes by which they have been undertaken have received an immense amount of attention from industry, other supervisory stakeholders and special interest groups, with stark divides in approval or disapproval of various initiatives. The collective commentary has included a significant amount of constructive feedback and valid critique, but has also been marked by misconceptions and competitive dynamics.

Recent comments have referred to these projects as "piecemeal" and "disjointed" and recommended a pause to all such workstreams. Others have suggested that these efforts are motivated by objectives other than enhancing regulators' ability to protect policyholders. In reality, what is being observed is the natural strain that results from solving complex problems through open and democratic processes. A number of compounding factors contribute towards making these projects particularly challenging endeavors:

(1) **Highly technical nature** – the ability to assess risk and design a regulatory framework for structured assets is highly dependent on the ability to model collateral performance through the capital structure of an extremely wide variety of securitization types. This requires highly specialized expertise. With experts from a divided group of stakeholders providing differing assessments of the modeled data, it is difficult for policy-making regulators to parse without conducting an impartial analytical study.

(2) **Separate working groups** – the state-based framework has long utilized a "three-legged stool" approach to addressing accounting, risk assessment, and capital, which are governed by separate working groups. While all three legs of the stool have always needed to contemplate what the other legs were doing in order to have a cohesive regulatory framework, a project of this magnitude that spans all three legs requires a much more intensive level of coordination, which is further challenged by its exploratory nature.

(3) **Exploratory nature** – assessing risk and capital is a balance between being too broad, and failing to appropriately capture material risks, and being too detailed, such that the framework is impractical to apply and too complex to be understood. Finding this balance is an iterative process of developing proposals, soliciting feedback, and adjusting or replacing proposals in response. This process inherently takes time and involves uncertainty around final outcome, but it also is not well understood by all stakeholders. This can result in disproportionately adverse reactions rather than the productive feedback that is necessary to reach what are often the common goals of all stakeholders. It also makes the coordination of working groups challenging, as the end state of each working group's initiatives is unknown while in process.

(4) **Capital parity** – as a number of stakeholders have pointed out, the capital framework should have a goal of assigning "equal capital for equal risk". While this goal is likely non-controversial in the abstract, it doesn't address the practical limitations of achieving this goal in absolute terms. First are the balancing considerations noted elsewhere here. But it also implies that all risks must be holistically evaluated at the same time, in order to prevent a change for one asset class from disadvantaging another by comparison. There is no question that these impacts are very important to consider as updates are made, and mitigating unequal treatment to the extent possible should be a goal. However, practical constraints may prevent this aspiration from being realized to the satisfaction of all parties.

(5) **Limited resources** – just as the regulatory framework is a balance between being too broad and too detailed, so too is the use of regulatory resources a balance between impartiality and practicality. State regulators have at their disposal a valuable resource in the NAIC, and SVO specifically. However, these resources are not unlimited. There should be a deliberate evaluation of the best use of these limited resources. State regulators should not develop frameworks that prioritize using such resources in reperforming functions that can otherwise be satisfied using available market mechanisms, leaving no capacity for more impactful and macro-level risk assessment and analysis.

Purpose

While much of the characterization of these ongoing projects in the broader commentary is misplaced, it is prudent to reflect periodically on a holistic basis over the course of a complex project to evaluate potential areas for process improvement to the overall regulatory framework. **The intent of this memo is to highlight areas that regulators have identified where the insurance regulatory framework for investments could be enhanced based on reflections on the past several years of work on these issues, as well as comments on individual current initiatives and how they could be improved upon by addressing certain of the challenges described above.** This memo is not directly responsive to any particular feedback from stakeholders, but draws upon the experience of regulators involved in these workstreams, as well as comment letters written on current proposals, stakeholder communications not directly related to working group exposures, and ongoing conversations among regulators and stakeholders.

Proposed Regulatory Enhancements

A. Investment risk assessment / role of a centralized investment expertise function (e.g. SVO: IAO/SSG)

The current framework relies upon NAIC Designations for assets reported as bonds, with limited risk assessment for non-bond holdings. NAIC Designations currently are either provided directly by the SVO for filed securities or by a direct translation of a credit rating from a Credit Rating Provider ("CRP") for those securities that are exempt from filing ("FE"). There is currently a "blind" reliance on the CRP rating, with no mechanism for overall due diligence around CRP usage, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Both of these issues are potentially addressed through current initiatives of the Valuation of Securities Task Force ("VOSTF"), with multiple challenges and concerns (both warranted and unwarranted) of how they may be implemented.

Proposed Framework to modernize the SVO:

(1) Reduce/eliminate "blind" reliance on CRPs but retain overall utilization of CRPs ***with the implementation of a strong due diligence framework****.* This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance. This initiative should be a ***primary*** focus of the NAIC and ***utilize an external consultant/resource to design & implement****.* It is both inefficient and impractical for the SVO to effectively replicate the capabilities of CRPs on a large scale, and would not provide incremental benefit if the output is substantially similar. Rather, the SVO should focus primarily on holistic due diligence around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use as NAIC designations).

(2) ***Retain ability*** within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, ***under well-documented and governed parameters***. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

(3) ***Enhance SVO's portfolio risk analysis capabilities*** with investment in a risk analytics tool and corresponding personnel, which could perform both company-specific risk analytics at the request of regulators, and industry-wide risk analytics for use in macroprudential efforts. ***Review/ increase staffing*** to include analysts with investment actuarial and risk management backgrounds

that can provide dedicated investment-related support to risk-based capital and reserving teams, understanding the key functions of asset-liability management and resulting portfolio impacts.

(4) ***Enhance structured asset modeling capabilities*** in line with #3 with less focus on individual designation production, but in support of the CRP due diligence function (can provide tools for validation of CRP designations), company and industry stress testing, and emerging risk identification. Provide additional resources to SSG to continue to build this capability, inclusive of ***model governance*** and validation of key parameters.

(5) ***Build out a broad policy advisory function*** at the SVO that can consider and recommend future policy changes to regulators under a holistic lens, considering input from all impacted processes. If needed, ***hire key external consultants*** to be on retainer to provide key guidance on policy related issues, assess market impact and provide recommendations. This would be akin to the use of the Academy of Actuaries or similar for risk-based capital and reserving initiatives.

(6) Consider establishing a ***broad investment working group*** under E committee that acts in an advisory capacity to various investment processes that would ultimately need more intensive regulator engagement and analysis on confidential basis (similar to FAWG/VAWG), including (1) review of bond reporting analysis under the principles-based bond definition, (2) challenges to individual designations provided by CRPs, (3) review of work provided by external consultants for investment-related projects for broad impacts to the framework (beyond the group that would have commissioned the review)

(7) If the multitude of the above recommendations are implemented, rename the SVO and VOSTF to better reflect the responsibilities of the groups beyond securities valuation. ***Empower SVO*** to utilize the tools and analysis available to raise key issues to other applicable working groups, such as SAPWG or LATF (or RBC-IRE, but also noting key support for that group via an investment-focused actuarial team). ***Reduce the size*** of VOSTF membership or its successor to encourage active regulator engagement on core issues.

Impacts of Proposed Framework on Current Initiatives:

VOSTF:

(1) CRP Due Diligence: Re-prioritize this initiative (currently in place with limited resources) and retain an external consultant to build out the framework. Allow for engagement with CRPs in its creation.

(2) Regulatory Discretion over CRP designations: Continue deliberative process on this existing proposal to incorporate interested parties' constructive feedback on framework.

(3) CLO/RMBS/CMBS Modeling: Review output in conjunction with the Academy of Actuaries and RBC-IRE to determine if (1) NAIC designations, (2) dynamic ad hoc modeling/stress capabilities or (3) a combination of both, are the most valuable use of SSG resources, noting the request above to provide additional resources to this group.

LATF:

(1) SVO Staff enhanced as suggested above could be an additional resource in AG 53 type reviews, and may be able to provide validating analysis via its analytical tools.

(2) Investment actuarial staff can provide key recommendations to enhancements to asset adequacy testing based on investment characteristics identified.

SAPWG:

(1) No direct impact to implementation of the bond project outside of establishment of a working group that can assess specific assets for reporting purposes.

RBC-IRE:

(1) Increased investment actuarial and risk management could provide key support to establishment of structured asset RBC factors given the cross-functional understanding of investments and RBC parameters.

B. Risk-Based Capital for Investments

The project to review RBC factors for investments remains in its infancy, but has made considerable strides with the formation for the RBC-IRE Working Group in 2022 and the engagement of the American Academy of Actuaries to begin developing factors for CLOs. As this project moves forward, the following guidelines should be considered:

(1) Changes in RBC factors ***should consider market impacts and consistency across asset classes*** in determining when and how to implement such changes. While perfection under a principle of "Equal Capital for Equal Risk" is likely unachievable, it should nevertheless be a goal to create consistent standards to the highest degree practicable. For example, the current work at RBC-IRE is appropriately beginning with studying CLOs for developing RBC factors for structured securities. It is possible that new factors for CLOs would be available before a determination has been made for how to extrapolate a framework to other types of structured securities. As the phases of this project progress, care should be taken to consider the impacts of changing factors for an asset class while similar asset classes may remain unchanged. Factors to consider may include impacts to asset allocation and financial markets, in balance with the level of urgency of regulatory action.

(2) The RBC-IRE Working Group should consider and address areas where inconsistencies in treatment across asset classes ***incentivize a particular legal form***. A key example of this is private credit funds, where the underlying assets are fixed income, but regulatory barriers frequently prevent them from receiving a fixed income capital charge, instead assigning an equity factor. This requires insurers to structure such investments into bond-form through securitization in order to receive a fixed income charge, which may ***"overcorrect"*** and lead to ***capital arbitrage***. Developing an avenue for such assets to receive a capital charge commensurate with the underlying asset risk would significantly reduce the need to form structured securities out of many types of private fixed income assets.